



Branding and Marketing Toolkit: Community-Based Businesses and Products



Lessons from the Ford Foundation Community-Based Forestry Demonstration Program, 2000-2005



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Preface

Over the course of the six-year **National Community-Based Forestry Demonstration Program**, all 13 of the Ford Foundation grantees learned a great deal about how community-based forestry (CBF) can strengthen communities and their local economies through the sustainable management of their surrounding forests.

Some of the participating sites implemented community-based forestry projects designed to stimulate or revive local, natural resource-dependent industries. Some further sought to use CBF to develop and market products from their own resource management activities. In several instances, community-based nonprofits hoped their CBF project activities would provide earned income that could help support their own organizations.

To pursue these ambitious goals, community-based organizations often discovered that they needed to become active players in the marketplace. Few of their leaders previously had studied marketing, but they wanted to learn enough about it to be able to make good choices concerning how to make the best use of their community's natural resources.

This *Branding and Marketing Toolkit* offers case studies, worksheets, and tools—including an instructional DVD—that can help CBF practitioners develop their own branding and marketing strategies. Participants from the Demonstration Program designed some of the tools themselves, while others are adapted from marketing and business texts.

“Successful community-based natural resource management programs focus on expanding markets or creating new ones rather than on production alone. Markets change constantly. Knowing what to produce, when to produce it, how much to produce, and how to process it for the highest prices are important issues for any producer. Producers need to go beyond what they want to produce and sell and begin to think more about what the market wants to buy. Very few NGOs have the expertise to offer such assistance.”

—Jason Clay, *Borrowed from the Future: Challenges and Guidelines for Community-Based Natural Resource Management*, *The Ford Foundation*, 2004

The *Toolkit* will be useful for CBF practitioners at almost any stage along their learning curve about marketing and branding:

- For practitioners who are just beginning to explore their options about entering the marketplace, the publication provides broad lessons on marketing and the range of possible roles available to nonprofit organizations; and
- For practitioners who already have one or more product ideas, the report offers step-by-step guidelines for developing a marketing plan, including how to determine whether there is a viable market for a particular product.

The *Toolkit* does not cover business planning in general.

For readers who want to develop a complete business plan, we recommend *Venture Forth! The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization* by Rolfe Larson. This publication is available for purchase at www.wilder.org.

The *Toolkit* recommends that practitioners explore their communities' CBF marketing opportunities in measured stages. The initial stage, for example, helps practitioners conduct an early assessment of whether there is a viable market opportunity for the community's CBF products. It contains a set of questions that do not require any research. The next stage involves developing a full-fledged marketing plan. Toward that goal, the *Toolkit*

includes worksheets and lessons from Healthy Forests, Healthy Communities (HFHC) and other organizations.

The *Toolkit* also provides an in-depth case study in which two CBF practitioners who participated in the Demonstration Program—entrepreneur Mark Stella of Green Mountain Woodworks and Ryan Temple of the HFHC Partnership—share their experiences in the hardwood flooring industry in the Pacific Northwest. Their insights can be found throughout the chapters that follow, both in the chapter text and set apart in graphic boxes.

Finally, to accommodate different learning styles, the DVD at the back of this publication offers an opportunity to listen and watch other participants as they complete the exercises and to hear both the participants' stories and examples and the facilitator's instructions and responses to specific questions. The two-hour DVD is divided into chapters that correspond to the different worksheets and is playable on any DVD player.

How to use this *Toolkit*

This *Toolkit* can be used by individuals advising a business or nonprofit organization, as well as by resource teams working within those institutions. You also can use the *Toolkit* in a workshop setting. Here are some suggestions for possible approaches to using its many resources.

Refining a product concept

Defining a product requires much more than just knowing what you can make. It involves understanding what you can make, what the market is interested in buying, and what your competitors already are doing. With all this information, you begin to see what features and benefits your product will need to have if it is to succeed in the marketplace.

As you complete the worksheets in Chapters 5 through 7, you will more clearly define the product idea that you are considering. Learning about your likely competitors (Worksheets 3, 4, and 5) will help you better understand what they are making, and how they go about describing what they are offering. You also need to learn more about what most interests your potential customers. When you begin the research needed to describe your target markets (Worksheet 7), you will better understand what your customers might want that you actually can make.

Building community capacity around marketing

The worksheets in the *Toolkit* can be used effectively in a **workshop setting**. You will need a facilitator who has a strong general understanding of marketing and can explain the concepts to people in your community. Up to 25 people can attend, and they can represent a wide range of potential products. It helps to form smaller groups of similar products or people who will address the market in similar ways. For example, you could form a



This workshop could be a tool to help unify a community, as community members learn how to market their products. People can explore ideas about marketing collaboratively rather than always seeing marketing as a competition to get to a customer. We need to think about how we can get people to come a long distance to get our products. I have found that people will drive to my business if they know I have what they want. It makes sense to have them come to more than one business when they get here.”

—James Cocknell, primitive furniture maker in rural Alabama and participant in the Demonstration Program’s 2002 Branding and Marketing Seminar, hosted by Vermont Family Forests

Suggested workshop agenda

Day One

- 3:00 pm–5:30 pm** **Introductions (full group)**
Review of responses to Initial Screening Questions (smaller groups)

Day Two

- 8:30 am–12:00 pm** **Discussions of principles and exercises to develop marketing plans**
Facilitator introduces each section and can use the introduction provided on the *Toolkit's* accompanying CD. Each person or business works through the worksheets on their own. Then the results are shared with others in the smaller groups. Market position statements should be shared with the full group so that people can learn from what others are doing.
- **Describe your product**
 - **Set your marketing goals**
 - **Profile your competition**
 - **Identify your competitive advantage**
 - **State your market position**
 - **Create your brand**
- 1:00 pm–5:00 pm** After lunch, everyone shares their brand promise before getting back to work.
- Discussion of principles and exercises to develop marketing plans**
Facilitator introduces each section and can use the introduction provided on the *Toolkit's* accompanying CD. Each person or business works through the worksheets on their own. Then the results are shared with others in the smaller groups. Pricing strategy statements should be shared with the full group so that people can learn from what others are doing. If there is time, participants each can share a nonfinancial goal.
- **Understand your target markets**
 - **Identify your distribution channels**
 - **Identify your pricing strategy and costs**
 - **Complete your list of influencers**
 - **Develop a promotion plan**
 - **Set goals to help measure your success**
 - **Put your marketing plan together**

(continued)

Day Three

8:30 am–12:00 pm Sales pitch—Promotion of each product and then peer response

The facilitator keeps the session moving, allowing 10 minutes for each product promotion and 10 minutes for each peer response. Peer response can be structured around two questions: What makes you want to buy this product? What are your obstacles to buying this product?

12:00 pm–12:30 pm Wrap-up session

This session should be co-facilitated by the local host and the marketing workshop facilitator. The local host may provide information about what local services are available as they continue to develop their businesses.

- **Where do we go from here?**
- **What resources are available in the community or region?**
- **What support do community members want to request as they think about their implementation plans?**

group providing services—such as business consulting, catering, or even a performance artist. Their products are very different, but they share a common challenge of describing a service that cannot be easily seen or touched.

It is important to ask people to fill out the **Initial Screening Questions** before they attend. You may offer some assistance with this, but you do want to be sure that everyone who attends already has a product concept in mind. They don't have to have it perfectly defined, but they do need to be working on something throughout the workshop.

All of the worksheets necessary for conducting a dynamic workshop are available online at www.nnfp.org/cbf/toolkit. Each one is digitally formatted as a PDF file so that you can print it out and then make copies for each attendee at your workshop. You may download a set of all the worksheets or download single worksheets complete with accompanying introductions and appropriate examples.

One workshop modification to consider when working with a community is to discuss developing a brand for the whole community rather than for individual products.

Another important consideration when working with a community is to plan for the follow-up. At the end of the workshop there will be a lot of enthusiasm for taking the first steps in writing a marketing plan. Support as people consider how they will implement these plans would be key. Particularly when working in a community there is an opportunity to explore the need for additional support businesses and nonprofits.

Would a chamber of commerce be able to move some of the community branding ideas forward? Would a marketing cooperative help get products to the customer? Would small retailers and even bed and breakfasts make the community a better place for customers to visit? These topics should be part of the final wrap-up session so that the facilitators learn what community members see as their next steps and future needs.



Checklist for demonstration projects

- Does the product or service draw on the community's history, traditions, skills, and assets?
- Are community members interested in the project?
- How will you let the community know about how your funds were used?



SECTION **A**

Considerations Before Working on Your Marketing Plan

Ecological Goals:

	What are your goals?	What indicators will let you know you are moving toward or reaching this goal?
Short-term goal 1		
Short-term		



Social and Community Goals:

	What indicators will let you know you are moving toward or reaching this goal?	How and when will you do your data collection related to these indicators?



Lessons from the Demonstration Program

Marketing was one of the bigger challenges for all of us who participated in the National Community-Based Forestry Demonstration Program. Every aspect of marketing—from product selection and development to strategies that will reach the customer—raised difficulties. Even our successes seemed to lead swiftly to the next challenge.

We hope that our hard-earned lessons can help steer you toward making better decisions related to your own marketing and branding strategies. This knowledge certainly will help you fill in this *Toolkit's* worksheets with practical, workable answers.

With realistic marketing plans, your own enterprises—as well as the next phase in the evolution of the community-based forestry movement itself—can advance well beyond what was accomplished in our six-year Demonstration Program.

By working through many of the challenges we faced, we learned something about how to begin to address them. Of course, with other challenges, we are as yet still trying to find ways to work around them. In the chapters that follow, we will share with you the insights gained from all of these experiences.

Marketing was one of the bigger challenges for program participants. Every aspect of it raised difficulties; even success seemed to lead into the next challenge.

Local markets in a global economy

LESSON 1 Value-adding is the best way to work effectively at a smaller scale, because unprocessed commodities necessarily reflect prices on global markets.

Although there are times when raw commodity sales and value-adding production can be mutually supportive, value-adding manufacturing generally is much preferred over trading in raw commodities. After all, profit margins typically are greater—and the producer is more insulated from price fluctuations—when the customer views one's product as unique and special. Flooring and cabinetry made with local wood by local producers, for example, have an advantage in the marketplace that cannot be taken away by global

competitors. Of course, smaller production levels necessarily limit the size of the market and the varieties of product, but the smaller scale clearly adds to the uniqueness of the product.

Value-adding mechanisms include superior service, creating a unique product, the ability to change quickly in response to markets, and a “story,” among other strategies.

Value-adding mechanisms include, among other strategies, creating a unique product, providing superior service, cultivating the ability to change quickly in response to markets, and promoting a “story” about what makes the product special. Healthy Forests, Healthy Communities and its members, for example, found that, after considerations

about quality, the personal stories behind their brand identity—about the people who actually harvest or create their products—gave them an edge in the market. These stories proved the most valuable when the product itself could be displayed or seen, and where the customer easily could share the story with friends.

It often is desirable for communities to couple their efforts to develop value-adding wood manufacturing jobs with other economic development strategies, especially forest restoration contracts. As Diane Snyder at Wallowa Resources has pointed out, “More robust economic conditions are experienced [by adding] wood manufacturing jobs than with just restoration contract jobs. A healthy mix of both provides unique diversity and economic return for the community.”

A more diverse economy emphasizing local production also enhances the economic benefits achieved through the multiplier effect, which tracks the benefits that accumulate as each dollar earned circulates throughout a specific local economy, changing hands many times. Furthermore, value-adding wood manufacturing jobs, whether associated with new start-up businesses or the expansion of existing firms, create and build local wealth. Over the long run, this outcome is preferred over short-term, project-oriented strategies that merely redistribute federal and foundation dollars.

LESSON 2 Communities may localize and regionalize their target markets, especially for high-end products, but global markets will still affect them.

Many communities in the Demonstration Program chose not to compete at the global level and focused instead on value-added products that they sold to local and regional markets.

For the Federation of Southern Cooperatives, this meant selling goats on the hoof to local customers rather than trying to transport their relatively small number of goats to more distant slaughterhouses.

All of the community partners realized that this marketing strategy is self-limiting. They further realized that global markets affect prices in their regional and local markets. The local market often is quite small, especially for higher-end, value-added products. Yet, if businesses chose to supply raw commodities, they faced severe price competition and price fluctuation, chiefly as a result of global market forces. They did not discover viable strategies to get around these market forces, and most look with some worry upon emerging trends toward further market consolidation and less regulation.

At least one sector within community-based forestry, however, inevitably does stay local—forest ecosystem restoration. Local residents sometimes must compete for such jobs with migrant workers, but the forest itself cannot be sent overseas to be restored. In rural northern California, Watershed Research and Training Center trains and runs its own work crews, because forest ecosystem restoration is very labor-intensive work. In metropolitan Washington, D.C., Greenworks can feel assured that neighborhoods will need to care for their street trees more or less in perpetuity.

As small, chiefly rural businesses take the leap and attempt to access global markets, they need a great deal of information about how those markets actually work. That information can be hard to come by. Forestry schools rarely have the resources to conduct comprehensive, ongoing research about how wood flows through global value chains, which would require persistent monitoring and analysis of fluctuations in supply and demand. Large companies, on the other hand, have access to this sort of information and know how to work in the global marketplace—including the option of leaving the United States to set up shop elsewhere. They also operate at a scale that affords a measure of resilience in the face of changing conditions. Smaller businesses, therefore, are at a decided disadvantage. They are extremely vulnerable to market fluctuations, as they do not work at a scale that easily can absorb the impact of those changes.

As small, chiefly rural businesses take the leap and attempt to access global markets, they need a great deal of information about how those markets actually work. That information can be hard to come by.

Keeping the door open to global

One Portland, Oregon, wood products retailer, a partner with Healthy Forests, Healthy Communities (HFHC), says that HFHC members have to be open to the wider, global market. They need to cultivate an awareness of the tastes and preferences of potential customers who live in other regions of the world. Trading company representatives from Japan and China have come through Portland wood products showrooms and shown interest in local wood species, says Ed Mays of Eudora Wood Products. In fact, Oregon has a good reputation in those overseas markets. Small is seen as a plus, because Japan and China also have networks of tiny businesses. Opportunities indeed may arise, but it can be daunting to conduct the research necessary to support small businesses as they expand to a global market.

LESSON 3 Multiproduct and multimarket economic and marketing strategies offer a higher likelihood of achieving economic vitality and supporting increased forest restoration.

As the communities in the Demonstration Program surveyed their economic opportunities, they began to see a diverse menu of options that could be built upon the resources of their local forests. These choices ranged from timber to nontimber forest products (NTFPs), from ecotourism to value-adding manufacturing. They looked at restoration contracting, designing equipment for restoration work, monitoring and scientific analysis, operating sawmills, setting up biomass plants, starting small bed-and-breakfasts, and offering GIS services.

Before long, however, each community found that it could not choose to follow just one entrepreneurial path. Local residents needed to have multiple irons in the fire, often because of their limited access to the forest, to wholesale and retail markets, or to start-up and working capital. They also needed to dig in deeply and stick around for the long haul

Each community found that it could not choose just one path. Because of limited access to the forest, to markets, or to capital, local residents needed to have multiple irons in the fire and, with anything they did, had to dig in deeply and stick around for the long haul.

with anything they did. However innovative their business plans might have been, the market just did not embrace their ideas and pull projects forward easily.

Even so, there were a few exceptions. In the LaForce Project, Vermont Family Forests (VFF) worked with Middlebury College on a very high-profile demonstration project using local, sustainably harvested wood. VFF expected

the market to pick up this idea—and from the point of view of using certified wood, it did. Middlebury College had several vendors for certified wood to choose from when it accepted bids for constructing its next building. However, both this building and later construction projects did not offer forest landowners as valuable a price premium as they had hoped.

Penn Center conducted initial research on several possible products and then followed through with demonstrations featuring two of them—indigo and meat goats. Landowners viewed these demonstrations as potential options they could consider. As landowner Walter Mack says, “The land can be a liability without money, if you have nothing to do with it. Now I am utilizing what I have been taught by Penn Center and the Lowcountry Landowners Association. The different ideas they present allow me to choose. If it helps me keep the land in good condition and get some money, then I will use that idea.”

Role of the nonprofit

LESSON 4 To build a sustainable forest-based economy, it is necessary to coordinate all the pieces of the entrepreneurial puzzle—resource flow, product development, production capacity, and effective marketing. Often, a community-based organization can be well positioned to play this coordinating role.

An individual entrepreneur or landowner may not be able to see all of the pieces that must come together to complete the entrepreneurial puzzle, but sometimes a nonprofit community-based organization (CBO) is better positioned to do so. It often has more developed networks that extend both across and beyond its service area. Moreover, it can attract both technical expertise and financial resources that likely are not available to individuals.

From this unique vantage point, the CBO may be able to assess and take steps not only to fortify each element within the larger entrepreneurial puzzle, but also to operate at the intersection of the four critical elements: materials, product development, production capacity, and markets.

- **Material/resource flow** depends upon availability and access. Reliably sourcing

A nonprofit community-based organization may be able to both fortify each element within the larger entrepreneurial puzzle and to operate at the intersection of the four critical elements: materials, product development, production capacity, and markets.

raw materials is essential to the success of any venture, whether for a single business or for a network of producers who seek to establish their product in a larger market. Even so, the CBO can assist in assessing whether local harvesters and entrepreneurs can gain access to sufficient quantities of a given resource for their businesses to be viable.

Just as importantly, the CBO may be able to assess whether sustainable harvests can be maintained as demand increases. For example, Rural Action took steps to provide rootstock at a low price to local growers, so that landowners could increase their yields of nontimber forest products, such as ginseng.

In some instances, CBOs may negotiate with other players—such as public agencies or landowner associations—to gain access to resources on behalf of constituencies that might otherwise be excluded.

In some instances, CBOs may negotiate with other players—such as public agencies or landowner associations—to gain or enhance access to forest resources on behalf of constituencies that might otherwise be excluded. Slow-moving U.S. Forest Service procedures and legal appeals, for example, can delay harvesting, leaving

small businesses without a reliable supply of wood. Public Lands Partnership spearheaded a collaborative process that led to expanded local access to public lands and increased timber sales to local mills.

- **Manufacturing/product development** also benefits when CBOs provide entrepreneurs with better information, technical assistance, and access to equipment and incubator facilities. Wallowa Resources works with community businesses because local wood manufacturing jobs actually create and build new wealth in the community. Jobs that actually foster increased community wealth are preferred over other economic strategies that merely redistribute existing resources, such as government and philanthropic dollars. One of Gila WoodNet’s goals was to get more local wood into building construction. Its staff assembled construction kits so that contractors would find it easier and cheaper to use local hardwood when building porches.

Even so, product development can be risky. The Watershed Research and Training Center worked with a local business and the U.S. Forest Service Forest Products Lab to develop a production process for madrone veneer. By the time the process was ready, however, the prospective customer already had found an alternative supply through an overseas source.

EXAMPLE

More than a matter of taste: Ecology and architecture

An important part of Vermont Family Forests' work has been its ongoing collaboration with architects to suggest alternative wood specifications that are both aesthetically pleasing and ecologically sustainable for Vermont's forests.

The Architectural Woodwork Institute (AWI) ranks wood quality using such criteria as color, grain pattern, and the presence and size of knots. AWI ranking requires uniformity of color and grain pattern in Grade I wood, and allows more "flaw" and "characteristics" in the wood as the grade ranking increases.

Clear-grained, evenly colored wood, however, comes predominantly from large-diameter trees, which have the most heartwood and the fewest knot-forming side branches.

Removing only large-diameter trees from a forest is called high-grading, a practice that has deprived large tracts of Vermont's forests of their largest, most vigorous trees, leaving behind only the smaller, weaker timber. Over time, high grading undermines the vigor and health of entire forest ecosystems.

There's no denying that clear-grained, Grade I timber is structurally stronger than Grade II or III wood. Not all of the wood procured for the recent construction of Middlebury College's new Bicentennial Hall, however, needed to be allocated for structural, load-bearing purposes. Some of the wood simply needed to look beautiful.

Architects originally specified that 125,000 board feet of clear-grained red oak be designated for Bicentennial Hall's interior paneling. Because central Vermont's forests could not sustainably yield this wood, however, VFF recommended that the building showcase seven hardwood species common to local forests. VFF also suggested using character-grade wood.

Once College trustees and officials had a chance to see samples of the indigenous wood, the beauty of its character was obvious—not just tolerable, but well worth featuring. The finished Hall bears testament to that beauty, offering an unexpected, eye-pleasing streak

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of creamy tan through the burnt sienna of cherry wood, a splash of chocolate staining the honey-colored ash, a subtle palette of pastel variations in a wall of red maple.

Carpenters on the project, accustomed to handling Grade I lumber, initially were taken aback by the variability in the character-grade lumber. However, Mark McElroy of Barr and Barr, general contractors for Bicentennial Hall, reported that attitudes soon changed as carpenters got to know the wood. “By the end of the process, they realized that it takes a better eye, more creativity, and a higher level of craftsmanship to make the most of the wood,” he said. “And they came away with a sense of pride in what they had done.”

— Adapted from Vermont Family Forests’ website, www.familyforests.org

HFHC partners recognized that their small business partners often struggled with issues related to their production capacity. Its staff then organized workshops on production techniques such as lean manufacturing. When one HFHC partner contracted with the workshop presenters to visit his shop and analyze his production process, they were able to make suggestions that ultimately made his production process twice as effective.

- Small businesses—especially those located in remote, rural areas—often have difficulty with learning about and gaining access to **distant markets**. CBOs offer a great service when they are able to help make that connection. HFHC conducted well-planned campaigns to educate consumers about sustainably harvested and value-added wood products. It also worked with rural businesses to help develop marketing materials designed to appeal to urban markets. Currently, HFHC is establishing a brand identity that further will assist small businesses in the region to take their products to a wider market.

CBOs can serve a brokering role, connecting small businesses with complementary business partners and helping them to learn about and gain access to distant markets.

In many instances, the CBO also can serve a brokering role, connecting entrepreneurs with complementary business partners. Because its parent organization, Sustainable Northwest, works on a regional

Do nonprofits enjoy an unfair competitive advantage?

Some for-profit businesses may feel that demonstration projects and social enterprise ventures are simply ways for nonprofits to enter the marketplace with an unfair advantage.

Even though the Middlebury College demonstration projects generated profitable work for many local businesses, Vermont Family Forests nonetheless encountered criticism that charged unfair advantage. Had VFF been able to make their costs more transparent, perhaps some of this criticism might have been tempered or avoided altogether. After all, in hindsight it was plain that the demonstrations could not have succeeded had VFF not contributed an enormous amount of staff time to the projects. At the time, however, these costs were not completely clear to local businesses.

Following a lot of community discussion, Wallowa Resources invested financially in the existing Joseph Timber Company, the only sawmill in their region certified by the Forest Stewardship Council. The business eventually failed, but people in the community did not criticize the nonprofit. They understood that Wallowa Resources was trying to create jobs in the community, and they understood why the enterprise failed. This obviously speaks to the importance of timely communication and operational transparency.

level, HFHC is well positioned to hear about a possible timber harvest and thus can link the landowner, a logging firm, a sawmill, and a value-adding manufacturer. To reach a scale of production that is of interest to sawmill operators, Vermont Family Forests coordinates timber harvests and sales across several member woodlots. This brokering role appears to provide greater income to the landowner at little cost to VFF.

LESSON 5 Demonstration projects are an important way to test the viability of a specific economic strategy, provided they are conducted in ways that can be replicated by community members.

Demonstration projects can be important tools, albeit with certain caveats.

Community members can be skeptical about demonstration projects, especially if the demonstration appears to be designed more for the benefit of the nonprofit than for the

Checklist for demonstration projects

- Does the product or service draw on the community's history, traditions, skills, and assets?
- Are community members interested in the project?
- How will you let the community know about how your funds were used?
- Will community members see this demonstration as something "people like us" can do?
- Is it possible to share responsibility for running the demonstrations with landowners and businesses?
- By what standards will these partners be selected?
- How will the process and the results be documented and disseminated?
- What role will you play in supporting community members to follow-up and continue the work based on your demonstration projects?
- Does the demonstration have the potential secondary benefit of catalyzing networking and information exchange among entrepreneurs?

community itself. They also are likely to be skeptical if they have questions about the knowledge and skill of the demonstrator. They are sure to be wary if the funds supporting the demonstration are not used transparently, or if they don't understand why some community members have been included in the demonstration while others were left out. Finally, demonstrations risk being deemed irrelevant if community members cannot easily make the connection between what they see and how they—with their limited resources—might implement a similar project on their own property.

The Federation of Southern Cooperatives/Land Assistance Fund chose to run parallel demonstrations on its own land and with local landowners. These parallel demonstrations assured community members that the Federation was willing to place itself on their level, assuming similar risks. As such, local people were much more open to learning from Federation staff.

Vermont Family Forests ran demonstrations that included local businesses and landowners. In fact, over 30 individuals and businesses benefited from the Middlebury College

projects. However, the projects were large enough—and went through enough changes along the way—that community members (and even Middlebury College) were not always certain about the actual costs at each stage. This ambiguity left some people leery about who actually was receiving the economic benefit.

Demonstrations risk being deemed irrelevant if community members cannot easily make the connection between what they see and how they (with their limited resources) might implement a similar project on their own property.

Across the six-year tenure of the Demonstration Program, communities learned there are some key questions to ask *before* initiating a demonstration project, in order to qualify whether or not the endeavor is genuinely worthwhile. (The checklist on the facing page illustrates these questions.)

Asset management

LESSON 6 There is a lack of local infrastructure for value-adding processing. Small operations have closed, leaving towns that once had a dynamic wood products industry without the capacity to process locally harvested wood.

Even when smaller operations have remained open, they typically have not had the funds to update their production equipment. Meanwhile, the larger mills that typically have lower costs and higher quality are likely to be located many miles away. To help keep the local infrastructure in place, Wallowa Resources invested in a local saw mill to keep it from closing. To rebuild the local infrastructure, Watershed Research and Training Center built an incubator that assists start-up wood products businesses.

LESSON 7 Transportation and handling costs are too high, because some rural manufacturers are too far both from other businesses in the production chain and from major urban markets.

HFHC is starting to develop regional “business clusters” that include raw material suppliers, manufacturers, and supportive retail and distributor partners. Working within such regional clusters can significantly reduce transportation and handling costs.

Wallowa Resources' business ventures

Wallowa Resources in northeastern Oregon invested in a local mill that complemented its interests in small-diameter processing and niche marketing. In fact, the Joseph Timber Company became the only FSC-certified timber mill in the region. The small business was able to reach the market and write advantageous agreements with customers because it could back up its story about rural community, local jobs, and good forest management.

Wallowa Resources' willingness to take a risk that would create jobs encouraged many people in the local community. After all, consultants had assisted the organization in writing a business plan that would improve the mill's profitability and sustain cash over the winter months. Everyone expected that the mill would be operating profitably by spring.

When Wallowa Resources' business partners proved unwilling to fulfill their investment agreement, however, the mill had to be shut down. Even given an uneven supply of raw material, the Joseph Timber Company closed with a full woodlot. In the end, Wallowa Resources learned the importance of conducting better due diligence about outstanding debts and binding investment agreements.

Nonetheless, Wallowa Resources recognized that both a more diversified economy and more value-adding manufacturing jobs still were needed in the community. Wallowa Resources knew it would need to try again. By the time it opened a new venture, called Community Smallwood Solutions, the organization had learned a lot about mill economics and financing. It knew the best people to fabricate and maintain machinery, and it better understood the cash flow needs that a small enterprise faces across the business cycle.

LESSON 8 Forest restoration work and harvesting nontimber forest products are most likely to offer benefits to the local community when they are integrated with value-adding strategies.

Demonstration Program sites located near public lands led collaborative processes for restoration projects so community members could gain access to the woods. Wallowa Resources and the Watershed Research and Training Center, for example, designed and

managed restoration projects that provided seasonal full-time forest work to community members. Both organizations also nurtured local businesses that took the material from these restoration projects and turned it into marketable products.

The Alliance of Forest Workers and Harvesters (AFWH) and its partners supported and provided training in biophysical monitoring and other job skills to workers. They also helped workers make connections so they could compete for work under improved conditions. As a result, several members did secure higher-paying jobs and now are better equipped to make significant contributions to improving the forest.

On private lands, forest restoration services are a niche market, generally targeting affluent landowners. Vermont Family Forests' members, many of whom are affluent, typically can afford to work closely with loggers who focus on the overall health of the forest rather than upon simply reaping the most lucrative harvest possible. The loggers and the landowners face a problem of scale, however, whenever a particular landowner has only a few trees that are ready to cut. In such instances, VFF coordinates efforts to harvest timber on tracts belonging to several of its members, thereby achieving better economies of scale and making the overall harvest more diversely interesting—and thus more valuable—to the sawmills.

Penn Center ran several demonstration projects with indigo, a culturally and historically significant NTFP in its region. It was successful in growing indigo on a few sites and ultimately had a lot more indigo on its hands than the one textile artist in the local community could use. Even given this local surplus, however, there still was not enough indigo to justify efforts to reach a wider market. Balancing the appropriate scale of the harvest with the available market always will be a critical factor.

Balancing the appropriate scale of the harvest with the available market always will be a critical factor.

LESSON 9 Byproducts of ecosystem restoration are expensive because of the higher costs of sustainable forest management.

LESSON 10 Flow of wood from restoration projects on public lands can be very unreliable due to legal appeals that can interrupt or stop harvesting.

Restoration on federal lands is more economically viable when value-adding manufacturers and jobs are situated in the local area where the restoration work is being done. Since

many of these manufacturers are quite small, it can be hard for them to connect with the restoration work. HFHC has been able to facilitate making those connections, however, and found buyers for the wood that is coming off of restoration projects.

LESSON 11 The cost of sustainable harvesting is not covered by the income from harvests, at least in the shorter term. Does this mean that sustainable forest management is only for the rich?

One response to this challenge has been for community organizations to develop programs that sell shares in large tracts that are managed sustainably. Vermont Family Forests, in partnership with the Vermont Land Trust and a private sponsor, is offering shares in a limited liability corporation that enable local residents to share ownership and stewardship responsibilities for forested land. A more detailed description of the Little Hogback Community Forest LLC can be found in the box on the facing page.

Small business networks

LESSON 12 Facilitating business-to-business commerce can strengthen local and regional economic capacity and resilience.

From their unique vantage point, nonprofit community-based organizations often have a bird’s-eye view of emerging opportunities. This favored position enables them to draw more effectively upon local assets, help develop new products, and tap new markets. In the Demonstration Program, CBOs often took a second look at the raw commodities produced by their communities and searched for ways to facilitate their use in local value-adding manufacturing.

The key to making things happen, however, lies in bringing together local entrepreneurs, whether formally or informally. These are the people who actually start businesses and

sell products. Healthy Forests, Healthy Communities brought its partners together at workshops. As business owners started talking to each other about their enterprises, they soon realized they could work together or sell services to one another. The potential benefits became obvious. One

Community-based organizations often have a bird’s-eye view of emerging opportunities. The key to making things happen, however, lies in bringing together local entrepreneurs, whether formally or informally.

EXAMPLE

Little Hogback Community Forest

Vermont Family Forests, in collaboration with the Vermont Land Trust and with the support of a generous sponsor, is offering the Little Hogback Community Forest LLC (limited liability corporation) to local residents who would like to buy and steward forestland, as well as receive a return on their investment.

The partners plan to sell the Little Hogback Community Forest, a 115-acre parcel in Monkton, in an innovative way that would achieve two main goals—protect forest health and allow community members to hold the carefully managed forestland. To meet the first goal, they will sell the right to enjoy and profit from well-managed forestland; subdivision, development, and over-cutting are off-limits. To meet the second goal, they will sell shares in the land to local community members, many of whom could not individually afford forestland. Their purchase will be an investment that would yield financial returns. It also would be an investment they could walk in, work with, and be proud of.

The Vermont Land Trust will hold a conservation easement on the parcel to ensure that the land will be carefully managed in perpetuity, and that it will never be subdivided or developed. The easement also will lower the price of the land.

The financial contribution of a sponsor has further lowered the price to a level that should provide a modest rate of return from the land, under careful management. A covenant will allow VFF to repurchase the land, if it is ever sold, at a price that could similarly yield a return. This arrangement likely will make the parcels perpetually affordable to community members who need a return on their investment.

local supplier or manufacturer, for example, could help another with an overflow order. Such cooperation vastly increases the stability of small businesses.

Before North Quabbin Woods formed its woodworkers advisory group, most business owners simply turned down jobs they couldn't handle. Now they are likely to refer the customer to someone else in their local network. After all, doing so keeps the business—and

the economic benefit—within the community. Small businesses are discovering that this sort of informal collaboration works better for all of them.

LESSON 13 Small business networks can lower costs and increase overall market share.

Small, rural wood products manufacturers rarely do the volume of business that would allow them to reduce costs by running three shifts a day. Nor are they favorably positioned

to outsource their labor costs, especially in sectors that strive to manage natural resources and ecosystems sustainably.

Businesses may be able to stay profitable if they can cut some of their costs through strategic collaborations with other businesses and other community stakeholders.

If these businesses are forced to compete solely on the basis of the cheapest, bottom-line manufacturing costs, they may not be able to survive. However, they may be able to stay profitable, if they can cut some of their costs through strate-

gically collaborating with other businesses and other community stakeholders.

In the Demonstration Program, for example, restoration work on public lands usually went forward when local stakeholders agreed not to use judicial appeals to prevent U.S. Forest Service projects. Negotiating these multiparty agreements significantly lowered the transaction costs associated with the restoration projects.

Moreover, CBF practitioners were able to design their projects to feed sustainably harvested wood into local businesses that were part of the overall collaborative effort. Wood that is processed locally significantly lowers transportation costs, thereby offering a further competitive advantage to local businesses.

Production

LESSON 14 Manufacturers face the tension of supply and demand. If they build the market too fast, they do not have the product to meet the demand. If they build inventory first, they don't have the cash to pay their bills. They need both a line of credit and confidence that the product will sell in a reasonable period of time.

LESSON 15 Building business capacity as the market grows also is a challenge.

HFHC began with a clear focus on marketing. As it linked businesses to the market, HFHC found that the businesses needed technical assistance in several areas—small-diameter wood product development, production improvements, business and financial planning, and marketing and sales. HFHC then identified and linked with other service providers to assist these small businesses.

Funding

LESSON 16 Start-up business ventures always struggle to get access to capital for equipment and working capital. CBF ventures face yet another hurdle, however, because banks are leery about lending to a business that has difficulty with raw material supply.

HFHC addressed this challenge by assisting partner businesses in securing loans. Sustainable Northwest (HFHC's parent organization) and Shorebank developed a system by which a percentage of a loan made to a business would be partially secured by funds from HFHC's small grants fund. Once the loans are repaid, HFHC regains access to the funds. HFHC also makes small grants to its partners for innovation and research.

Sites in the Demonstration Program often found it was difficult for small businesses to move past one-person shops to a level of production that could employ more people in the community.

Generally, sites in the Demonstration Program found it was difficult for small businesses to move past one-person shops to a level of production that could employ more people in the community.

LESSON 17 For a small business, purchasing raw material from a large harvest requires a large outlay of cash long before the product can be produced and sold.

The U.S. Forest Service awards contracts to Watershed Research and Training Center to do restoration work on the land. Out of this work, WRTC gets a supply of small-diameter timber. WRTC's crew brings this timber to WRTC's woodlot, at which time this crew is paid. WRTC then allows local businesses to purchase the raw material when they need it for

production. The businesses do not have to buy all the material at once. They buy what they need to fill their orders. They only have to pay for what they will use right away.

Marketing

LESSON 18 Community-based forestry businesses make products from the resources available to the community. They often have a good sense of what they want to make but much less sense of what the market wants to buy.

HFHC has partners that are rural manufacturers and partners that are urban retailers. Staff are good at bridging the gap between these two groups. HFHC offers networking opportunities, brings manufacturers to trade shows to talk with customers, and gives one-on-one advice to businesses about how they might improve their products.

Moving from a production focus to a customer focus is challenging. Most producers initially got into their value-adding manufacturing business because they like to *make* things, not because they like to *sell* things. One-person businesses often struggle with how the owner should spend his time. Even if she wants to go out and sell, she typically doesn't have the time. When she gets orders, she needs to be in her shop filling those orders.

LESSON 19 A regional brand offers market access for small rural businesses, but it can be difficult to have a cohesive market identity with multiple producers.

Green Mountain Woodworks (GMW), a small brokerage firm, has been able to establish a market identity for several of HFHC's partners, even though the businesses offer differing product lines, prices, and levels of quality. Moreover, many of these HFHC partner firms also serve the same or similar markets as GMW and therefore strive to retain their individual identity as well.

LESSON 20 Businesses must find a way to tell a compelling story about their product that matters to the end user.

HFHC doesn't limit itself to selling to the "green market." It has found that it has a compelling story about rural businesses and communities that resonates with customers. This story reaches a larger market and does not conflict in any way with the message to the "green market."

CHAPTER 2 Roles for a Nonprofit

Find the gap

CBF organizations often find gaps in the production and marketing chain that connects timber and nontimber forest products with the end consumer. For example:

- Landowners using sustainable management practices may need to find buyers for their timber who will pay a premium for their trees. Nonprofits may decide to **form cooperatives** that offer smaller landowners access to a wider market. Vermont Family Forests described its role as “a **wood shepherd**—taking what the forest wants to yield and promoting that to the architects and procurement staff for building projects at Middlebury College.” Rural Action **formed Roots of Appalachia Growers Association** (RAGA) to connect NTFP harvesters with each other and the market.
- With mills and the rest of the production infrastructure closing in many parts of the country, the gap may be getting the raw material to the manufacturer. Nonprofits may decide to **own and operate kilns or mills** to fill this gap.
- In the Northwest, timber harvests on public lands may be delayed and even stopped when they are appealed through the court system. This can leave small rural manufacturers without the raw material they need. Nonprofits can at least partly fill this gap by **connecting these manufacturers with private landowners** who are planning to harvest. In addition, nonprofits often work collaboratively with the U.S. Forest Service, environmentalists, and other stakeholders to identify restoration and management prescriptions that can meet everyone’s goals. As this restoration work moves forward, raw material, particularly small-diameter timber, is a byproduct often available for use by local businesses.



“If we won’t do it, who will? We can take different risks and we have different criteria for success. We don’t have shareholders asking for quick returns. We may have access to grants and very low-interest loans that allow us to focus on job creation and impact on the environment as well as economic benchmarks.”

—Nils Christoffersen, *Wallowa Resources*

- Much of the timber harvest in the West is small-diameter timber. Most traditional forestry products were made from large-diameter, high-grade timber. **Small-diameter timber products need to be developed** that use this raw material and can be priced to be attractive to the market. Wallowa Resources, its for-profit subsidiary, and local investors are building an Integrated Wood Center that would use all the small-diameter material that comes from restoration harvesting. A key future component of this center will be the generation of various forms of renewable energy.
- Emerging businesses struggle to get access to credit. HFHC found a way to use its **small grants fund to leverage equipment loans** for its partners. Watershed Research and Training Center leases equipment and incubator space to community businesses. A business incubator for manufacturing firms provides physical space for manufacturing, equipment that can be leased as needed by more than one business, and, sometimes, administrative and financial support services.
- Rural businesses rarely have market access or well-developed market knowledge. Nonprofits can provide **market and business development assistance** either directly or through links with other service providers. HFHC provides assistance directly with its highly qualified staff, through nonprofit and government technical service providers, and through the broker HFHC has engaged.
- The products that rural businesses develop may not stand out in the marketplace. Nonprofits can develop and promote a local or regional brand. Vermont Family Forests Partnership (VFFP) assisted woodworkers to form Vermont Woodnet so that they could get **joint FSC chain of custody**. FSC certification helps establish the legitimacy of a local or regional brand's claim that its wood has been harvested sustainably.
- Small rural businesses often do not have access to large markets. HFHC **links the rural businesses with urban retailers**. VFFP assisted in developing the procedures that opened **access to institutional markets** for Vermont wood products businesses.
- Small rural businesses often struggle with fluctuating sales volume. Nonprofits can purchase products from producers and **sell directly to the customer**. HFHC may develop a product line that it would sell to retail stores.

Throughout all of these strategies, nonprofits can fund and conduct research and development for more effective and efficient harvesting, production, and marketing. They also can

EXAMPLE

Roles that a nonprofit can undertake

Coordinating collaboration

- Most business owners are too busy to take the time to build the relationships that would lead to effective collaboration. HFHC fills this gap through its annual partnership meetings, its quarterly newsletters, and its assistance to individual businesses and business clusters.

Credibility and brand identity

- If the group of associated businesses has shared values—small, rural, quality, ecological—that might provide a competitive advantage, the nonprofit can help collectively tell that story through developing an easily recognizable graphic identity.

Monitoring

- If any ecological or social claims are made through the brand, there is a need to have independent people who can help assess claims and evaluate efforts toward meeting and improving on those claims.

Urban connection

- The nonprofit can provide connections to urban markets and urban resources about which rural manufacturers may be unaware.

Vertical integration

- In addition to HFHC's focus on value-adding manufacturing, its parent organization, Sustainable Northwest, is involved in forest policy and the promotion of sustainable retail products and building supplies. These connections allow the integration of

(continued on next page)

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the partnership from the forest to the marketplace. Many of HFHC's partners have benefited from having timber suppliers as well as finished products consumers all engaged in the group.

Regional coordination

- HFHC facilitated businesses to network with each other and to relevant community development efforts.

Addressing other missing pieces for businesses' success

- Often business capacity needs extend beyond marketing. A nonprofit such as HFHC often is able to address those needs, either directly or through referrals to other support systems in the region.

Leveraging capital

- HFHC offered assistance in securing loans.
- HFHC awarded small grants for innovation and research.
- HFHC provided small amounts of capital in instances where a costly enterprise could help multiple businesses within its member group—i.e., photography displaying the various species of Northwestern woods.

Research and development

- Becoming more efficient often requires developing new processes and products. R&D is time-consuming and thus expensive. Nonprofits can help support businesses as they develop new ways to do things that would aid smaller rural businesses.

fund and conduct demonstration projects. The Federation of Southern Cooperatives/Land Assistance Fund and Penn Center each sought a product that would provide the income

needed for African-American landowners to be able to keep their land in the face of rising tax levies. In the demonstrations both organizations have conducted, goats seem to present a good opportunity.

Take time to consider

Talking to the community

When a nonprofit organization steps into the production and marketing cycle, it can be threatening for small businesses. Nonprofits have grant funds, and they do not pay taxes, which raises concerns of unfair competition. The community typically wants to know why the nonprofit is stepping in and what their goals are. If the nonprofit makes a consistent effort to share this information, and gives the community a chance to respond to and even engage in the planning, then communities can be very enthusiastic about what the nonprofit plans to do.

When Wallowa Resources became a part-owner of the Joseph Timber Mill, the community felt encouraged. Community members knew they needed the jobs at the mill, and they knew that the business would close otherwise. When Joseph Timber Mill had to close regardless, community members were disappointed but still grateful that Wallowa Resources had made an effort to save it. Accordingly, they welcomed Wallowa Resources' next enterprise.

Weighing the costs and the benefits

Undertaking any community-based project requires significant time and resources.

This is particularly true when a nonprofit moves into less familiar arenas—like business. Calculating costs can be difficult, and implementing projects can quickly swallow up staff time. The shortfalls—whether avail-

able resources, skills, or time—can be very large. A nonprofit needs to focus on what it can handle and then see if other players can step into other gaps in the chain.

A nonprofit needs to focus on what it can handle and then see if other players can step into other gaps in the chain.

When the benefits are calculated, it is important to see who in the community is most likely to benefit from the proposed new project. Are there actually only a few people who will benefit? If this is so, how are those few to be selected? Is there a way to design the nonprofit's role so that more people might benefit and still keep the costs in line?

Finally, there is the question of formulating an "exit strategy." If the nonprofit's purpose is to fill one or more gaps in the production and marketing chain, then when and how would the nonprofit step out? Is the goal to encourage the for-profit sector to step in? Is the goal to develop an enterprise that may even provide income to the nonprofit?

TIP

Explore these questions before you form a nonprofit enterprise

1. **Is the nonprofit enterprise compatible with your mission? If you create an earned income venture, will you have the support of your staff, board, funders, members, clients, and others?**
2. **Will a business venture distract you from what you were founded to do?**
3. **What is your current and projected financial status, and how will earned income help you? Are you feeling desperate?**
4. **What are the potential risks and returns in terms of your finances, organization, and reputation? Are you risk-takers?**
5. **Do you have a champion who will take responsibility for the work and move the business venture forward? Are you prepared to invest the necessary time and money to do proper analysis, planning, and start-up to meet the demands of the marketplace? And, is it worth it?**
6. **Do you really have a product or service that people would be willing to pay for?**

From "Nonprofit Enterprise: Right for You?" by Cynthia Massarsky and Samantha Beinhacker, *Nonprofit Quarterly*, Fall 2002.



SECTION

B

Healthy Forests, Healthy Communities: A Case Study



CHAPTER 3 The HFHC Flooring Experience: Lessons from a Regional Marketing Collaborative

Throughout this Toolkit, you will find short examples—both in the text itself and set apart within graphic boxes—that illustrate specific lessons learned during the National CBF Demonstration Program. Many of these examples derive from insights provided by members of the Healthy Forests, Healthy Communities Partnership in the Pacific Northwest. This chapter introduces HFHC and provides background for the group’s summary observations that continue throughout later chapters.

The Healthy Forests, Healthy Community Partnership is a regional project of Sustainable Northwest, a nonprofit organization dedicated to environmentally sound economic development across the Pacific Northwest. The Partnership is a collaborative of wood products manufacturers from small towns across the Pacific Northwest. These businesses are dedicated to creating sustainable jobs in their communities and using wood from ecologically responsible resources whenever possible. HFHC helps them achieve success by enhancing their business capacity, helping source raw materials, and, most importantly, supporting these businesses’ marketing efforts.

Location—Pacific Northwest, characterized by thousands of acres of private and public forestlands suitable for CBF management. Adjacent communities have experienced high rates of poverty and unemployment due to lost jobs in the wood and forest products sector.

Background—Organized in 1999, HFHC connects rural wood products manufacturers with raw material suppliers, other like-minded businesses, and urban markets. The network members’ products include sustainably harvested and manufactured flooring and paneling, furniture, building materials, gifts, and logs. The HFHC brand identity—including its marketing label as well as the story behind the products and their manufacturers—depicts a commitment to both environment and community, empowering consumers to make a choice that makes a difference.



The marketing program supports HFHC businesses by building their knowledge of market expectations, cultivating awareness among consumers of HFHC members' products, and creating market entry points for the sales of product lines.



Highlights from the Demonstration Program—HFHC worked simultaneously in the marketplace and in communities. Its dual strategy has been to: 1) identify and access urban markets for the byproducts of ecosystem management and forest restoration including small-diameter wood and underutilized species; and 2) build rural community capacity for sustainable natural resource-based jobs through ecosystem management and the manufacturing of marketable, value-added products of wood from verifiably sound forest management.

HFHC's capacity-building services to its partners have included technical workshops and peer-to-peer exchanges. Through the organization's Small Grants Program, partners were awarded funding to implement projects that further business development and forest restoration, as well as outreach and education. HFHC's marketing activities helped build partner knowledge of market opportunity and expand entry to those markets. In response to partner requests for help in seeking sustainably harvested wood, HFHC is creating a log and lumber purchasing network.

Marketing program—The HFHC marketing program supports its partner businesses by enhancing their knowledge of market expectations, cultivating awareness among consumers

of HFHC members' products and their attributes, and creating market entry points for the sales of those product lines. Because the product lines offered by HFHC's partners are so diverse, it has been helpful for HFHC to categorize and prioritize them. Flooring, paneling, and molding have been the products upon which HFHC has placed the greatest emphasis, for several reasons:

- They are well suited to the resource base to which HFHC businesses have access;
- Relatively low infrastructure investment is required for these products' manufacturing processes;

- Simple manufacturing can add significant value to the raw commodity used in making the product; and
- The hardwood flooring market has been a rising star in an otherwise depressed wood products industry.

Working with a broker—HFHC wanted to connect its partners that are flooring manufacturers with the market. HFHC’s first thought was that it would work directly with retail stores and eliminate the commissions that would go to a broker. It found that the retail stores and contractors prefer working with brokers. They want to work with a broker who stocks an inventory, makes sure they get their deliveries on time, and can offer them a selection of flooring products. HFHC discovered that the costs for working through a broker were part of reaching the market. Accordingly, HFHC contracted with Green Mountain Woodworks to perform this role. Not only did Mark Stella’s small company serve as a broker, but the young firm also provided technical support to HFHC partners who were entering or expanding their market.

GMW has the capacity to represent several HFHC partners at once, meaning it can offer more volume potential and more diversity in species. GMW also does not have to worry about the manufacturing and can therefore focus on marketing, reaching a range of customers, including architects, installers, retailers, distributors, and end consumers.

GMW simultaneously serves both the individual partners and overall Partnership by:

- Providing a single point of contact (responding to inquiries about pricing and availability) and coordination for a wide portfolio of unique woods;



HFHC members’ products include sustainably harvested and manufactured flooring and paneling, furniture, building materials, gifts, and logs.



- Offering design assistance for those customers who “aren’t sure what they need”; and
- Crafting a unique marketing message based on local businesses, unique woods, superior service, and environmental provenance.

Although GMW provides very valuable services to the HFHC flooring businesses, many HFHC flooring sales are, in fact, made directly by the businesses. These sales typically take two forms: 1) direct to consumers within the immediate geographic area of the company, with marketing typically taking place by word-of-mouth or through local events; and 2) wholesale transaction to a handful of sales representatives with whom the business has established a long-term working relationship.

GMW’s annual sales in 2004 totaled \$390,000, of which \$180,000 was sales of flooring from HFHC partners.



Customers

7. Who are your target customers? _____
8. What relationship do you have with your target customer? _____
9. What evidence do you have of customer interest? _____



SECTION

C

Initial Screening of Your Product Idea

Product

1. Clearly describe the proposed product or service. _____
2. Is this product seasonal or perishable? _____
3. Do you have access to the raw material you need for _____
4. Do you have, or have you identified, the equipment _____



Business Model

18. What evidence do you have that people will pay for this product or service? _____
19. What weaknesses will your nonprofit face in running this service? _____



CHAPTER 4 Identifying the Market Opportunities for Your Products and Services

Many community-based forestry businesses have product ideas. They know the raw material that is available in their region, and they know the products they want to make. Often they started their businesses because they enjoy making the product. Few started their businesses because they like to sell.

In fact, the challenge usually is understanding the market—knowing what people want, what they will pay, and how to get the product to them. To develop that knowledge, this *Toolkit* recommends that business people do a step-by-step market analysis:

First Step Consider the Initial Screening Questions.

Second Step . . . Develop a marketing plan by answering the questions and completing the worksheets in chapters 2, 4, 5, and 6.

Third Step Test market with a focus group of people selected from your target customer group.

Fourth Step . . . Begin small-scale production and conduct a further market test.

Fifth Step Move to higher production levels.

Sixth Step Adapt, refine, and improve your product and your marketing.

The process for conducting this market analysis will be the same whether you are looking at the commodity market or the market for a value-added product. You will answer the same Initial Screening Questions and follow the same worksheets. However, the structure of each market is different, and the marketing strategies for each will be different. For example, the value of creating a brand to market a two-by-four is much less than creating a brand for wood flooring products.

It is wise to explore new products in stages so that you do not go too far down a path that will not be successful.

TIP

Are you looking for product ideas?

If you are interested in using the Web for a product search, you will need to go to your favorite Internet search engine, such as www.google.com. Look up the overarching category first—such as nontimber forest products, agroforestry, or sustainable wood products. The first five sites listed usually are the most helpful, but feel free also to look at the entire list. These sites may suggest a list of possible products. You can then look up specific product ideas, also using Google or Yahoo. Remember to include your region as one of the key words in your search to help screen out improbable product ideas.

The following lists will help you get started. The first describes wood products, and the second is a list of nontimber forest product and agroforestry ideas that came from a simple Internet search.

These lists are not focused on any region. In some instances, they also include one or more helpful Internet sites.

Wood products

- www.forestdirectory.com
- www.ecomall.com
- www.greenbuilder.com
- Flooring
- Post and pole
- Wood crafts
- Wood puzzles
- Sustainable wood products
- Wood furniture
- Logs
- Sustainable furniture
- Sustainable cabinets
- Stairways
- Windows and doors
- Timber products

Non-timber forest products

Fruits and berries

- Wild blueberry
- Crab apple
- Bramble berry
- Grapes
- Elderberry
- Cranberry
- Mulberry
- Teaberry
- Gooseberry
- Mayapple
- Persimmon
- Pawpaw

TIP
(continued)

Medicinal and herbal plants

- Black cohosh root
- Bloodroot
- Blue cohosh root
- Catnip herb
- Echinacea
- Ginseng herb and root
- Goldenseal herb and root
- Lobelia herb
- Mayapple
- Pink root
- Red clover blossoms
- Sassafras leaves, bark, root
- Slippery elm bark
- Solomon seal root
- Star grub root
- St. John's wort
- Sweet gum
- Wild cherry bark
- Wild ginger root
- Wild hydrangea
- Witch hazel bark and leaves

Decorative products

- Flowers
- Vines
- Spanish moss
- White pine greenery

Other products

- www.sfp.forprod.vt.edu
- Mushrooms
- Essential oils
- Pine straw
- Aromatic oils

Agroforestry

- Grazing/weed maintenance (livestock, poultry)
- Spreading nutrients in the form of manure (livestock, poultry)
- Insect control (poultry)
- Scratching and digging to prepare for planting (pigs, goats, chickens, turkeys, etc.)
- Cleaning of fallen fruit/nuts, other organic waste (livestock, poultry)

Consider the Initial Screening Questions

A quick way to assess an emerging market opportunity is to answer the **Initial Screening Questions** (see facing page). This exercise will give you a rough sense of whether it is worth spending some time and money on researching the market opportunity. It is wise to explore new product development in stages, so that you do not go too far down a path that will not be successful.

TIP You may need to create your own niche market

Don't assume that people are just eager and waiting for your product to arrive on the shelves of their local retail outlet. If you will be shaping this market, then you need a clear idea of who your potential customer would be. Will they be affluent homeowners who care about the environment? Will they be local or live in a neighboring city? How would you get your story to them?

For example, Appalachian Sustainable Development (ASD), a nonprofit organization located in southwest Virginia, decided it needed point-of-sale displays so that the customer could learn about its products directly. As a result, ASD needed to convince local retail outlets that it was worthwhile both to sell ASD's products and to allocate floor space for its point-of-purchase displays.

If your target market is not already well established, you likely will have the additional expense of locating and educating your potential customers. You also probably will need to educate the stores from which homeowners buy their products. Be sure to include these costs when you estimate your price in Chapter 8.



Initial Screening Questions

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

You will need to do little or no research to answer these questions. Nonetheless, they will give you a sense of whether your initial product idea is worth taking to the next step and beginning to do more in-depth research. In actual fact, you may be considering several possible product ideas. This questionnaire will help you focus on the few that seem most feasible.

Product

1. Clearly describe the proposed product or service. _____

2. Is this product seasonal or perishable? _____
3. Do you have access to the raw material you need for this product at a steady price? _____
4. Do you have, or have you identified, the equipment you need to manufacture this product?

5. Do you have, or have you identified, the staff you need to manufacture and sell this product? _____
6. How will you produce and deliver it? _____

Customers

7. Who are your target customers? _____

8. What relationship do you have with your target customer? _____

9. What evidence do you have of customer interest? _____

10. How will you sell this product to customers? _____

11. What is important to these customers? _____

12. Are they growing in numbers or buying more every year? _____

Advantages

13. Do you like working directly with people and enjoy customer contact? _____

14. How does this venture build on your core competencies? _____

15. What is the competition for this product? _____

16. Why would customers prefer your product? _____

17. How difficult would it be for another firm to replicate your product? _____

Business Model

18. What evidence do you have that people will pay for this product and that there is profit potential? _____

19. What weaknesses will your nonprofit face in running this venture? _____

Adapted from *Venture Forth!* By Rolfe Lawson, Amherst H. Wilder Foundation, 2002.

Develop a marketing plan

Once you have determined that the market opportunity is worth exploring, you can move on to researching the questions presented by the worksheets that appear throughout this *Toolkit*. Answering these questions will guide you toward developing your marketing plan.

You may decide to work with a marketing consultant at this point, or you may work at answering these questions on your own. We'll offer some suggestions, including websites and other sources, for finding the information. It is certainly possible to do this work on your own, but you may not have the time or the interest to do this research. You also may decide that you want an unbiased person assessing your marketing plan. Funders often want to see a marketing plan prepared by an external expert.

To find a capable marketing consultant you can ask your colleagues, talk to professors at your local university, or go to the Small Business Development Office in your area. A consultant who knows the particular industry will know the retailers and the intermediaries. You may want to go on some interviews with the consultant, but he or she should be able to make the contacts.

Even if you choose to work with a marketing consultant, you still need to know what information you want out of a marketing plan. Take the time to read through these chapters, and you will know what to ask your marketing consultant. Give the consultant the answers to your Initial Screening Questions and be sure that they understand your product and your production capacity. You want to develop a marketing plan that will be reasonable for your organization. When you prepare your contract with the marketing consultant, be sure you are very specific about what you expect in your marketing plan.

WORKSHEET 1 Describe your product

Purpose: To develop a statement that describes your unique product

Process: In questions 1 and 2 of the Initial Screening Questions, you described your product or service. Look back at that and then write a brief product description. What are the benefits and benefits?



WORKSHEET 2 List your marketing goals

Purpose: To get clear on where you want your marketing plan to take you.

Process: Complete the table below with your five marketing goals. Think about the amount of product you have available as you set these goals. If you have a limited amount of product you may not be able to go beyond your local area.

Marketing goals should have numbers and dates.

SECTION **D**

Marketing Plan Steps



WORKSHEET 3 Profile your competitors

Purpose: To describe the people who are already selling similar products to your target customers and to detail what could make customers prefer you.

Process: Use this worksheet to identify your 3-5 primary competitors.



WORKSHEET 4 Identify your competitive advantage

Purpose: To define what makes you and your competitors successful.

Process: Enter the success factors of your business and your competitors in the first two columns of the table below. All the information you need should already be in Worksheet 3. In the table below, you rate your business and your competitors on each success factor.

CHAPTER 5

Beginning Your Marketing Plan

What is a marketing plan?

A marketing plan puts your ideas on paper about your product and how you will get that product to your customers. The marketing plan doesn't have to be long, but it does have to cover the topics listed for each of its component sections. In this *Toolkit*, we will walk you through these sections using lessons learned from the Demonstration Program. Each section has a worksheet. In the final worksheet—Worksheet 13 on page 112—we will show you how to combine all of these worksheets to create your own strategic marketing plan.

Sections of a marketing plan include:

1. What is your product? (See Worksheet 1, page 47.)
2. What are your goals for this product? (See Worksheet 2, page 53.)
3. How will you position yourself in the market (See Worksheet 5, page 61.)
4. Will you develop and promote a brand? (See Worksheets 6, pages 71.)
5. To whom will you sell your product? (See Worksheets 7 and 8, pages 75 and 79.)
6. What will be your selling price for this product? (See Worksheet 9, page 85.)
7. Who are your competitors? (See Worksheet 3, page 57.)
8. What is your competitive advantage? (See Worksheet 4, page 59.)
9. How will you promote this product? (See Worksheets 10 and 11, pages 93 and 101.)
10. How will you measure success? (See Worksheet 12, page 106.)

Brief product description

Now that you have completed the Initial Screening Questions (presented in Chapter 4), you are ready to begin describing the product that you want to develop, manufacture, market, and sell. A product description includes features and benefits. **Features** are the physical description of the product. **Benefits** are how the product will improve the customer's quality of life.

Your product may be a product line or one single product. If you are thinking about a product line, be sure that the products all sell through the same channels. For example, if you are a manufacturer of wood flooring in various types of wood, then all those types of

flooring are included in your product line. This line could be what you focus on when you are completing these worksheets. You also may make toys with some of the wood you have left over from the flooring product. This is a separate product line. You would have to work through the worksheets for this product separately because you would probably not reach the market the same way. Distributors and showrooms for flooring are not selling toys as well. And retailers of handcrafted toys do not sell flooring.

Keep it simple here, as in the sample product description below. Your product cannot be everything to everyone. You want to think about its key features and benefits and then make sure to do those well. There are many more benefits you might offer, such as low price, fast delivery, or customization. Any of these could be important benefits, but it is unlikely you can offer all of them.

TASK Describe your product (Worksheet 1)

Example:

Product description:

Our product is a comfortable Windsor chair made from oak. The chair is made by craftsmen in our small shop in eastern Oregon and it is made from wood that has been harvested sustainably.

Features:

- 1. Oak
- 2. Windsor-style chair

Benefits:

- 1. Comfortable
- 2. Made by a rural small business
- 3. Made from "good" wood

Remember: Any of these could be important benefits, but it is unlikely that any one product can offer all of them.

1 Describe your product

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To develop a statement that describes your unique product

Process: In questions 1 and 2 of the Initial Screening Questions, you described your product or service. Look back at that and then write a brief product description. What are the features and benefits?

As you think about the market and your competitors in terms of your own ability to manufacture a product, you may decide to modify your product or to focus on certain types of products within the larger range of what you might be able to manufacture. This is a common way for manufacturers to develop a product. You are looking for the product that makes the most sense given your capacities, the customer, and your competitors.

Be aware, too, of the ways you may need to refine your product idea. As you work through the next several worksheets, be sure to make those changes on this worksheet so that you have the information you need when you pull your marketing plan together.

Product description:

Features:

1.

2.

3.

4.

(continued on next page)

Benefits:

- 1. _____
- 2. _____
- 3. _____
- 4. _____

EXAMPLE

Differentiating Healthy Forests, Healthy Communities

According to Ryan Temple, HFHC differentiates itself with the following competitive advantages:

- Northwest hardwoods such as Myrtle, Madrone, Big Leaf Maple, and Tan Oak are uncommon flooring types, providing the customer a unique look that is often sought in flooring choices. These species also produce a large percentage of the “character” grades that are currently popular in the market.



- All of our flooring is custom milled by skilled craftsmen, meaning that the product is of the highest quality with very little defect. The smaller shops also can offer specialty services such as matching trim and custom sizes that larger outfits are not willing to take on.
- Finally, HFHC products come with a social and environmental provenance that adds value to the product for a customer who is interested in supporting regional economies and good forest stewardship.

EXAMPLE

How did Green Mountain Woodworks set its marketing goals?

Mark Stella, owner of Green Mountain Woodworks, reports that the young company considered the following factors in developing its marketing goals:

- Shipping costs and the likely size of a sale helped us determine the geographic range within which we might be able to sell our products;
- Limited availability products—defined as those that “sometimes we have them, sometimes we won’t, and the price can vary”—were targeted directly toward homeowners or contractors, *when we had them*.
- Those products that we were sure we could produce in 2,000- to 3,000-square-foot volumes with approximately three- to four-week lead times could be sold through wholesale showrooms or distributors.
- Any products which we could produce regularly (quarterly) in truckload quantities (10,000 square-feet or more) at a relatively low price could be marketed to volume-based distributors for them to stock, rather than selling them one job at a time.

By working directly with each level of the market, we began to see where we fit and where we didn’t, which messages worked best, and which type of sales we seemed to be generating most. That helped us better understand which sales tools we needed to communicate with each customer. Though we would prefer to sell product directly to homeowners (at higher retail prices), the wholesale markets helped us create a more consistent flow of product and gave us the security to know we can stock certain products more readily.

Green Mountain’s approach to marketing geography has largely been based on our capacity to serve the market and has adhered to the following formula:

The initial phase of development for GMW’s marketing efforts targeted the following niches:

- Retail—the Southern Oregon, northern California region directly

(continued)

- Wholesale—dealers and distributors in the north California, Oregon, and Washington regions

The secondary development phase targeted the following niches:

- Retail—greater Internet presence, more directly with architects and designers in all western states
- Wholesale—retailers and distributors in Idaho, Montana, Colorado, Utah, and southern California

Setting marketing goals

Now it is time to set some goals. These goals will guide the rest of your planning process and give you a way to measure your success in marketing.

You want to set concrete goals that have specific numbers and projected dates. It also helps to be both realistic and optimistic. You want to stretch to meet these goals. These goals are where you want your plan to take you, but they do not provide details on how you will get there. That path will be described later in the plan.

The time frame for your goals can be six months, one year, or ten years. Again, it depends on your situation. If your focus is quick results, then you want to look at a short time frame. If you are just beginning your marketing campaign, then you might set targets for one year, three years, and five years. Banks and other prospective funders will want to see what your plans are over a longer range.

If you have chosen to work with a consultant, you should set some draft marketing goals before you talk. The consultant may tell you that your marketing goals are not realistic, and you may ultimately need to revise them. But these draft goals will guide his or her work. You can expect some changes

Your marketing goals will guide the rest of your planning process and give you a way to measure success. You want concrete goals with numbers and dates. It also helps to be both realistic and optimistic.

when the marketing plan is completed, but you will want to know why those changes have been made.

If your product is flooring, for example, and you plan to market through a broker as well as directly to local retailers, developers, and contractors, then your draft marketing goals might look like this:

Broker	10 new regional distributors/5 maintained	End of 1 year
Direct sales	10 new local retailers/5 maintained	End of 1 year
Direct sales	1 new local developer/1 maintained	End of 1 year
Direct sales	10 local contractors/8 maintained	End of 1 year

With these goals you know what category of customers—distributor, retailer, developer, contractor—you are trying to develop. You also know who will be doing the work—you and your staff or a broker. It will help to focus your planning. After you have developed more of your plan, you may need to go back and revise these goals based on what you have learned.

TASK List your marketing goals (Worksheet 2)

Example:

This example is for a small business that is currently selling direct to a small number of retailers, developers, and contractors, but wants to increase sales volume by working through a distributor.

Marketing goals	Time frame
1. Find a broker who sells to distributors	End of 3 months
2. Broker: 10 new distributors/5 maintained	End of 1 year
3. Direct sales: 10 new retailers/5 maintained	End of 1 year
4. Direct sales: 1 new developer/1 maintained	End of 1 year
5. Direct sales: 10 contractors/8 maintained	End of 1 year

2 List your marketing goals

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To get clear on where you want your marketing plan to take you.

Process: Complete the table below with your five marketing goals. Think about the amount of product you have available as you set these goals. If you have a limited amount of product, you may not be able to go beyond your local area.

Marketing goals should have numbers and dates. They should be realistic and optimistic.

Time frame can be six months, one year, or five years—depending upon your situation.

Marketing goals	Time frame
1.	
2.	
3.	
4.	
5.	

Identifying your competition

You want to find ways to get your customers to buy your product. To do this well, you need to know who else is selling to them and how they are doing it. Think about your competitors as the businesses that:

- Sell similar products or services—these are the easiest to identify using a phone book, business listing, or the Internet.
- Sell different products but provide the same benefits—look back at the benefits your product offers and think about other products that offer the customer these benefits.

Once you have a list of your primary competitors it will take a little research to find out more. This can be done by interviews with customers, by looking in stores, or by searching the Internet. One very good site for getting information about businesses is www.thomasnet.com. This site lets you search by product. If you are looking at forest products, then you can also go to www.forestdirectory.com, www.ecomall.com, www.greenbuilder.com.

If you are selling pawpaws, you have competitors who also sell pawpaws. You must also think about the competitors who are providing other new and unusual fruits to the marketplace. The company that sells ugly fruit to the grocery store is competing with you for floor space in the produce section. The grocer will only handle a few new products at a time.

If you are making and selling furniture, then you will have competitors who only make the product and some who only sell the product. Both should be researched here. In some cases, these competitors can

become collaborators. You may determine that you need a wider range of product to be successful, and one way to get that is from the other furniture makers. Or you may decide that you will not sell directly in a certain area and a retailer will handle your product there.

The following are some appropriate questions about your likely competitors:

- Who are your competitors?
- What makes them successful or not? These are their success factors.

EXAMPLE

What HFHC learned about assessing competitive advantage

Make sure your products' image clearly demonstrates their value

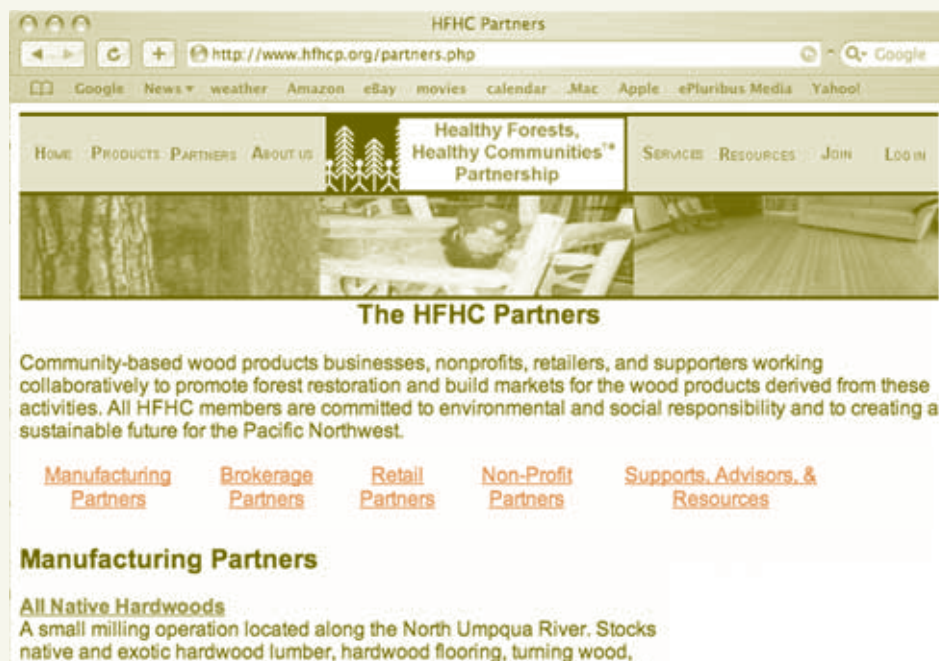
- We want to have that “affordable, yet quality” image expressed in everything we do, and we want our work clearly to show that image to our customers

Understand the competition

- Local hardwood lumber yards and flooring dealers
- Distributors who play the role of dealers
- Those who sell an ecologically friendly product

Price, products, service, other

- Develop our marketing stories to be short, to the point, and effective—based on the responses of customers to whom we tell it
- Our service has to be better than the best out there



Let the distribution chain work for you, and turn competitors into customers or vendors.

Let the distribution chain work for you

- Turn competitors into customers or vendors
- Always strive to better support those distributors/showrooms who sell for us
- Always support our manufacturers, pay on time, keep them in business

- What price are they selling the product for?
- If the product moves through intermediaries, such as wholesalers and distributors, who are they?
- What are the reasons why customers will prefer you over the competition? These are your success factors.

TASK Profile your competitors (Worksheet 3)

Example:

Competitors:

Competitor 1: Ikea

Reasons for success: Range of well-designed products that are available off the shelf at a reasonable price

Product price: High end of the low-priced market

Wholesalers and distributors used: Controls the distribution chain from manufacturer to retail

Competitor 2: Custom Craftsman

Reasons for success: One-of-a-kind product that is designed specifically for customer. Lots of one-on-one discussion leading to product design, which gives the customer a sense of being in on the design

Product price: Highest price level

Wholesalers and distributors used: Connects directly to the customer so that the dialogue on design can take place

Your product:

Our handmade wooden chair is unusual, although not unique. Customers find it very comfortable and they like to tell their friends that it was made by a small shop in eastern Oregon with sustainably harvested wood.

3 Profile your competitors

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To describe the people who are already selling similar products to your potential customers and to detail what could make customers prefer you.

Process: Use this worksheet to identify your three to five primary competitors and summarize your research on them.

Competitors:

Competitor 1:

Reasons for success:

Product price:

Wholesalers and distributors used:

Competitor 2:

Reasons for success:

Product price:

Wholesalers and distributors used:

Competitor 3:

Reasons for success:

Product price:

Wholesalers and distributors used:

Your product:

Reasons a customer might prefer you over the competition:

Assessing your competitive advantage

The second part of assessing your competition is identifying the reasons why customers would prefer your product over the other options. Look at your product features and benefits for ideas (see Worksheet 1). Do some of these features and benefits make your product unusual or even unique? Are there ways in which you produce or sell your product that are unusual or unique? Then look at what makes your competitors successful.

A good way to get clear about your competitive advantage is to compare your business to the businesses you identified as your competitors. Worksheet 4 has space to list the success factors of your product and your competitors in the first column. You then rate your business and your competitors on each success factor.

TASK Identify your competitive advantage (Worksheet 4)

Example:

This example is for a handmade wood chair:

Success factors	Your business	Competitor #1	Competitor #2
		IKEA	Custom craftsman
Price	② pretty expensive but not as high as one of a kind	⑤ very low pricing	① very high and this is part of the image
Customization	④ can make some modifications but have basic design	① none	⑤ every chair is unique
Delivery	④ have small inventory	⑤ on the shelf	① delivery can be up to one year
Uniqueness	④ not very many around but not one of a kind	① very common	⑤ one of a kind

4 Identify your competitive advantage

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To define what makes you and your competitors successful.

Process: Enter the success factors of your business and your competitors' in the first column of the table below. All the information you need should already be in Worksheet 3: Profile Your Competitors. In the table below, you rate your business and your competitors on each success factor, filling in cells as follows:

- 5=major strength
- 4=strength
- 3=neutral
- 2=weakness
- 1=major weakness

Competitive Advantage Table:

Success factors	Your business	Competitor #1	Competitor #2	Competitor #3

Defining your market position

You have learned about your competitors and assessed your competitive advantage. Now think about how you will fit in the marketplace. You want to develop a short statement that captures what you are offering and where that will fit in the marketplace.

Begin with the competitive advantage table. Look for your unique combination of strengths.

Example:

This example is the Healthy Forests, Healthy Communities market position statement.

Market position statement:

We position ourselves at the high end of the market but differentiate ourselves with lower prices here and unique products. Local and environmental also set us apart. However, these attributes are clearly secondary positioning to the price and product. Several of our partners have obtained certification through the Forest Stewardship Council; some on their own and some through HFHC's group chain of custody. There has been some market advantage gained through the U.S. Green Building Council's LEED program. However, this has applied mostly to larger commercial projects and material that is bought as part of a larger wood package. Smaller manufacturers have seen fewer benefits. In general, the financial returns for FSC certification remain speculative at this point.

Our weakest link is perhaps service although our manufacturers tend to be very accommodating to the customer in order to get a sale. They do not maintain the types of customer relations that are necessary for long-term and repeat business. GMW helps with this, but they are only a fraction of the sales made by HFHC.

CHAPTER 6 Developing Your Brand

Branding helps build a market for small businesses that are rooted in the community and committed to sustainability. Branding builds a specific reputation around a product or service. The goal is to leave a distinct impression in the hearts and minds of customers.

Every company and every product has a brand. This brand probably has positive and negative elements, based purely on customers' firsthand experiences and word-of-mouth. You need to discover what these are, define how this reputation should be changed, and determine what sort of distinct brand should be built.

Effective branding can help create a distinctive identity for products derived from a particular local area or region. It also can help consumers readily discern whether or not forest products have been harvested and manufactured in ways that claim to support healthy ecosystems, healthy communities, or, ideally, both.

Among businesses affiliated with the Demonstration Program, the marketing story that seemed to resonate best with customers had mostly to do with local people and their

EXAMPLE

How HFHC backs up its brand

Initially, Healthy Forests, Healthy Communities struggled to develop a monitoring and verification system that it could implement effectively. It wanted to verify its business partners' claims about their wood sourcing. Unfortunately, every system HFHC explored that tracked each piece of wood was extremely difficult for both HFHC and its business partners. When HFHC talked to its customers, it found that for most customers, the claim itself was sufficient. The customers' trust could be lost, though. So HFHC developed a simpler wood tracking system, which required reporting that fit into a business' production cycle. Business partners are willing to fill out this simplified form, and HFHC can be much more confident that its brand deserves the customers' trust.

small businesses. Trumpeting a product's environmental benefits appeared to arouse less interest, although it is possible that consumers may presume there to be some degree of environmental stewardship when they think about local people and small businesses, especially in rural areas.

A brand helps differentiate your product, but this alone does not guarantee a higher selling price. The brand may simply give you access to a wider market. Many forest product companies have been disappointed that certifying their products through FSC did not lead to higher margins. They expected that telling the story about the higher costs of well-managed forests would lead to higher prices in the marketplace. Businesses in the Demonstration Program found that while FSC can help with market penetration, it usually does not offer a price premium.

TIP Are you branding a product line or your organization?

Large organizations like Proctor and Gamble have many different brands for different product lines. Appalachian Sustainable Development, an entrepreneurial nonprofit in southwest Virginia, actually has two separate brands—one for sustainable food products and one for forestry products. Since they are sold in very different markets, it made sense to develop separate brands. And General Electric is an example of an organization that brands its wide range of products with the organization's name.

Healthy Forests, Healthy Communities is developing and promoting its own brand for a variety of products made across the Pacific Northwest by many different manufacturers. At the same time, products made by individual HFHC members may feature their own individual brands. Many of these products also may carry FSC certification. Out in the marketplace, these three brands do not conflict with one another. Different sorts of customers likely will respond favorably to different brands, so these products can comfortably carry all three brands in their marketing materials.



Process of articulating a brand strategy

Phase One: Immersion

Defining the direction of the brand begins with a thorough understanding of three key areas: the worlds of the customer, the competition and marketplace, and the inside of the company. The brand will be defined by the place these three worlds overlap: where the reality of the marketplace and the truth within the company intersect with what's important to the customer.

The amount and type of research undertaken will be determined by financial and time constraints. In an ideal world, a full program, including primary and secondary, qualitative and quantitative research would be implemented to look under every stone. However, situations are generally less than ideal, and it is better to uncover what you can with the research available to you than to skip it because it can't be done "right."

Phase Two: Articulating the brand strategy

Building a strong brand begins with being clear about the collective vision for the brand. For the sake of consistency, it is important that the architects of this vision leave little room for interpretation. Therefore, guidelines must be concise and well crafted.

When building this strategy for the brand, we use four building blocks:

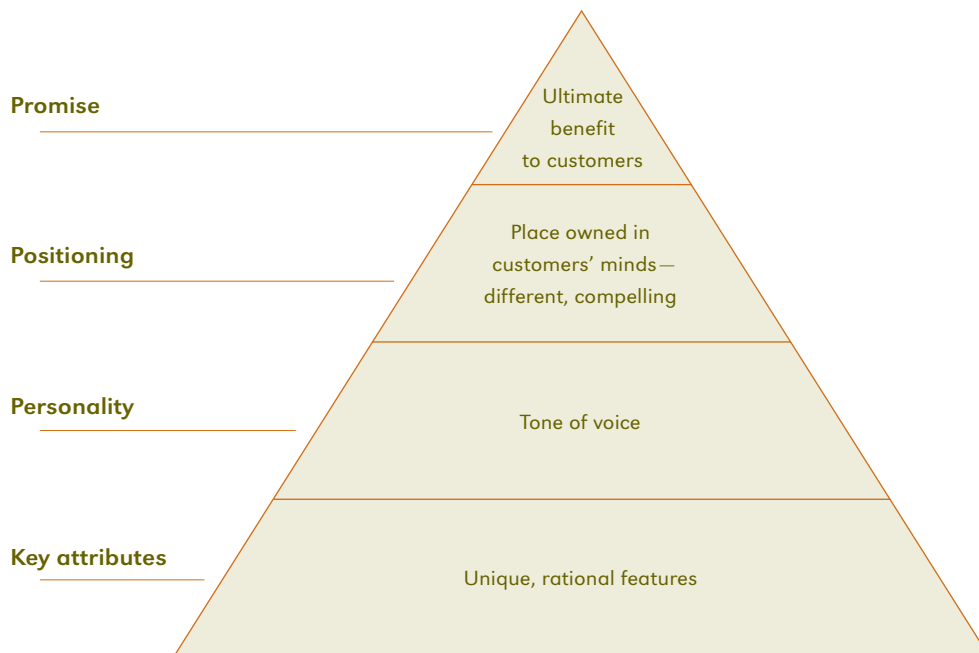
1. **Key attributes**—The key attributes form the foundation. These are the core features you have to offer through your product or service. It is important to challenge yourself to limit the list to the four to six attributes that are truly unique and defining.
2. **Personality**—Look at the brand as a person. What kind of person would your brand be? What is the tone of voice that best suites this "person"? It is important that the personality that you ascribe to your brand is both distinctive and authentic to your company; you will be in a relationship with this brand and the personality for a long time.

(continued on next page)

(continued from preceding page)

- 3. **Positioning**—The positioning is the single place you want to own in the minds of your customers, that is unique from the competition and defensible. Ideally, the positioning statement would be one word; realistically, it should be limited to a very short sentence (approximately five words). Again, this increases clarity and decreases the chance for multiple interpretations.

- 4. **Promise**—Finally, the promise is the ultimate benefit you are providing to your customers. As the final guidepost, the promise reminds employees responsible for building the brand—through every point of contact—that they are in the business of providing something that impacts customers lives in a positive way. A promise should be succinct, clear, and, hopefully, emotional.



Process and diagrams © Kelliher Samets Volk

Creating a brand

It is one thing to articulate your brand, but you also need to protect your brand. Any organization touches its stakeholders in many different ways. These stakeholders must include your customers, your employees, your loyal followers, and prospective customers. The brand should be reaching each of these groups. Employees must know and be committed to the brand. Your customers and your loyal supporters act as ambassadors for the brand and spread the word to prospects. There are lots of ways you are affecting these groups, but the first—and one of the most important—is the product. The product is a living example of what you are promising. The product must live up to the brand and its promise.

It is important to have high-quality materials promoting the brand. As businesses grow and expand their marketing efforts, the producer likely will not be selling directly to the customer. As such, the marketing materials, logo, tag line, and story all have to carry the full impact of the branding story by themselves. Producers and their distributors certainly can work diligently to educate the sales force at retail outlets, but they cannot be certain that retailers will tell their story effectively—or at all—to prospective customers unless the product provides higher margins for them or expands their market share.

Protecting your brand

It takes time to develop a brand, and you want to be sure that it is used correctly. North Quabbin Woods developed Brand Compliance Information so that people understood the mission behind the brand, and it prepared detailed information about how the brand should be reproduced.

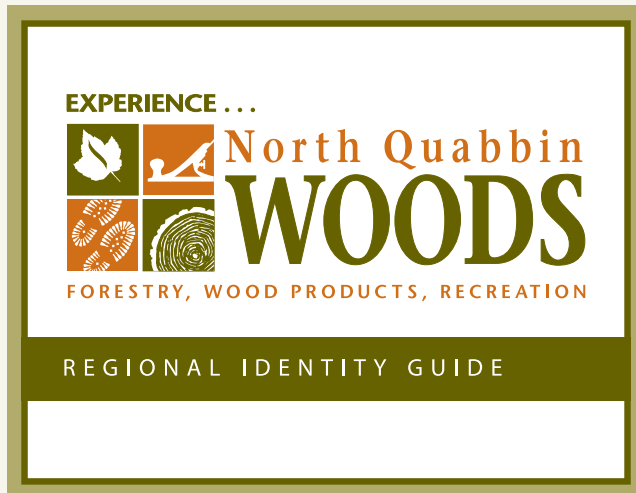
TIP Supporting the brand over the long haul

A nonprofit organization needs to be a stable long-term player in the marketplace if its brand is to offer sustained value for forestry products. One question that landowners ask is whether Vermont Family Forests will still be supporting its brand in 20 years, when the landowners are ready to harvest their trees.

EXAMPLE

The North Quabbin Woods brand

Establishing a distinctive identity



Note: To represent the logo in this publication, we are doing exactly what one shouldn't do with a brand, which is to present it in colors other than the established ones. The logo and branding materials as they should appear are accessible at www.nnfp.org/cbf/toolkit/nqw.

Defining the brand

North Quabbin Woods Vision Statement

The carefully managed private and public forests of north central Massachusetts' North Quabbin Woods are part of a diverse ecosystem that supports our local forest-based economy and offers recreation opportunities for visitors and residents. These three spheres—the working landscape, wood products, and outdoor recreation—co-exist and are interdependent.

- Our forests and farms are managed to sustain diverse wildlife habitats, to promote outdoor recreation, and to produce an array of forest and farm products;
- Local craftsmen use wood from the North Quabbin Woods to create unique pieces of furniture, toys, musical instruments, millwork, and other high quality wood products;
- Our waterways, forest roads and trails, farms and orchards, and other recreation areas are a preferred destination by visitors from within a three-hour drive for hiking, cross country skiing, snowshoeing, wildlife viewing, hunting, fishing, paddling, cutting Christmas trees, apple picking, buying maple syrup, and other activities.

EXPERIENCE ...

North Quabbin WOODS
FORESTRY, WOOD PRODUCTS, RECREATION
www.northquabbinwoods.org

North Quabbin Woods is a project of the New England Forestry Foundation.
Post Office Box 27 · 1 East Main Street · Orange, MA 01364 · 978.544.3332

New England Forestry Foundation
www.newenglandforestry.org

(continued)





Protecting the brand

NORTH QUABBIN WOODS REGIONAL IDENTITY GUIDE







The North Quabbin Woods Project is a local initiative to foster sustainable, economic development supported by our region's prime resource—our woods. Comprised of three tiers—forestry, wood products and recreation—our goal is to strengthen the community while conserving our greatest natural assets.

The North Quabbin Woods identity promotes a regional image of quality products and services inspired by our natural surroundings and history. **We encourage you to incorporate this identity within your marketing materials to increase the visibility and marketability of your business.** By promoting the entire region we collectively promote each other. Whether it be in the form of advertisements, flyers, brochures, publications, letterhead, web sites or signage, please use this guide as a reference for the correct usage of the official logo.

Correct Uses of the North Quabbin Woods Logo

<p>EXPERIENCE ...</p>  <p>www.northquabbinwoods.org</p>	<p>EXPERIENCE ...</p>  <p>www.northquabbinwoods.org</p>	<p>Full-color Logo, with or without website address</p> <p>Inks:</p> <ul style="list-style-type: none"> • PMS 343 (Green) • PMS 174 (Rust) <p>Typography:</p> <ul style="list-style-type: none"> • Stone Serif Semi Bold • Stone Sans Semi Bold
<p>EXPERIENCE ...</p> 	<p>EXPERIENCE ...</p> 	<p>Black and White or Single-color Logo with or without website address</p> <p>Inks (Select One):</p> <ul style="list-style-type: none"> • Black • PMS 343 (Green) • PMS 174 (Rust) <p>Typography:</p> <ul style="list-style-type: none"> • Stone Serif Semi Bold • Stone Sans Semi Bold

Incorrect Uses of the North Quabbin Woods Logo

<p>EXPERIENCE ...</p>  <p>INCORRECT FONT</p>	<p>EXPERIENCE ...</p>  <p>INCORRECT COLORS</p>	<p>EXPERIENCE ...</p>  <p>ALTERED IDENTITY</p>
<p>EXPERIENCE ...</p>  <p>ALTERED ARTWORK</p>	<p>EXPERIENCE ...</p>  <p>INSUFFICIENT CONTRAST</p>	<p>EXPERIENCE ...</p>  <p>INCORRECT PROPORTIONS/SCALE</p>

Production Notes

- The North Quabbin Woods regional brand identity should not be altered in any way.
- The standard typefaces for the logo are Stone Serif and Stone Sans. We recommend the use of typefaces from these font families to best complement the regional identity.
- All authorized logo configurations are available in digital formats. Please visit our web site at www.northquabbinwoods.org to download digital files.
- Questions? Please contact Scott Maslansky, North Quabbin Woods Project Director at 978.544.3332.

TASK Create a brand (Worksheet 6)

Example:

This example is for a Native-owned timber company:

Key attributes:

Four to six features that are truly unique and defining

- 1. High quality
- 2. Harvested to meet tribal environmental standards
- 3. Major employer and trainer of Native youth
- 4. Can customize to customer requirements
- 5.
- 6.

Personality:

Think about your brand as a person. What is both distinctive and authentic about it?
Strong and connected to the earth

Positioning:

What are the one to five words that capture your brand? Be sure these attributes are things you can defend from the competition.

Native owned, high quality, environmentally friendly

Promise:

What is the ultimate benefit your product offers to the customer?

A purchase that honors the land and its people

WORKSHEET 6 Create a brand

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To define and later build a specific reputation around your product or service.

Process: Working with a small group of staff members, board members, and possibly loyal customers, identify and discuss the four building blocks of your brand.

Key attributes:

Four to six features that are truly unique and defining

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

Personality:

Think about your brand as a person. What is both distinctive and authentic about it?

Positioning:

What are the one to five words that capture your brand? Be sure these attributes are things you can defend from the competition.

Promise:

What is the ultimate benefit your product offers to the customer?

CHAPTER
7

Understanding Your Target Market

Identifying your target markets

Marketing wisdom, from even the largest businesses, is to go narrow and deep. This wisdom certainly applies to small manufacturers. The challenge is to find the market or markets that are large enough to grow in and small enough for you to enter with your available scale of raw material and production. You are looking for the market that wants, or can be encouraged toward, the products you can make. Don't forget the local market!

Once you have determined the target markets you want to explore, you will need to do a little more research. This can be accomplished through interviews with customers, by looking in retail stores, or by searching the Internet (including www.sfp.forprod.vt.edu, www.forestdirectory.com, www.ecomall.com, and www.greenbuilder.com).

The questions you will need to answer for each target market are:

1. What is your scale of production?
2. What is the scale of the market that you can access?
3. What factors are most important in this market—price, delivery, quality, source of the wood?
4. What are the advantages and disadvantages of this target market?
5. Are there any aspects of this market that make it particularly difficult to enter?

TIP Each market has a different structure

The market for wooden furniture is very different from the market for logs. If you don't know how the market is structured, then ask people who already are in it. Talk to the retailer and find out from whom they buy their products. Talk to the wholesale distributor and find out from whom they buy and to whom they sell. Don't be afraid to talk to these people. You are not asking for industrial secrets, and people will generally be happy to talk with you.

TASK Identify your target markets (Worksheet 7)

HFHC staff answered these questions for their flooring product line. They looked at three different target markets. By working directly with each level of the market, they began to see where they fit and where they didn't, which messages worked best and which type of sales they seemed to be generating most. This analysis helped them better understand which sales tools they needed to communicate with each customer. Though they would prefer to sell product directly to homeowners (at higher retail prices), the wholesale markets helped them create a more consistent flow of product and gave them the security to know they can stock certain products more readily.

	Homeowner or contractor market	Wholesale showrooms/distributors	Volume distributors
What is the scale of your production?	Scale of production is erratic. Sometimes the product is available and sometimes it isn't. The price varies.	Could provide product in 2,000-3,000sf volumes with 3-4 week lead time	Could provide product quarterly in truckload quantities (10,000sf)
What is the scale that you can access in this target market?	The market is very large but can be accessed in small segments on a regional or local level.	Much larger than we can serve	Much larger than we can serve
What factors are most important in this target market?	1) very quick delivery so product must be in stock; 2) price; 3) a small segment of the market cares about sourcing of the wood; 4) a large segment of the market cares about quality and beauty of the product; 5) a large segment of the market wants to be able to "tell the story" about the flooring in their home.	1) a line of flooring—not just one type; 2) dependable price; 3) quality; 4) reliable delivery	1) low price; 2) a line of flooring—not just one type; 3) quality; 4) reliable delivery
What are the advantages and disadvantages of this target market?	Advantage: Can sell direct to homeowners or contractors when product is available. Disadvantage: Cannot get steady orders.	Advantage: Might offer regular orders. Disadvantage: Requires a line of products.	Advantages: Can sell direct to volume distributors and they stock in their warehouse. We have large steady orders. Disadvantage: Lower price than we would get if we were selling for a specific job.

7

Identify your target markets

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To get clear on what markets you are trying to reach. These should be markets that are both small enough for your volume to be attractive within them and large enough that you will be able to expand your sales. Keep in mind that an important market is almost always the local one.

Process: Start with your ideas about the possible markets and then begin to do some research. You can do this research by going to the stores and distributors and talking to them or you can do this on the Internet. Thorough research here will make the rest of your planning go more smoothly. If you understand the people to whom you are trying to sell, you can reach them more effectively.

	Target Market #1	Target Market #2	Target Market #3
What is the scale of your production?			
What is the scale that you can access in this target market?			
What factors are most important in this target market?			
What are the advantages and disadvantages of this target market?			
Are there any aspects of this market that make it particularly difficult to enter?			

EXAMPLE

The importance of identifying your market

Initially North Quabbin Woods didn't understand the structure of its regional lumber market. NQW was attempting to encourage mills to use local wood for standard lumber products like two-by-fours. It soon learned that manufacturers were importing wood from Canada and that the price was subsidized. Local wood could not match this subsidized price, even when transportation costs were included.

Distribution

To get sales, your product must be available at the right time and place.

HFHC learned that no matter where it was positioned in the manufacturing and distribution chain, a key ingredient to success was focusing on the product or service that it did well. For producers, that often seemed to mean producing and not selling directly to the customer. HFHC engaged a broker to make these sales and offer a connection to a market that producers would not have time to access on their own.

Moving further up the distribution chain will have repercussions on profitability, either positive or negative. Prices are generally higher the closer to the consumer one gets; however, the costs are also greater due to increased marketing and service expectations. HFHC encourages its businesses to think not only of the benefits but also the costs of moving closer to the consumers and finding the balance where profit will be maximized.

EXAMPLE

We can compete with the big guys

HFHC saw its advantage as the ability to customize. When HFHC presented products to the retail catalog company Norm Thompson, it asked for and received feedback. Then the manufacturers used that feedback to design the products that were what Norm Thompson wanted in terms of product and price level.

Appalachian Sustainable Development identified two urban markets in its region where customers were more likely to consider the source of wood an important factor in their purchasing decision. When ASD researched these markets, it determined that it would need to work with wholesale and retail showrooms. These target markets needed a higher volume than ASD could produce. Lack of kiln capacity was identified as the roadblock, so ASD built a kiln. As ASD increasingly sells successfully into the urban markets, it likely will encounter yet another production roadblock. ASD's challenge will be to keep its production capacity and sales volume in line with one another.

EXAMPLE

Working together to access larger markets

Along with a small group of local farmers, the Federation of Southern Cooperatives/Land Assistance Fund has raised a relatively modest number of goats. At this limited scale of production, the farmers mostly sell the goats on the hoof to customers who come to the farms to get them. Now, however, the farmers are interested in forming a marketing cooperative so that they can access a much larger market—regional grocery stores. If they are to attract the interest of the grocery stores, however, they understand that they need to be able to provide a steady supply of goats. To do this, they will need to get more farmers raising goats. These additional farmers only will be interested if the marketing cooperative can talk to them knowledgeably about this emerging new market possibility. Accordingly, staff at the Federation are learning as much as possible about this target market.

TIP

Strategic partnerships

When you assess your target markets and the effort it will take to reach them, it may look overwhelming. One way to address this challenge is to find a strategic partner who can fill in your gaps. HFHC formed a strategic partnership with Green Mountain Woodworks to help its partner businesses access the urban market. Catalog and mail order companies often form strategic partnerships with order fulfillment companies. The catalog company has the capacity to select and present products to the consumer. The fulfillment companies know how to package orders efficiently.

TASK Analyze your distribution channels (Worksheet 8)

How will you distribute your product?

This might be accomplished through retailers, wholesale showrooms, distributors, or brokers. And often it is a mixture of several of them, depending on what scale market you want to reach with a given product.

If you will be working with intermediaries, what services do they offer?

You expect them to reach a larger market than you can. What else do they offer you? One big benefit might be regular orders (and payments).

What will they require of you in terms of volume, terms, packaging, need for samples, quality, certification, etc.?

Explore this carefully. These costs can make what seemed like a good deal be more expensive than you planned.

Are you able to meet these requirements?

Volume, terms, and a full product line all can be hard for a small business to provide.

If not, what changes will you need to make in order to do so?

Consider grouping with other manufacturers to get larger, steady orders. If you go this route, then write good contracts for everyone's sake.

EXAMPLE

Be realistic when you are selecting a distribution channel

Most HFHC manufacturers produce a limited volume and specialize in one or two species of flooring. They also have somewhat higher unit production costs associated with their small-scale manufacturing. This fact requires many of HFHC's businesses to seek the higher price points available as one gets closer to the end consumer. Individually, they cannot offer the "line of flooring" that would be needed for direct sales to retail stores. Acting on the behalf of all its partners, however, HFHC was able to hire a broker that could create a "line of flooring."

8

Analyze your distribution channels

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To determine how you will get your product to the market. You are matching possible distribution channels and your production capacity.

Process: For Worksheet 7, you did research on target markets and their different market channels. Use this information to complete the first three questions below. Then, think about your business and answer the next two questions.

How will you distribute your product?

If you will be working with intermediaries, what services do they offer?

What will they require of you in terms of volume, terms, packaging, need for samples, quality, certification, etc.?

Are you able to meet these requirements?

If not, what changes will you need to make in order to do so?

CHAPTER 8 Pricing

Your pricing strategy

Setting your price involves knowing your costs and deciding your pricing strategy. This pricing strategy should support your market position. Your price must match your product. Higher prices reflect better quality and possibly customization. Lower prices reflect mass production and imply lower quality to most people.

Some pricing strategies you might consider:

- Lower “penetration” pricing for a new product to win market share
- Cost-oriented pricing to add a fixed percentage to the unit cost
- Value pricing target market establishes price—high when demand is high, and low when low
- Promotional pricing to bring in new customers with special events and discounts
- Psychological pricing—\$9.99, bundling, special options—to make people feel like they are getting a good deal
- Payment terms, if you have the cash flow to offer this

Healthy Forests, Healthy Communities aims for the “affordable, yet quality” image. HFHC positions itself at the high end of the market but differentiates itself with lower prices, relatively speaking, and unique products. So its prices are at the higher end of the market but not the highest.

Fixed and variable costs

There are several types of costs that you need to include:

- **Fixed costs:** These are costs that will not change even if you make no sales. They include most utilities, office salaries and expenses, rent, and equipment financing.

TIP Guidelines that have helped HFHC businesses be profitable

- Too many businesses make the mistake of taking a “cost plus” approach without fully understanding costs.
- Another mistake is to try and be the low-price leader, especially among “domestic exotics.” Pricing too low may turn off customers who think that they can’t purchase a good floor for a low price.
- The best approach is to understand what the market will bear at different entry points, then price/position your product to maximize profit, given your preferred volumes.
- Pricing needs to be realistically competitive with other unique woods, but not cheap commodity woods.
- Still offer some low-cost options, but not “cheap” products.
- Everyone wants to feel they are getting a good deal, so our prices can’t be too high.
- Manufacturers had to set realistic pricing to keep themselves in business. We built marketing costs on top of those prices.
- Retail sales margins are important with our low volume production.
- Wholesale sales help maintain product flow, even though margins are smaller.

Telephone, for example, is a fixed cost, because you will always have a telephone. It is also a cost that may vary from month to month. The best way to show this cost is to take the average for one year. (Add your telephone bills for one year and then divide by 12.)

- **Variable costs:** These are costs that vary depending on how much you produce or sell. These include raw materials, some utility costs, costs of contract labor, packaging, and sales commissions.

If you are currently producing your product, you should be able easily to identify these costs. If you are not yet in business, you will have to estimate them. Remember that these

TIP Are you planning to make your living from this business?

When you think about your salary as a fixed cost, you first need to ask whether you plan to get all your income from this business. If you do, then the salary needs to reflect that. If this business is a smaller part of your annual income, then the salary amount can be lower. Think about the time you are putting into this as you calculate the amount. You hope to make a profit on the sales of these products, but you won't have to include your whole income as a cost to the business.

estimates should be checked once you start in production. Run each of your estimates with projected high, medium, and low production volumes.

Worksheet 9 will help you develop these costs by listing the common fixed and variable costs. There also is a detailed example to guide you.

TASK Detail your pricing strategy and costs (Worksheet 9)

Table A: Summary of data from Tables B and C

	Low production	Medium production	High production
Units	1,500	2,000	2,500
Variable costs <i>(from Table B)</i>	\$48,500	\$67,500	\$88,000
Fixed costs <i>(from Table C)</i>	\$67,000	\$67,000	\$67,000
Total costs	\$115,500	\$134,500	\$155,000
Per unit costs (divide total costs by units)	\$77	\$67	\$62

Table B: Variable costs

	Low production	Medium production	High production
Units	1,500	2,000	2,500
Raw material (\$20 per unit)	\$30,000	\$40,000	\$50,000
Labor (including benefits at all production levels, overtime for medium production level, and second shift for high production level)	\$15,000	\$22,500	\$30,000
Shipping costs (if you, rather than buyer, pay them)	paid by buyer	paid by buyer	paid by buyer
Utilities for production	\$500	\$1,000	\$3,000
Marketing and advertising	\$3,000	\$4,000	\$5,000
Total costs	\$48,500	\$67,500	\$88,000
Per unit costs (divide total costs by units)	\$32	\$34	\$35

Table C: Fixed costs over one year

Salaries and benefits¹ (office and administrative staff)	\$50,000
Telephone	\$1,000
Utilities for office	\$3,000
Insurance	\$1,000
Office rent	\$6,000
Lease expense	\$2,000
Office supplies	\$500
Maintenance	\$500
Office equipment	\$500
Travel	\$1,500
Postage	\$500
Other	\$500
Total	\$67,000

¹ Benefits include Social Security, worker's compensation, disability, unemployment insurance, health insurance, and any other benefits you may offer your employees.

9 Detail your pricing strategy and costs

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To define a strategy for pricing your product that supports your marketing goals and recognizes your costs for producing the product.

Process: Work with your accountant and other staff members to answer the following questions and complete the following tables.

1. How do your primary competitors price their product? What do you think their pricing strategy is?
2. What will your pricing strategy be?

Table A: Summary of data from Tables B and C

	Low production	Medium production	High production
Units			
Variable costs (from Table B)			
Fixed costs, which won't change (from Table C)			
Total costs			
Per unit costs (divide total costs by units)			

In Table B (see next page), you first will decide whether to choose low, medium, or high production for one year. As you complete the other lines, you may see that producing more is not necessarily going to be cheaper for each unit. You may have to pay more for salaries, for example, because you are working overtime. Or you may have to buy some raw materials at a higher price.

(continued on next page)

Table B: Variable costs

	Low production	Medium production	High production
Units			
Raw material			
Labor (including benefits)			
Shipping costs (if you pay them)			
Utilities for production			
Marketing and advertising			
Total costs			
Per unit costs (divide total costs by units)			

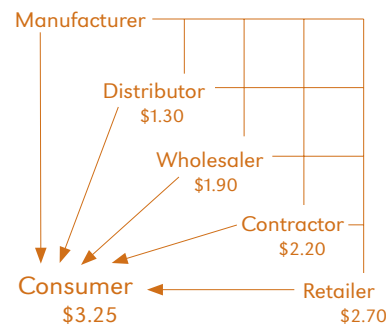
In Table C, you will take your annual costs for the listed categories and any additional categories that you use. If you will need to buy an additional piece of equipment to do the higher volumes, then add the additional financing for one year into the lease expense line. This will increase your fixed costs to a higher level, but remember that you will have these fixed costs whether you sell more product or not.

Table C: Fixed costs over one year

Salaries and benefits (office and administrative staff)	
Telephone	
Utilities for office	
Insurance	
Office rent	
Lease expense	
Office supplies	
Maintenance	
Office equipment	
Marketing and advertising	
Travel	
Postage	
Other	
Total	

Pricing and distribution channels

HFHC developed the chart at right to illustrate the price paid for Douglas fir flooring at different points in the distribution chain. While the temptation has been to get as close to the consumer as possible, HFHC encourages manufacturers to think closely about the costs associated with the required marketing. Another implication of this flow chart is that price changes at any point in it will affect profitability or prices throughout. Price adjustments are more difficult to make when multiple business partners are affected.



Decision-making using cost information

Of course, everyone knows that costs are more complicated than the factors we have examined thus far. Different fixed costs—for equipment, let's say—will change your variable costs. Working through different distribution channels will change your costs. These changes might increase your fixed costs but lower your variable costs. You want to know which equipment and distribution channels to choose to make the most money.

HFHC has developed a tool to help businesses calculate their costs. This tool² allows you to calculate how the costs for each unit will change when you buy new equipment or reach the market in different ways.

For example: You are currently manufacturing 10,000 square-feet of your product with old equipment. The unit cost for your product is \$1.00. You have identified a new group of customers and selling to them will increase your sales to 15,000 square-feet. You can get the raw materials, but you will need to buy additional equipment that costs \$15,000 if you are going to be able to make more product. This new equipment also will reduce your manufacturing costs. Your question is whether you should make this investment. Using the tool, you will find out how much you need to sell to be able to cover the costs for the new equipment. You can compare that to the market information you have and decide whether it is worth taking this step.

² This pricing tool may be downloaded from the website of the National Network of Forest Practitioners (NNFP): www.nnfp.org/cbf/toolkit/pricing.

CHAPTER 9 Promotion and Advertising

Promotion and advertising are ways to communicate in order to build your image and motivate people to respond. Often there are low-cost, effective ways to reach your customers, so be creative. This might be a place for strategic partnerships.

Promotion strategies

When developing your promotion strategy, look carefully at your customers, your brand, your product, and your influencers.

Customers

Find where the customer, the competition, and your organization overlap. Don't be so focused on the competition that you just follow everyone else. Likewise, your customer cannot be the driving force behind your organization, but they should provide a lot of inspiration.

Don't be completely customer-driven, because customers don't necessarily know where to steer you. We are customers and consumers every waking moment of our lives, but we don't necessarily know what we need or want. So, be informed but not driven. You should be driven by your brand.

Here are a few ways to get customer input:

Learning about trends

- Take a good look at **secondary research**—which is research based on existing data, available on the Internet—and be willing to take inspiration from it. Take a look at trends, what is happening in the world in terms of consumer habits and values. People change. There are people who study changes in habits and values and these data are available to you. You do not have to reinvent that wheel.
- Conduct one-hour **interviews** with potential customers.

Developing your product

- **Customer advisory groups** are a useful tool for gathering group input, asking people for advice. Set up a council of five people and talk to them regularly. If you like, have them test out your product.
- **Web-based feedback** is simple to do and inexpensive, especially through blogs and email.
- There are people out there in the world that are paid to **track trends** for you. Such research often tracks the world of youth culture, but it can happen anywhere.
- **Community surveys** can be done easily, simply, and inexpensively.
- **Focus groups** are a great opportunity to watch people's candid reactions as well as ask questions.
- **Product ideation groups** are similar to customer advisory groups and focus groups, but the purpose is to deconstruct your product, reconstruct your product, check into needs that are not being met, check into consumer wants, and get customers to really help you with the product ideation.
- If you have a website, then there are all sorts of ways to collect information. You can put up a **quick web survey** and ask for feedback. You might even put up a series of five questions every week.
- You also can conduct mail **or in-store surveys**. Send out a survey on a mail card with a postage-paid envelope and have your customers fill it out and mail it back to you. You can conduct a survey in the store as well. If you have a situation where there are shoppers milling about, then talk to them.

Fulfilling the promise

The product you deliver must fully live up to your promise. If it does not, you may fool them once, maybe twice, but eventually you surely will lose their business. Be sure to maintain quality and delivery standards. Your product has to offer value for the money people are paying. It has to conform to the image that you are promoting in the brand.

Influencers—not advertising

Stop advertising. There are many other approaches to getting the word out that are less expensive and more effective, especially when you are competing with the big companies—at least in the minds of your customers.

The important thing is finding a strategy for getting your product into the right hands. Who are the people who will tell their friends about your product? This pertains to any type of business. The general rule is that for any company, there are 150 influencers that can help you succeed. Think about who are your 150 influencers. Compile the list and start at the top, which would include people in the press, such as editors and the people that editors personally rely upon for ideas and honest feedback. Who will use your product where other people will see it? Who will use it and spread the word? In any social network, find those people who want to be the experts. They will testify on your behalf, if they like your product. Think about people who are seen as authorities. Legislators, politicians, and community leaders are important in certain fields. Youth, too, can be a huge influencer group—early on, recycling was closely linked to young people.

Strategic partnerships are very important. Although your small enterprise may be new and struggling, there is always a short list of bigger, more powerful potential partners who have more money than you do, yet with whom you may be able to create a symbiotic relationship. Take advantage of larger well-thought-of brands and connect yourself with them. The obvious caution is, don't attach yourselves to a brand that people don't feel favorably toward or might not in the future.

It takes applying a little brain power to come up with a thorough list. There will be some influencers that you hesitate to put on your list, because you never have had any prior contact with them. You can either put them aside and go forward without them, or you can begin to start a relationship with them. After all, you want them to help you spread the word about your product! If it turns out that they don't like your product, then ask them for advice; perhaps they will agree to become a product tester. With a little work, you may be able to convert even the staunchest naysayers into strong advocates.

In short, get influencers to *love* what you have to offer! Dare to be different!

North Quabbin Woods organized tours for architects, so that they saw the products take shape from the woods through production. These tours gave a firsthand view of what was

unique about NQW-branded products. NQW found that creating a sphere of learning just outside the architects' expertise really inspired their interest. They appreciated seeing a sawmill in operation, even though it is not something they are required to know. NQW also found that the architects were not ready to change any of their current projects. So the tours will take a while to fully impact the participating businesses.

TASK Complete your list of influencers (Worksheet 10)

Example: The Windsor chair

List of influencers:

1. Media

Local newspaper home editor

Regional home magazine

2. Politicians

Local politician who is promoting local business development

3. Key people in the community

Person who heads Welcome Wagon

4. Potential strategic partners

Large furniture store

10 Complete your list of influencers

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To identify the people who will have the most influence on people in your target market.

Process: Working with a small group of staff, list the people who have influence in your target markets. Think about the categories below and add some of your own. Be sure to add people you know who like to talk about new products and ideas. Be willing to brainstorm freely about names for this list, rather than focusing on how you might reach these people. Right now, you simply want to develop a long list that can be refined later.

List of influencers:

1. Media

2. Politicians

3. Key people in the community

4. Potential strategic partners

Options

Options to consider when promoting your products are:

- **Yellow pages**—You need to be where people will look for you.
- **Location**—If you can locate your operations where people naturally congregate, then you will have built-in traffic. North Quabbin Woods moved its offices into the town center and people soon dropped by to find out who it was and what it was doing.
- **Public relations**—It is hugely important to educate consumers and stimulate their interest.
- **Demonstrations**—If your product can be demonstrated where customers actually can buy it, then this approach may be effective. You do have to be willing to engage with the customers and answer their questions, as well as show them how the product is made or how it works.

- **Exhibitions and tours**—These are a way to get your customer (or the retail salesperson) really excited about your products. They can become more than just a customer. They can become spokespeople for your business and your products.



- **Point-of-purchase displays**—These attract a customer's interest. Many retailers will want to know that your products sell before they give you space on their selling floor.
- **Trade shows**—Some of these are very helpful, but they can be expensive. See if there are groups you can join that provide lower-cost display space at trade shows.
- **Brochures**—People may not read all of your text but they will get a sense about your products from a good brochure.

- **Hang tags**—These stay with the product if it is a gift. Good hang tags make your product more special to the customer.
- **Samples**—If you are selling flooring, people will want to be able to take a sample home to see how it looks.
- **Incentives**—Some customers need to be offered a special deal before they are ready to purchase. The deal may involve a lower price or financing or it may offer additional options.
- **One-on-one communications**—Nothing is better than a satisfied customer talking to their friends.



EXAMPLE

How a brochure can educate the consumer

Mark Lorenzo of the Northeast Natural Resource Center, National Wildlife Federation prepared a brochure called *Your Chair, Your Choice*. The purpose of the brochure is to get people to think about the environmental impact of their furniture purchases.

In the brochure, Lorenzo talks about sustainable forestry management and certified products. He asks if people really need something new, or whether they could obtain what they need at antique stores or garage sales.

The brochure mentions several Vermont furniture makers but it is not promoting any one particular product. Rather, this brochure is trying to change the way the market thinks.

Your business can benefit from this kind of material. It puts your product in a larger context and gives meaning to words like sustainability.

EXAMPLE

Setting a booth at a local festival

North Quabbin Woods looked for ways to promote its brand and the producers who used it. It created a booth at its region's annual Garlic Festival. The NQW booth actually became a focal point of the festival, because it had a kids' station where youth could make wooden boats—with hands-on assistance from various woodworkers whose products were displayed in the booth. NQW found that this approach was a successful way to promote a wide range of quality products.

- **Website**—Increasingly, a website is needed for any business. A website may not actually lead to sales from new customers but it functions as a low-cost brochure and it can allow your current customers an easy way to reorder.



- **Internet marketing**—If you are thinking about Internet marketing, you may be planning to hire a web designer. You want to find a web designer who knows how to help your website get results, not merely one who provides the coolest-looking designs. What are your goals? Do you want a website that will attract new potential customers and lead them to the store where your product is sold, or, do you want to sell your product over the Internet? Look for a designer who can provide you with references to prior clients who share your same goals.

To find out more about writing strategies for web-based promotional materials, search engine hints, and Internet graphic tips, you might consider purchasing *Create Web Content that Sells* by Renee E. Kennedy and Kent Terry. This ground-level, straightforward book is available in both softcover and e-book formats at www.thewritemarket.com/content.shtml.

EXAMPLE HFHC's ways to communicate with customers

Retail

- Yellow Pages (you have to be listed where people look).
- Internet (let the yellow pages direct potential customers to a website for more information).
- Trade shows that focus on "building design" can be effective if you have both product and capacity to serve. Trade shows are a good medium for GMW (the broker) but not for the broad partnership's message or for the individual manufacturer who does not have time to respond to individual leads that may be generated.
- Home products trade shows have provided mixed results. Presentation must be clear, audience must be right, and business must be prepared to make sales or give quotes on the spot, and, most importantly, have tools in place for follow-up on inquiries.



Wholesale

- Travel and shake hands (develop relationships and maintain them).
- We have begun providing retail sales staff with tools and training for selling our product.

Communication with our potential customers

- Support them in their decision-making process rather than try to sell a product.
- Help them define what they want and need, then offer it to them.

(continued on next page)

(continued from preceding page)

Advertising

- Limited as yet, but we will do more when we have some more volume/stability in some of our lines, better photography and website.
- Best when supporting another event (like a home products trade show special newspaper section).

Media relations/public relations

- Done around special events or newsworthy items.
- We would like to see more story (as opposed to product) placement in larger publications.

Grassroots communications

- Very much dependent on word-of-mouth and reputation .
- Best form of marketing is a happy customer with friends.

In-store

- Beginning to experiment with incentive programs.
- Large clear samples to communicate what that product looks like.
- Simple labeling mentioning important product characteristics.
- Take home samples to try out next to the sofa.



Advice

Aim for consistency

All your promotional materials, your packaging, and your advertising should be consistent in color, design, and logo. You aim for a few key messages and you repeat the messages to the target market over and over again. These messages are not what matters to *you* about the product. First and foremost, it should be what will matter to the *customer*. You may indeed be very proud of the particular kind of joints you use in constructing your chairs, but most customers just want to know that the chair is sturdy.

Look for the hook that appeals to the target market

The promotional “hook” appropriate for each market segment likely will be a little different. Even so, the overall benefits of your product remain the same. If you are selling a rowing machine, for example, you may say that it is low impact for baby boomers, and that it will give you a terrific 30-minute workout for busy business people. The benefits of your product really are not different, but you present those benefits in ways that are best suited to catch the attention of a particular audience.

Distribute only high-quality marketing materials

Be careful about how you spend your promotion dollars but don’t skimp on quality and use shabby marketing materials. This is especially true when you are focusing on a higher-end niche market. If prospective customers have a poorly made brochure in their hand, they will doubt that your actual product is high quality itself.

Worksheet

You have read a lot of advice. Now it is time to make some choices. You already have done some of the initial work, because you know something about your customers and your target markets and what they value. Keep in mind that doing a few things well is much better than doing too much. You have to identify the few things that will have the most impact on your bottom line.

TASK Develop a promotion plan (Worksheet 11)

Example:

What is the message for the Native-owned timber company?

Buying our high-quality products honors the land and its people

	Target Market #1	Target Market #2	Target Market #3
What factors are most important in this target market? (See Worksheet 7)	Local developers		
How do these customers best receive information?	Visits from sales rep who talks about the product and then leaves information		
What are you trying to get your target market to do with this promotional activity?	Place regular orders		
What materials will you develop and how will you get them in the right hands?	Brochures and a website that can take repeat orders. Sales rep will tell developers about these		
Who are the influencers in this target market?	Architects Home Magazine		
What strategies will you use to get your materials and message to them?	Conduct an architects' tour. Send a press release to the Home magazine		

Develop a promotion plan

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To develop plans to promote your image and your product to your target markets.

Process: Look at your customers (target markets), your brand, your product, and your influencers. You explored target markets in Worksheet 7, your brand in Worksheet 6, your product in Worksheet 2, and your influencers in Worksheet 10. Now you will take all of this information and look at how you can get the message about your product to customers. Remember: Look for the least expensive options first.

Keep in mind that doing a few things well is much better than doing too much. You have to identify the few things that will have the most impact on your bottom line.

Review your message:

What is your message? Look back at the benefits and features from the branding worksheet. List them all here.

Then complete the table for your target markets.

(continued on next page)

	Target Market #1	Target Market #2	Target Market #3
What factors are most important in this target market? (See Worksheet 7)			
How do these customers best receive information?			
What are you trying to get your target market to do with this promotional activity?			
What materials will you develop and how will you get them in the right hands?			
Who are the influencers in this target market?			
What strategies will you use to get your materials and message to them?			

10 Measuring Success

Success is measured in terms of your goals. Certainly some of these will be financial: sales, profits, salary. Some relate to productivity and quality. Earlier in this *Toolkit*, you developed marketing goals and your success with these leads to financial success in the future. Some of your goals are qualitative: Are your customers satisfied? Are you enjoying your business? Others are ecological or social.

Nonprofit ventures often aim for financial, ecological, and social goals. This is called a triple bottom line. An example of this would be a mill that uses wood from sustainable harvests in the bioregion and hires local displaced workers. Without financial success—meeting sales goals and profit targets—the business won't last. Even with financial success, however, the owners do not think of their business as wholly successful unless they also are looking at the impact they are having on the environment and the jobs they are creating.

Community economic development goals

Watershed Research and Training Center measures its success against its ability to nurture a larger network of businesses in the community. WRTC's goal is an integrated forest products economy that creates jobs and business opportunities for local citizens and uses resources from the forests in a sustainable way.

TASK Set goals to help measure your success (Worksheet 12, page 106)

“ Identifying a market is not an outcome. We need to access that market and then measure our outcomes in terms of sales and jobs created and impact on the forest.”

—Barbara Edwards, *National Network of Forest Practitioners*

EXAMPLE

Ways that HFHC businesses measure success

Economic goals

Business efficiency, stability, and growth

- Are sales growing at a reasonable pace?
- Is the business becoming more efficient?
- Are we making enough money?

Market awareness

- Do we have a growing and more diverse customer base?
- Are our customers happy and coming back to us?

Increasing market value of the HFHC story

- Are our customers aware of the HFHC message?

Capacity to deliver to customer expectations

- Do we have fewer (or at least different) problems occurring?

Ecological goals

- Are we utilizing our raw materials to their best possible values?
- Do we produce any waste? Are we making any pollution?

Social objectives

- Are we enjoying the business (intellectually, creatively, physically...)?
- Do we have time for other things besides the business (ourselves, families, neighbors, and being involved in community work)?
- Are our suppliers thriving?
- How “local” are we in our business dealings? Do we have a good ratio of customers and suppliers in or near our bioregion?

EXAMPLE Finding a good use for all of the wood

The Watershed Research and Training Center has spent 10 years trying to gain better access to the woods and finding uses for the small-diameter wood that comes off these restoration projects. Through this experience Lynn Jungwirth, WRTC's executive director, has seen that, for any one component of the value-adding enterprises that it helps develop to be profitable, *all* the harvested wood needs to have a productive use.

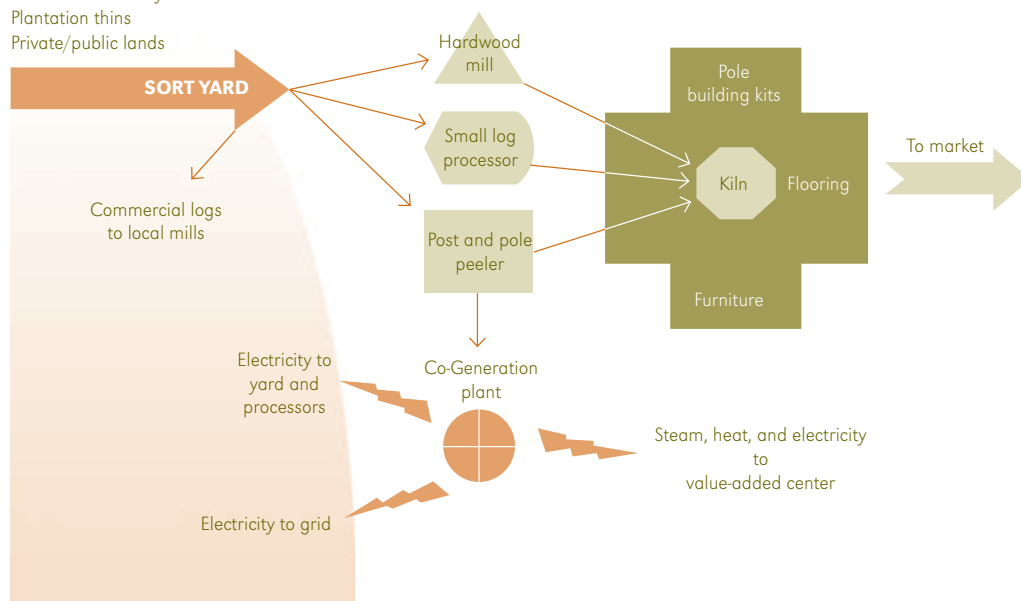
The schematic that follows illustrates how the wood travels through this system. WRTC does not own each element. Rather, WRTC does a lot of research and development and pays for prototypes and alpha testing. Then staff members assist local entrepreneurs who are ready to take over businesses.

Material In

Small-diameter trees
Brush chips
Hardwoods

Sources

Fuels reduction
Restoration forestry
Plantation thins
Private/public lands



Watershed Research and Training Center—Fall 2004

12 Set goals to help measure your success

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To define what you see as success for your product. Keep it to a small number of goals, but pick things that genuinely matter to you and your community.

Process: Working with stakeholders—such as investors, community members, board members, and staff—make a list of your possible goals on another sheet of paper. Then reduce the list to three entries for each section.

Social and community goals:

	What are your goals?	What indicators will let you know you are moving toward or reaching this goal?	How and when will you do your data collection related to these indicators?
Short-term goal 1			
Short-term goal 2			
Short-term goal 3			
Medium-term goal 1			
Medium-term goal 2			
Medium-term goal 3			
Long-term goal 1			
Long-term goal 2			
Long-term goal 3			

12

(continued)

Financial goals:

	What are your goals?	What indicators will let you know you are moving toward or reaching this goal?	How and when will you do your data collection related to these indicators?
Short-term goal 1			
Short-term goal 2			
Short-term goal 3			
Medium-term goal 1			
Medium-term goal 2			
Medium-term goal 3			
Long-term goal 1			
Long-term goal 2			
Long-term goal 3			

Ecological goals:

	What are your goals?	What indicators will let you know you are moving toward or reaching this goal?	How and when will you do your data collection related to these indicators?
Short-term goal 1			
Short-term goal 2			
Short-term goal 3			
Medium-term goal 1			
Medium-term goal 2			
Medium-term goal 3			
Long-term goal 1			
Long-term goal 2			
Long-term goal 3			

Now that you have completed all the prior worksheets that led up to this chapter, you can prepare your marketing plan. Worksheet 13 will help you pull together some of your earlier responses so that you have the information you need.

Remember that your marketing plan doesn't have to be long. However, it does need to cover all the indicated sections and show sufficient research to support your statements. Of course, once you have completed Worksheet 13, you also will need to develop and add two more elements to your marketing plan: an action plan and a budget.

You now have a marketing plan. Congratulations!!! This is a very big step. You can use this to guide your marketing efforts and build your sales. But before you rush out to get a lot of money to produce, market, and sell products, we recommend that you take a few smaller steps into the marketplace:

Test market with a focus group of people in your target market. If you didn't include customers when you were defining your brand, then you might want to test your product with them at this stage. This gives you a chance to see how your product and your marketing strategies work with potential customers. Any changes you make now will be relatively inexpensive.

Move to higher production levels. You have done enough research. Now it is time to take the big leap and start production and marketing.

Adapt, refine, and improve your marketing and your products. You can always do things better and your success will always be interesting to your customers. Get clear on what is working and then see where you can strengthen your marketing or improve your production process.

TASK Put your marketing plan together (Worksheet 13)

13 Put your marketing plan together

Note: Copies of all worksheets in this book can be downloaded at www.nnfp.org/cbf/toolkit.

Purpose: To put your ideas on paper about how you will get your product to the market.

Process: It is vital that the people who will carry out the marketing plan are responsible for developing it. You have done much of the work already with these worksheets, just follow the next few steps, add an action plan and budget, and you will have a marketing plan that you can use to guide your work over the next year or two.

What is your product?

Product description and benefits and features (from Worksheet 1):

Add a paragraph about how you will produce the product:

Add a paragraph about how you will get the materials for the product:

WORKSHEET **13** (continued)

Describe the four building blocks of your brand: key attributes; personality; positioning; and promise (from Worksheet 6):

What are your goals for this product? (from Worksheet 2, but be sure to review the goals to see if they are still on target after you have gone through this whole planning process):

How will you position yourself in the market? (from Worksheet 5):

13 (continued)

To whom will you sell your product?

Target markets (from Worksheet 7):

How you will reach those target markets (from Worksheet 8):

Selling price for your product (from Worksheet 9):

Your competitors (from Worksheet 3):

WORKSHEET 13 (continued)

Your competitive advantage (from Worksheet 4):

How will you promote this product?

Key people you need to reach and how you will reach them (from Worksheets 10 and 11):

How will you measure your success? (from Worksheet 12):

A Legal Structures

*This document is a summary of a larger paper, **Legal Structure Issues in the Development of Business Ventures**, prepared by Brad Caftel, legal program manager of the National Economic Development and Law Center in April 2001. It was written for the Community-Based Forestry Demonstration Program, an initiative of the Ford Foundation assisted by the Community Strategies Group of the Aspen Institute.*

The entire paper is available online at www.nnfp.org/cbf/toolkit/legal. This larger document contains additional information on relevant case work, specific conditions for creating a limited liability community, and information about the legal ramifications of partnership.

A concern common to many entrepreneurial projects sponsored by nonprofit organizations is the desire to understand the tax, corporate, and other considerations in the legal structuring of their business ventures.

- Under what circumstances can and should a nonprofit, tax-exempt corporation carry out a business venture internally?
- When is it appropriate to form a for-profit or a nonprofit subsidiary?
- If a subsidiary is formed, what is the relationship between the parent corporation and the subsidiary?
- If private parties are involved in the venture, how should the relationship with the nonprofit, tax-exempt corporation be structured?

This paper addresses these and similar questions. In so doing, it provides a general overview of these legal concerns, and is **not** intended as legal advice. For legal assistance, the reader is advised to consult an attorney licensed to practice law in the reader's home state.

This paper provides a general overview of legal concerns related to structuring business ventures, and is not intended as legal advice. For legal assistance, the reader is advised to consult an attorney licensed to practice law in the reader's home state.

A nonprofit corporation, exempt from federal income tax under Internal Revenue Code (IRC) Sections 501(c)(3), may engage in business venture activities either directly or through a controlled subsidiary corporation. A business that is or will become a substantial activity must be related to the corporation's exempt (charitable or educational) purposes—that is, the business must be conducted as a means to achieve a charitable or educational purpose. “Substantial” typically is defined as exceeding approximately 15 percent of the corporation's time or gross revenues.

If not related to achieving charitable or educational purposes, the business must be conducted in a taxable (typically, for-profit) subsidiary. Otherwise, the corporation risks loss of its tax-exempt status. The fact that the revenue generated is used to support the corporation's other charitable or educational activities does not make the business related. Profits, if any, from related businesses are not taxed. Profits from unrelated businesses are taxed at normal corporate income tax rates.

The income tax ramifications of undertaking a certain business within the corporation are but one factor to be analyzed. Even though the corporation need not form a subsidiary to conduct the business, it may find it desirable to do so. A number of factors, such as liability and financing, often must be considered. No subsidiary should be formed unless a clear, well thought-out reason exists.

Too often, due to lack of this kind of information, nonprofit corporations self-impose constraints that the law does not impose. Understand that the legal structure issues discussed here are not roadblocks. They should be seen as tools to assist the corporation in accomplishing its goals. If a corporation has developed a viable business opportunity, there are no legal structure impediments to its accomplishment.

Step One: Review incorporation documents

Before undertaking a business within the nonprofit corporation, review its articles of incorporation, bylaws, tax exemption application and determination letter, and other corporate documents such as its mission statement.

Step Two: Determine whether the business is related or unrelated

A business is related to the corporation's charitable or educational purposes if conducted as a means to accomplish those purposes and not primarily to provide additional funds.

Consider the nature and size of the business—whether it is conducted on a scale consistent with charitable, rather than profit-making purposes. Look at the fees.

The corporation jeopardizes its tax-exempt status if it conducts a substantial unrelated business. It should form a subsidiary to carry out such a business.

Whether a nonprofit corporation would benefit from forming a subsidiary to carry out a business venture depends on many factors. There are advantages and disadvantages, and the analysis can change over time. An in-house venture saves the cost of a new corporation, and the nonprofit corporation retains complete control. A subsidiary can protect the parent corporation from legal liability, might benefit the business through more focused effort, and might attract new revenue. **Before reaching a decision, a nonprofit corporation should obtain expert legal and financial advice.**

Forming a wholly owned for-profit subsidiary

As sole owner, the parent Section 501(c)(3) organization has complete control over the subsidiary's activities, but must follow certain formalities to ensure that the subsidiary is treated as a separate legal entity. The subsidiary has its own board of directors and officers, although the same individuals may serve in that capacity for both organizations. The subsidiary should have its own bank accounts and books of record, and must separately observe all corporate filing and other requirements. The subsidiary should have its own stationery, and should enter into transactions in its own name.

The desire to close the gap between ownership and day-to-day control may lead the Section 501(c)(3) organization to elect its own board of directors to the subsidiary's board and select the organization's managers to manage the subsidiary. This may not be the best approach. Directors and managers knowledgeable of the subsidiary's business enhance its ability to succeed. In selecting directors, organizations should choose individuals from within and outside the organization whose presence will further the subsidiary's success.

The subsidiary formally exists upon the filing of articles of incorporation with the appropriate state agency, typically the Secretary of State. The articles generally contain only a few provisions; more complex articles include provisions involving shareholder rights and multiple classes of shares that are not needed when there is only one shareholder. Once the subsidiary is incorporated, the incorporator or initial directors named in the articles will

call an organizational meeting to adopt bylaws, elect officers, and transact other business similar to the process used by the Section 501(c)(3) organization when it incorporated.

A subsidiary can contract with the organization and make payments for management, bookkeeping or other services, rent of space, and interest of loans. The organization may have unrelated taxable income from such payments, but will pay tax only on the amount by which the payments exceed the organization's cost of providing the services, facilities, or loans.

A subsidiary should pay "market" rates, and these payments are business expenses that reduce the subsidiary's taxable income. Both boards of directors should approve a written agreement for the transaction(s), and organization staff should maintain records of time spent on behalf of the subsidiary. If the subsidiary does not have the funds to make the payment, nor needs the funds to maintain or expand operations, the organization can forgive payment of this subsidiary debt, or can return the funds by making a further contribution to the subsidiary's capital.

Forming a controlled nonprofit subsidiary

The parent Section 501(c)(3) organization has complete control over the subsidiary's activities, but must follow certain formalities to ensure that the subsidiary is treated as a separate legal entity. The subsidiary has its own board of directors and officers, although the same individuals may serve in that capacity for both organizations. The subsidiary should have its own bank accounts and books of record, and must separately observe all corporate filing and other requirements. The subsidiary should have its own stationery, and should enter into transactions in its own name.

As with a for-profit subsidiary, the organization's control over the subsidiary's activities is indirect. Final decisions would be made by the subsidiary's board, subject to the power of the organization to remove directors who made inappropriate decisions.

Forming a limited liability company

A limited liability company (LLC) provides liability protection for its owners, similar to a corporation, while avoiding corporate income tax due to the pass-through of taxes to its owners. The IRS recently has provided guidance on whether an LLC qualifies for Section 501(c)(3) tax-exempt status. The IRS will recognize the Section 501(c)(3) status of an LLC if

it satisfies 12 conditions designed to ensure that it is organized and operated exclusively for exempt purposes and to preclude incurrence of net earnings to private shareholders or individuals. The IRS treats an exempt LLC as an association (corporation), not a partnership, having long held that a partnership cannot qualify under Section 501(c)(3).

Conclusion

Corporate and tax law does not restrict the business venture activities of the demonstration projects in the community-based forestry initiative. However, these activities must be properly structured to protect tax-exempt status and to protect corporate assets from undue risk. This paper describes general guidelines for choosing the appropriate structure.

Questions concerning the application of the principles discussed in this paper to specific business venture activities should be directed to local legal counsel.

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Mark Lorenzo, www.nwf.org/northeastern

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Marketing

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This report provides examples of successful strategies and lessons learned by nonprofit groups that have launched earned income enterprises. The case studies, survey results, and essays provide valuable insights supported by data and anecdotal evidence.



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