oikos sustainability case collection

oikos Case Writing Competition 2007

1st Prize

Seventh Generation: Balancing Customer Expectations with Supply Chain Realities

Michael V. Russo / Dan Goldstein

Lundquist College of Business
University of Oregon
Eugene, OR 97403

oikos sustainability case collection
http://www.oikos-foundation.unisg.ch/homepage/case.htm

Seventh Generation:
Balancing Customer Expectations with Supply Chain Realities
Case Summary

The case focuses on Seventh Generation, a maker of environmentally-sensitive household nondurables such as soaps, detergents, paper products, and diapers. Faced with the prospect of being without a product when a contract manufacturer could no longer make its natural baby wipes, the company substituted conventional wipes. But some of the ingredients in these conventional baby wipes proved unacceptable to its customers. The case provides a broad background on the industry in which Seventh Generation competes, and the developing green niche within it. A history of the company's circuitous journey to become the leader in its field is then presented, with special reference to the importance of its corporate values to strategy and staffing. The case closes with a meeting to decide what to do about the baby wipes problem.

Seventh Generation:
Balancing Customer Expectations with Supply Chain Realities

Martin Wolf put down the telephone and thought about how depressing these calls were getting. As Director of Product Quality and Technology at Seventh Generation, a seller of natural household products, it was his responsibility to field phone calls from customers about the ingredients in company products. It was one thing to answer questions about the effects of Seventh Generation's environmentally sensitive soaps, detergents and other goods on adults. But responding to inquiries about how company products might influence the health of infants was another matter. The emotional character of these customer interactions only heightened Wolf's anxiety. One mother, practically in tears, stated that after years of "trusting the green leaf" (Seventh Generation's logo, from a Littleleaf Linden tree), she felt betrayed by the company's decision to change the ingredients of the wipes without informing customers. Wolf was left wondering if this type of customer contact was in his job description.

His mind wandered to the situation at the company sixth months ago, prior to his arrival. Seventh Generation's contract manufacturer of baby wipes informed the company that it could no longer manufacture the baby wipes as it had. The previous formula, designed to be environmentally sensitive in manufacture and healthy in use, avoided the harsh synthetically derived ingredients typically found in most infant personal care products (see Exhibit 1 for a comparison of ingredients in wipes currently sold by Seventh Generation and conventional counterparts). After its initial introduction, sales of the wipes had steadily grown. Seventh Generation had secured substantial shelf space for the product in natural goods stores and increasingly, in more mainstream outlets like Albertsons, Kroger, and Safeway.

The problem was that the manufacturer of the wipes could no longer justify the expense of the frequent changeovers of its manufacturing line from conventional wipes to natural wipes, and proposed to simply make conventional wipes for Seventh Generation. With no other alternative, the company decided that since this product was no worse than others in the marketplace, it would substitute the conventional wipes and sell those under its own label.

This decision was complicated and illustrated that Seventh Generation was not a monolith. While all employees viewed protection and enhancement of the natural environment as a core value of the company, there were other considerations as well. Gregor Barnum, Director of Corporate Consciousness at Seventh Generation, put it this way: "There are voices that give primary weight to human health, others that give primary weight to the environment, and others that give primary weight to profitable operation."[1] One reason to ship the conventional product was the declaration by Martin Wolf's predecessor that although the conventional wipes contained some ingredients

[1] Personal communication, October 6, 2006

Seventh Generation generally avoided, the formula was safe. Contributing to the decision was the sense that the company would be without a product otherwise, and that customers would purchase wipes from competitors that used conventional formulas.

Not much happened at first. It may have been that shoppers, especially mothers with young children, were simply too busy to notice the changes to the ingredients. But starting about three months after the newly formulated wipes hit the shelves, it became increasingly clear that customers had not accepted the new formula. From that point on, the frequency of calls to Wolf's office had escalated—a disturbing trend. The issue had attracted no media interest. But as he noted, "If one person is calling, it means 200 more people have the same complaint and aren't letting us know."[2]

Wolf wondered whether or not the issue was ripe for discussion. Was there something Seventh Generation could do to stem the increase in complaints about this product choice? Did it bear some responsibility to change the product or stop selling it, based on its operating principles and ongoing relationship with customers? Trust was a powerful driver of consumer choice, one that could take years to earn. Wolf didn't want to throw that away now. The segment of the household nondurable goods industry the company served was growing rapidly, and Seventh Generation was well-positioned to thrive in the new environment.

Industry Background

The global household nondurable products industry was valued at $156 billion annually (at the wholesale level), with US sales representing approximately 50% of that figure.[3] The industry was very mature and highly competitive, as population growth (and therefore market growth) in the primary markets of the US and industrialized Europe had stagnated.[4] Because of the market's maturity, gains in market share were captured in three ways: competing fiercely on price, struggling for shelf space in static distribution channels, and introducing new and innovative products.[5] All of these methods were costly.

The industry's consumers wielded significant purchasing power, as they frequently viewed most household nondurable products as undifferentiated.[6] Brand loyalty had steadily declined for many products since the 1960's, and in times of economic duress price was frequently the only discriminating purchase criterion.[7]

These facts, coupled with cyclical fluctuations in the commodity prices of raw materials, resulted in somewhat low profit margins for many products. To boost overall

---

[2] Casewriter interview, September 6, 2005

[3] Bossong-Martines, Eileen M. 2004. *Standard & Poor's Industry Survey*, 172 (51): Section 1. "Household Non-Durables Industry Survey." McGraw Hill.

[4] Ibid.

[5] Ibid.

[6] Ibid

[7] Pierce, Lynn M. 2005. *Encyclopedia of American Industries, vol. 1:Manufacturing Industries*. 4th ed. Farmington Hills, MI: Thompson/Gale.

margins, companies grew earnings by attempting to develop a set of loyal customers and weaning them off lower margin standard products and onto higher margin innovative products.[8] Another strategy was to enter emerging markets, where more and more households could afford their products. These strategies yielded industry average operating margins of 21% in 2004.[9]

Competing in the industry required going up against such giants as Procter & Gamble and Unilever, which together accounted for around half of global market share. Other major players included familiar names like Kimberly-Clark, Colgate-Palmolive, and Clorox (See Exhibit 2). Recent years had also seen superstores like Wal-Mart introduce private label products into the market, further intensifying competition.

Producers were formidable rivals, paying large fees to retailers to display their goods prominently. This practice was controversial and critics noted that competitors with less capital were often relegated to the bottom shelf or were forced out of the market entirely. Tom Chappell, CEO of Tom's of Maine, a purveyor of environmentally sensitive personal care products, commented about his experience with these tactics. He stated, "It's common practice for a sales executive from a major company to go into a chain store account with a new product and say 'We want you to take this new toothpaste, and we recommend that you discontinue three or four Tom's items to find room on the shelves.'"[10]

Green Household Products

As relatively new members of the natural products portfolio, green household products suffered from a reputation for ineffectiveness and questionable environmental performance. For example, early green detergents lacked the cleaning power of conventional detergents. Worse, some product claims were exposed as highly inflated.[11] Despite this handicap, green products were making a spirited comeback: sales were estimated to be growing at over 20% annually in natural food stores and 17.6% of American households reported using at least one natural household product. This resurgence had created a healthy niche industry estimated to be worth over $450 million in annual sales.[12]

This growth trend was expected to continue due to the increased patronage of baby boomers looking to green household products as one way to live healthier as they grew older.[13] In addition, in mature markets such as household non-durables, there was a general trend towards premium products during periods of economic prosperity, which

[8] Bossong-Martines, Eileen M. 2004. *Standard & Poor's Industry Survey*, 172 (51): Section 1. "Household Non-Durables Industry Survey." McGraw Hill.
[9] Noh, Charles W. 2005. "Household Products Industry." *Value Line*, April 8.
[10] Estabrook, Barry. 2004. "Clean 'n' Green." *On Earth*, 26(4).
[11] Crane, Andrew. 2000. "Facing the Backlash: green marketing and strategic reorientation in the 1990's." *Journal of Strategic Marketing*, 8: 277-296.
[12] Duber-Smith, Darrin C. 2004. "The Market for Natural Household Products." www.NPICenter.com
[13] Ginsberg, Jill M. and Bloom, Paul N., 2004. "Choosing the Right Green Marketing Strategy." *MIT Sloan Management Review*, 46(1): 79-84.

supported periodic faster growth among natural household products versus the industry as a whole.[14]

The industry's primary channels of distribution were natural foods stores, such as Whole Foods Market, as well as smaller local outlets, direct mail, and online catalogs. Mainstream supermarket chains, such as Albertsons and Safeway, also had begun to stock an increasing inventory of these products. In large measure, this was an attempt to replace sales of price-driven conventional products that had been lost to large discounters, such as Wal-Mart and Costco. Over time, this effect had been powerful. Between 1988 and 2003, mainstream grocery chains saw their market share of all grocery and consumable sales shrink to 56% from a high of 90%. This was forecast to drop to a 49% share by 2008[15] (see Exhibit 3). By carrying higher-margin goods unlikely to be available at these discounters, supermarkets were hoping to regain customers.

Seventh Generation was the only company competing in the natural household products market that had built a strong brand, sold a wide range of products, and was widely available in catalogs, natural food stores, and mainstream grocery stores. Most of the industry was fragmented, as many companies were young and had yet to build strong brand images. In addition, many companies sold only one product line so consumers had few choices when looking for one-stop companies from which to purchase all of their green household products.[16]

Some mainstream household products companies responded to this new industry niche by introducing green product lines of their own, as evidenced by Kimberly-Clark's line of recycled fiber bathroom tissue. These companies, which might lack the green credentials that many consumers sought, often looked to third party green certification institutions (such as Green Seal) to provide verification of their claims.[17] In order for mainstream companies to boost credibility and enter this side of the industry, they were pursuing strategic acquisitions of green start-ups, much as they did in the natural foods industry.[18] Two two notable examples of this trend were Unilever's acquisition of Ben & Jerry's and Groupe Danone's acquisition of Stonyfield Farms.

As the green household products industry continued to move out of niche channels, its companies were seeking to overcome a collective image as products for "tree huggers" and become fully accepted in the mainstream market place. Wider consumer acceptance would require an increased understanding of environmental and health issues within the general public, a challenging proposition considering the complexity of these topics and the small amount of time a company had to deliver information to a customer in a supermarket.[19] Seventh Generation was a company betting that it could meet this challenge. If so, the green consumer movement seemed ready to deliver the company increased sales.

---

[14] Bossong-Martines, Eileen M. 2004. *Standard & Poor's Industry Survey*, 172 (51): Section 1. "Household Non-Durables Industry Survey." McGraw Hill.
[15] Jacobson, Amy. 2005. "New Formats Edging out Traditional Supermarket." *Spins Industry Partner Newsletter*, 9: 3.
[16] An example of this is the company BonaKemi, which solely produces environmentally sound hardwood finishing products.
[17] www.greenseal.org
[18] Estabrook, Barry. 2004. "Clean 'n' Green." *On Earth*, 26(4).
[19] Ottman, Jacquelyn A. 2003. "Green Marketing: Empower the People." *In Business*, 25(6): 32.

Green Consumers

What is a green consumer? The term was notoriously hard to understand and the market segment equally difficult to define. Early attempts to use socio-demographic factors to segment these customers produced contradictory results while further studies attempting to use attitudes, environmental knowledge, education, social consciousness, and related behaviors were also frequently inconclusive.[20] Making things more confusing for market researchers, environmental concern reported in marketing surveys appeared vastly over-reported in comparison to consumers' actual buying habits.[21] One early explanation for over-reporting of environmental concern was the survey questions posed to consumers. Who wouldn't say yes when asked "do you feel we should protect the natural environment?" The problem was that the values linked to purchases and other behaviors were quite different from the general values observed in surveys with these types of questions.[22]

But some of these contradictions could be explained if the tradeoffs required to purchase different types of green products were examined. Although a consumer may wish to purchase a green product, the perceived trade-offs in terms of ease of purchase, quality versus conventional products, and price might still be too high. A 2002 survey reporting that 49% of Americans viewed environmentally safe alternative products as too expensive to purchase validated this perception.[23] Simply put, most consumers would not buy a green product if it was inconvenient to use or purchase, or didn't meet their performance expectations.

Recent years, however, had produced an increased understanding of these contradictions and as a result there had been some success in segmenting green consumers. A 2002 Roper Organization survey segmented all consumers into 5 "shades" of greenness:[24]

- **True Blue Greens (9%):** These consumers act and speak out on their environmental beliefs. Typically, they are financially stable and well-educated families. True Blues are four times more likely to avoid products made with no environmental claims.

- **Greenback Greens (6%):** Not politically active in environmental or activist causes, these consumers still consistently buy green products. Greenbacks weigh any tradeoff they may face when purchasing green products, unlike true blues, who typically disregard them.

---

[20] See Straughan, Robert D. and Roberts, James A. 1999. "Environmental segmentation alternatives: A look at green consumer behavior in the new millennium." *Journal of Consumer Marketing*. 16(6): 558-575; Peattie, Ken. 1999. "Trappings Versus Substance in the Greening of Marketing Planning." *Journal of Strategic Marketing*, 7(2): 131-148; Kilbourne, William E. & Beckmann, Suzanne, C. 1998. "Review and Critical Assessment of Research on Marketing and the Environment." *Journal of Marketing Management*. 14: 513-532.

[21] Crane, Andrew. 2000. "Facing the Backlash: green marketing and strategic reorientation in the 1990's." *Journal of Strategic Marketing*, 8: 277-296.

[22] Dembkowski, S., Hanmer-Lloyd, S., 1994. "The Environmental Value-Attitude-System Model: a Framework to Guide the Understanding of Environmentally-Conscious Consumer Behavior." *Journal of Marketing Management*, 10(7): 593-603.

[23] RoperASW, 2002. "Green Gauge Report 2002: Americans Perspective on Green Business, Yes…But." November.

[24] Ibid.

- **Sprouts (31%):** Sprouts are the environmental fence sitters and will buy green products when the economy is doing well or when they are appealed to properly. Sprouts often have a "pet" environmental issue, such as animal rights, which they will support in their purchasing habits, while disregarding most other issues.

- **Grousers (19%):** Grousers feel guilty about the environment, but wash their hands of its problems. Grousers feel that environmental problems are the concern of the government and large corporations, not individuals. They are usually uneducated about the environment and feel that they cannot affect change, two factors regularly linked to green purchasing behavior.

- **Basic Browns (33%):** Browns have no concern for the environment and feel that they display mainstream behavior. Generally coming from low income and low education levels, Basic Browns feel they have more pressing problems to worry about than protecting the environment.

These segments showed that between 15-46% of the population were receptive to green products, depending on the economy and on the confidence and tradeoffs necessary to make purchases. Moreover, the aforementioned growth in the baby boomer segment could be expected to fuel further growth in green spending as these individuals continued to grow older and become more concerned with their health and a healthy environment.

Seventh Generation: A Circuitous Route to Success

Seventh Generation sold a line of over 50 natural household products including paper products made from recycled fibers and chemical-free household cleaners and detergents. Seventh Generation's prices, although somewhat variable, are typically 40-60% higher than competing natural products and could be more than twice as expensive as conventional products. There was no doubt that the company was a force in niche channels. In natural food stores, Seventh Generation accounted for 69% of all toilet paper sales, 74% of all paper towel sales, 42% of all laundry liquid sales, and 35% of all laundry powder sales.[25]

Seventh Generation essentially was a product design, marketing, and distribution company, having no manufacturing facilities at its Burlington, Vermont headquarters. In 2005, its entire staff numbered only 42. To manufacture, it relied on close relationships with suppliers that manufactured to its specifications. At company headquarters, two staff scientists worked on product development and testing to ensure that products met Seventh Generation's strict environmental standards.

Seventh Generation had gone through several transformations since beginning as a wholesale natural products catalog in the late 1980's. Originally named Renew

[25] Estabrook, Barry. 2004. "Clean 'n' Green." *On Earth*, 26(4).

America, it was run by a Washington D.C. non-profit that developed and sold energy-saving household devices. In 1988, Renew America decided to sell its catalog business and made an offer to Vermont entrepreneur Alan Newman. At the time, Newman was running a company called Niche Marketing, a provider of marketing services to progressive and non-profit companies, including Renew America. Newman initially refused the offer, but when Renew America was unable to find a suitable buyer, it simply gave him its catalog business. Newman didn't like the name and at the suggestion of a Native American employee, changed it to Seventh Generation, a name based on the Iroquois philosophy that all decisions should be considered in light of their impact on the next seven generations.[26]

Using direct mailings, the company generated some consumer response and by 1989 sales were meeting Newman's expectations. Although not yet profitable, Newman felt that the company had a real shot at sustained growth and success. However, he had no previous experience growing a company on this scale and needed to raise additional capital to help his new company reach its potential. It was about then that Newman met someone looking for a new way of doing business, Jeffrey Hollender.[27]

Hollender had just quit his job as the president of the audio books division at Warner Communications. He had landed the job after selling Warner his first successful business: a series of taped courses offering such educational fare as *How to Lose Your Brooklyn Accent* and *How to Marry Money*. Although financially successful at a very young age, Hollender found his work unfulfilling. He had long harbored lofty goals of making a positive impact on society and felt that the work he was doing at Warner was taking him in another direction. He quit to conduct research for his first book, *How to Make the World a Better Place,* which led him to Vermont and Seventh Generation. The book offered a number of ideas on how to live life in a more sustainable and environmentally friendly way, laying out specific directions on how to conserve more paper, support environmental organizations, and produce less waste.

After they met to discuss the topics surrounding Hollender's book, it was clear that the two men had similar business interests. Moreover, Hollender's acumen for raising money as well as his business connections and reputation were just the things that Newman needed to continue to grow Seventh Generation. The two co-wrote Seventh Generation's first business plan, billing it as a green household products wholesale company using direct mailings as its marketing channel. It would be a niche player, buying products from small-scale green entrepreneurs who could not get their products into other channels. The product line would be limited to green household non-durable products.

Pitching this plan to investors, the pair was able to raise $850,000 in capital by selling 54% of the company to 40 different investors. The two partners contributed the

---

[26] McCuan, Jess. 2004. "It's Not Easy Being Green." *Inc. Magazine*, 26(11): 110-118.
[27] Ibid.

remainder evenly. Hollender became CEO and took over product development and long-term planning while Newman became President and oversaw day-to-day operations.[28]

The additional capital proved essential. Shortly after the deal, monthly orders climbed 1000% following increases in the catalog's circulation and some key Earth Day publicity. The new funds enabled Newman and Hollender to buy a new facility, hire 80 new employees, and begin rapidly increasing the breadth of their product line. By 1990 sales had reached $7 million, increasing from just $1 million the year before. Hollender raised another $5 million from investors and forecast sales to increase up to $20 million within another year.[29]

Economic conditions would put a damper on these estimates, however, as the first Persian Gulf War and ensuing recession of the early 90's would test Seventh Generation's consumer appeal and management savvy.

Uncertain Ground

"The world had changed, but Seventh Generation hadn't."
-Alan Newman
"It was like falling through the air and not knowing where the ground is."
-Jeffrey Hollender

1991 saw sales plummet. At a point when the company was organized to sell $20 million of goods, it sold only $6 million.[30] It appeared that many of Seventh Generation's green products were discretionary to its customers and when hit with economic hard times, most switched back to cheaper standard products. The company struggled to maintain sales levels and was forced to lay off over 50 employees. This was not enough to keep the company afloat, however, and another difficult round of layoffs ensued, forcing management to dismiss many employees that had been with the company since its founding.

At the executive level, a rift developed between Hollender and Newman as they envisioned disparate strategies for getting the company back on track.[31] Newman still believed Seventh Generation should stay in the catalog business in order to provide a channel of distribution for small, green entrepreneurs who had no other means of reaching potential customers. Hollender, on the other hand, believed the best way to both grow the business and stay true to the company's mission of spreading sustainable business practices was to become a player in the mainstream marketplace. He wanted to build Seventh Generation as a solid brand and position it in natural foods stores as well as in mainstream grocery channels.

---

[28] Ibid.
[29] Ibid.
[30] Hollender, J. 2004. *What Matters Most: How a Small Group of Pioneers is Teaching Social Responsibility to Big Business, and Why Big Business is Listening*. New York: Basic Books: 255.
[31] McCuan, Jess. 2004. "It's Not Easy Being Green." *Inc. Magazine*, 26(11): 110-118.

The stress of keeping the company afloat proved too much for Newman, who left to take a six month sabbatical in the midst of the company's turmoil. The move incensed Hollender and the board of directors, who felt betrayed by Newman's departure; Newman was not allowed to return to Seventh Generation, even after repeated requests.[32] In the words of Seventh Generation's board chairman at the time, "Alan Newman was never interested in making money. He was one of those people who believe it doesn't matter. I saw Alan as an impediment."[33]

Seventh Generation was facing potential bankruptcy and Hollender now had the additional problem of managing numerous employees who were loyal to Newman and who viewed Hollender with suspicion. The company needed money badly and management decided that taking the company public was the best way to obtain it. Although to Hollender, going public did not seem like the most socially responsible course of action, nothing would be accomplished by letting the company go bankrupt. After buying out Newman's stock, Seventh Generation raised $7 million dollars with an IPO starting at $5 a share in 1994.[34]

The Recovery

> "*Our number one goal and priority is to build our brand—to build Seventh Generation as the brand name of leading environmental products.*"[35]
> - Jeffrey Hollender

Hollender then moved forward, acting on his vision of turning Seventh Generation into a strong household products brand that would positively influence society by becoming a fixture in the homes of mainstream America. He did not see the direct mail business model as a means to this end and also had problems with the nature of the business, once commenting: "If one, two, or three percent of the people we mail to respond, where do all those other catalogs go?"[36] More importantly, the catalog business was losing money, even though it accounted for 80% of Seventh Generation's revenues at the time.[37] As of December 31, 1994, the catalog reported an operating loss of $1 million on net revenues of $6.3 million.[38]

Seventh Generation decided to sell the catalog in 1995 to Gaiam, Inc., a Colorado company formed specifically for the purchase. Gaiam agreed to buy the catalog for $1.3 million along with the assumption of $500,000 in liabilities. The transaction also included agreements for Seventh Generation to sell their branded products to the catalog as well as a $200,000 licensing agreement for Gaiam to continue to use the Seventh

[32] Ibid.
[33] Ibid.
[34] Newman used the proceeds from selling his shares in Seventh Generation to build the now-famous Vermont microbrewery, Magic Hat. See McCuan, Jess. 2004. "It's Not Easy Being Green." *Inc. Magazine*, 26(11): 110-118.
[35] D.R., 1996. "Adjusting to a Changing Market." *In Business*,18(4):18-21.
[36] Ibid.
[37] McCuan, Jess. 2004. "It's Not Easy Being Green." *Inc. Magazine*, 26(11): 110-118.
[38] *In Business*. 1995. "Seventh Generation Sells Catalog Business." May/June vol. 17(3):6.

Generation name.[39] After the sale, Hollender noted, “The sale of the catalog operations will help reduce the company's overall operating losses. We expect that revenue from the sales of branded products to the new catalog company will improve the financial performance of our wholesale business.”[40] Most employees went to go work for Gaiam, and Seventh Generation’s staff, once 140 strong, shrank to only seven.[41]

The spin-off of the catalog proved a shrewd decision. Sales from Seventh Generation’s core wholesale business increased from $1.7 million in 1995 to $4 million in 1996.[42] On solid ground once again, Seventh Generation was able to focus on developing new products and building tight relationships with natural foods stores like Whole Foods Market as well as mainstream grocery chains like Albertsons and Kroger. Its product line began to firm up, and featured strong sellers such as recycled paper products, hypo-allergenic soaps and detergents, and biodegradable disposable diapers.

But although Seventh Generation had posted sales of $11 million in 1999 (an increase of 40% per year since the sale of the catalog[43]) its stock price was still in the doldrums, trading at around $0.70.[44] Company officials worried that the stock, which they viewed as undervalued, would attract a hostile takeover. Hollender, noted, “If we don’t come along to make an offer to buy the company, somebody else will.”[45] Seeing the future start to clear up and fed up with the expenses and hassles of running a public company, Seventh Generation became privately held once again, purchasing back the outstanding shares at a premium of $1.30 per share.[46] It obtained funding from another round of private equity fundraising, which secured $4.6 million in capital. The private acquisition only required about $3 million. This left $1.6 million to cover transaction costs and pay off outstanding debt.[47] The move would save Seventh Generation $200,000 per year in public reporting costs as well as $100,000 annually in interest payments.[48]

A New Approach

At about this same time, Hollender had a revelation about the natural products industry as a whole. Seeing the success of natural foods in mainstream retail chains, he observed, “People don’t buy organic apples because they are worried about the pollution of a stream, for the most part they are worrying about consuming pesticides.”[49] He repositioned Seventh Generation as a purveyor of healthy, safe, and effective products, switching the tagline from “Products for a Healthy Planet,” to “Healthier for You and the

---

[39] Ibid.
[40] Ibid
[41] D.R., 1996. “Adjusting to a Changing Market.” *In Business*, 18(4):18-21.
[42] Ibid.
[43] Johnson, Jim. 2000. “Seventh Generation Goes Private.” *Waste News*, 5(39): 4.
[44] McCuan, Jess. 2004. “It’s Not Easy Being Green.” *Inc. Magazine*, 26(11): 110-118.
[45] Johnson, Jim. 2000. “Seventh Generation Goes Private.” *Waste News*, 5(39): 4.
[46] Ibid
[47] Ibid
[48] Ibid.
[49] Estabrook, Barry. 2004. “Clean ‘n’ Green.” *On Earth*, 26(4).

Environment."[50] Academic research supported this repositioning.[51] Product attributes were promoted by spotlighting their health benefits, especially in regard to asthma, allergies, and chemical sensitivities. These ailments were known to be aggravated by the presence of chlorine, petroleum products, and volatile organic compounds that were found in traditional chemical-based household products. Seventh Generation's products contained no chlorine or solvents, and instead used vegetable-based oils. In the cases where the company violated these guidelines there were detailed ingredient labels prominently displayed. This practice was not employed by its mainstream competitors.

With its new marketing campaign, Seventh Generation made a major nationwide move into mainstream retail chains in 2001, expanding beyond its home turf in the grocery chains of the northeastern United States. This positioned it to capitalize on two key trends in the industry. First, the large baby boomer generation had been steadily aging (see Exhibit 4), and this segment had become increasingly willing to pay a premium for products that were healthy and safe.[52] Second, traditional supermarkets continued to look for a way to differentiate themselves from mega-discount stores and warehouse chains such as Wal-Mart and Costco as well as gain access to the typically wealthier green consumer.[53] Seventh Generation provided supermarkets with the opportunity to meet both of these goals and as a result the company received major discounts on shelving fees. Its products were displayed prominently and supermarkets resisted pressure from competitors to reduce these concessions.[54]

Seventh Generation's new strategy was effective and survived through the tough economic times of the early 2000's. By 2004, its annual sales were estimated to top $25 million.[55] As of 2004, sales from mainstream grocery chains accounted for 30% of Seventh Generation's revenues and Hollender expected them to account for 50% by 2006.[56] Though it was "not even a fly on the back of a Procter & Gamble," the company wasn't a microorganism either.[57]

Hollender saw such growth as synonymous with positive change, noting, "Why should we [society] manufacture products that damage the environment and make people sick when we have the technology to do it in a way that's far safer?"[58] But in order to continue growth at their rapid rate and take toxic chemicals off the shelves, Seventh Generation had to continue building a company with a distinctly values-driven character.

---

[50] Janoff, Barry. 1999. "Supermarkets go Au Naturel." *Progressive Grocer*, 78(3):75-79.
[51] Dembkowski, S. and Hanmer-Lloyd, S., 1994. "The Environmental Value-Attitude-System Model: a Framework to Guide the Understanding of Environmentally-Conscious Consumer Behavior." *Journal of Marketing Management*, 10(7): 593-603.
[52] Ginsberg, Jill M. and Bloom, Paul N., 2004. "Choosing the Right Green Marketing Strategy." *MIT Sloan Management Review*, 46(1): 79-84.
[53] Estabrook, Barry. 2004. "Clean 'n' Green." *On Earth*, 26(4).
[54] McCuan, Jess. 2004. "It's Not Easy Being Green." *Inc. Magazine*, 26(11): 110-118.
[55] Ibid
[56] Estabrook, Barry. 2004. "Clean 'n' Green." *On Earth*, 26(4).
[57] Kanter, Larry. 2006. "The Eco-Advantage: The Green 50." *Inc Magazine*, 28(11): 90.
[58] Estabrook, Barry. 2004. "Clean 'n' Green." *On Earth*, 26(4).

Corporate Counter-Culture?

> *"We have an expectation that people will be as committed to their personal growth here as they are to their professional growth. And as a company, we explicitly support the personal growth of our people. But that is not a challenge that everyone wants to take on. So we have to be very particular about hiring. The most important thing is that the people we hire get our mission and values so they can become part of the community we've built."*[59]
>
> -Judith Joyce, Director of Community Development and Human Resources

Hiring at Seventh Generation reflected the belief that skills could be taught to a capable person, but values could not. At Seventh Generation, prospective employees had to clear both a competency and a values hurdle. Consequently, staff members thought of themselves as a community of people with diverse backgrounds and personalities, working towards the same common goals and ideals (see Exhibit 5 for the company's mission and values statement). This type of fit was viewed as crucial to success within the company, and was illustrated by the layoff of a highly qualified Harvard MBA. Although a very capable and skilled employee, this person did not make decisions in line with Seventh Generation's priorities, which at times placed stakeholder interests ahead of immediate financial benefit.

To better codify and communicate the company's mission and vision, Seventh Generation created a Values and Operating Principles Committee (VOPS) that consisted of employees and a senior management representative. The group knew that Seventh Generation faced some risk with a values-driven strategy, and wanted to maintain consistency and set precedent for future actions by the company. When formed, the group was tasked with creating an updated business plan that could be justified in terms of the company's mission statement. This proved a formidable challenge. Gregor Barnum, Director of Corporate Consciousness, described the result as a learning process: "they made a business plan and tried to make it fit the mission and that is not how you do business in a socially responsible company."[60]

More recently, the group has enjoyed some success developing protocols for situations that could misalign the company with its stated goals. For example, in 2003 there was a strike at the Albertsons grocery chain in southern California. Seventh Generation had no policy for selling products into a strike zone, but the situation made the VOPS group uneasy. Senior management, after a lengthy dialogue with the VOPS group, decided to continue to sell products into the strike zone while making a donation to the striker's hardship fund equivalent to the profits earned on those sales.

Despite considerable growth, the Seventh Generation work atmosphere remained casual and open, with many employees dressed as if they could slip out for a quick hike at a moments notice. Gregor Barnum often was accompanied at work by his dog Puck. Yet, like others at Seventh Generation, he was serious about his work. When probed, he

[59] Seventh Generation Corporate Responsibility Report, 2004. "Widening the Lens."
[60] Casewriter interview, September 6, 2005.

elaborated on why he enjoyed working at Seventh Generation: "it's great working for a place where meetings can range in topic from product positioning to corporate responsibility to 19th century philosophy and everybody is on board."[61]

Seventh Generation invested considerable effort toward maintaining its values-driven mission. Staff retreats reinvigorated its commitment to values, and what those values meant in practice. Joint outings like snow-shoeing or rafting helped to create a sense of community within the company.[62] And the company insisted that all employees serve on committees like the community service group or "green team," to connect them with broader needs of the community and planet. Seventh Generation was also a pioneer in the use of "360-degree" reviews, and all employees had the opportunity to critique the performance of Hollender and other corporate officers.[63] Hollender considered such reviews to be consistent with his commitment to transparency.

One of the many challenges facing Seventh Generation, with its hope for rapid growth to $100 million in annual revenues, was maintaining this culture and sense of community while doubling its workforce in less than five years. Penny Tudor, Director of Quality Assurance, summed up why she thought the company would be successful in the midst of its expansion, "It all comes back to making sure you hire like-minded people who understand the company's mission around corporate responsibility. People have to know why they're here."[64]

Seventh Generation's Communication Strategy

By entering into mainstream distribution channels, Seventh Generation had created a convenient point of sale that helped to eliminate some of the tradeoffs necessary when purchasing green products. By changing the focus of its products' benefits from environmental to personal, the company also was widening its potential customer base beyond the "True Blue" and "Greenback Green" consumer. In order to build green credibility with consumers it employed a third party company to publish a thorough corporate social responsibility report each year that documented the sustainability of its operations from suppliers to the post-consumer recycling bins and trash dumps.[65]

These actions bolstered sales and improved the future outlook for Seventh Generation. However, its products still had not attained mainstream status. Company executives worried that a majority of consumers still did not understand—even in personal terms—the advantage of using chemical-free products in the home. In fact, fifty-one percent of consumers surveyed by the Roper Organization reported that they knew little or nothing about environmental issues and problems.[66]

---

[61] Ibid.
[62] Hollender, J. 2004. "What matters most: Corporate values and social responsibility." *California Management Review*, 46: 111-119.
[63] Ibid.
[64] Seventh Generation Corporate Responsibility Report, 2004. "Widening the Lens."
[65] www.seventhgeneration.com
[66] RoperASW, 2002. "Green Gauge Report 2002: Americans Perspective on Green Business, Yes…But." November.

Seventh Generation tried to do its part to educate consumers by putting general information on its products' packaging. It also used some edgy advertising to attract attention. Rather than advertise, the company conducts educational promotions such as a self-declared "Made Without Chlorine Month." For this promotion, Seventh Generation distributed toilet paper with a list of facts on it entitled "Learn Facts about Chlorine That Will Scare the Crap Out Of You," in order to educate its consumers about chlorine's link to cancer.[67] Although unorthodox, the promotion proved popular.

The Internet was believed to be a real advantage for Seventh Generation, because it allowed the company to meet the needs of its most inquiring customers. For these individuals, its website, seventhgeneration.com, provided a wealth of information on company products. In November, 2006, across the top and down the side of its home page were these tabs:

- Household Hazards
- Making a Difference
- About Us
- Get Coupons
- Living Green
- Our Products
- Find a Store
- Visit our Blog

Several of these tabs replicated those that would appear on any commercial site, but others provided useful information on sustainability and health issues and engaged customers. For example, visitors could sign up to receive email copies of "The Non-Toxic Times," a newsletter that contained "ideas, news, and resources for a clean home, a healthy family, and a safer world." The site also served to strengthen the Seventh Generation brand image.

In mid-2006, the company launched its blog, inspiredprotagonist.com. The home page of the site proclaimed this mission for the blog:

> "In an age when despairing doom and global gloom rule the wires and extinguish those inspired fires that could ignite the needed change, the Inspired Protagonist seeks to cut the cords of negativity that bind us and replace them with hopeful strands of thought and deed that weave new worlds of possibility. This is the home of the voice of Seventh Generation and of all our friends and kindred spirits. It's the place for different thinking, dynamic action, deeper traction, and daring dialogue that move people to move our culture forward. Let us together reboot the present and reinvent the future through alternative patterns of being and sharing, doing and caring.

The site provided a place for Jeffrey Hollender, others in the company, and a host of interested parties to exchange ideas about subjects much wider than green household products. From events in Vermont to global politics, the blog represented a stream of thoughts and ideas about the state of human enterprise, consumption, and coexistence with the natural environment.

[67] Ivinsky, Pamela A. 2000. "Double Duty." *Print,* 54(2):8.

The Baby Wipes Problem

Martin Wolf had been working on a new natural formula for Seventh Generation's baby wipes when a meeting of top management was called. Seventh Generation was running out of stock on the conventional baby wipes and needed to decide if it was going to continue selling them or stop ordering and shipping the conventional product until a new natural formula was completed. Management personnel from all of Seventh Generation's divisions were present at the meeting (see Exhibit 6 for a list of attendees).

Jeff Phillips, head of finance and operations, argued that the company should continue to sell the conventional product while the natural formula was being developed. His position was supported by sales chief John Murphy, who added that the loss of revenues and shelf space was unacceptable and that, after all, the conventional formula had been deemed "safe." Opposition to this viewpoint was strongest from Sue Holden, Manager of Consumer Relations, who wanted to stop shipping conventional formula baby wipes until a new natural formula could be developed. She felt strongly that Seventh Generation had betrayed their customers and needed to act to win their trust back. Martin Wolf and Karen Fleming, VP of Marketing, both supported this point of view as well. For them, this approach was more consistent with Seventh Generation's brand, and felt the company's actions needed to resonate with its image.

Financially, all agreed that the implications of the decision were not trivial. One measure of the impact of Seventh Generation's decision would be seen on store shelves. Selling through existing supplies would take 30-60 days, and after that it would take another 60-90 days for the newly-formulate wipes to arrive. Even a week's loss of sales would register an impact on Seventh Generation's bottom line. Added to this was the significant cost of clearing store shelves of conventionally formulated wipes, if that option was selected.

One of three courses of action were available:

- Clear the shelves immediately and wait until the newly formulated wipes were available for sale (90-150 days of empty shelves).
- Sell-through existing wipes, order no additional conventional wipes, and then wait until the newly formulated wipes were available (60-90 days of empty shelves).
- Sell-through existing products, order enough conventional wipes to fill the gap until the newly formulated wipes were available, and switch over to the new wipes without having to leave shelves empty.

Jeffrey Hollender, who had moderated the meeting, remained silent on the subject until his management team had fully voiced its range of opinions. The group waited anxiously for Hollender to decide on a course of action.

Exhibit 1
Ingredients in Seventh Generation Tushies and Conventional Baby Wipes[68]

The following substances are found in Seventh Generation and conventional baby wipes:

Seventh Generation	Conventional Wipes
Water	Water
Aloe vera	Aloe vera
Glycerin	Propylene glycol
Citric acid	Citric acid
Vitamin E	Vitamin E
Alkyl polyglycoside	Polysorbate 20
Sodium hydroxymethylglycinate	Disodium cocoamphodiacetate
	Methylchloroisothiazolinone
	Methylisothiazolinone
	Quaternium 15
	Potassium sorbate
	Disodium EDTA
	Fragrance

[68] Personal Communication, Martin Wolf

Exhibit 1
Ingredients in Seventh Generation Tushies and Conventional Baby Wipes (continued)

Alkyl polyglycoside
A surfactant derived from cornstarch and palm oil.

Aloe vera
A plant extract with the demonstrated ability to help skin heal.

Citric acid
A naturally occurring substance used as a chelating agent and acidifier. Citric acid can be an irritant.

Disodium cocoamphodiacetate
A surfactant derived from coconut oil.

Disodium EDTA
Used to chelate (bind) metals.

Glycerin
A naturally occurring substance found in virtually every living organism. Glycerin is a desiccant (keeps the wipe from drying-out) and solvent (has both water-soluble and oil-soluble properties) to help remove soil from baby's skin.

Methylchloroisothiazolinone
A synthetic antimicrobial.

Methylisothiazolinone
A synthetic antimicrobial.

Polysorbate 20
A surfactant derived from sugar.

Potassium sorbate
Potassium sorbate is a potassium salt version of sorbic acid, a naturally occurring, polyunsaturated fat used to inhibit mold growth. It is widely used in the food and cosmetics industries. Most potassium sorbate is prepared synthetically. Potassium sorbate may be irritating.

Exhibit 1
Ingredients in Seventh Generation Tushies and Conventional Baby Wipes (continued)

Propylene glycol
A synthetic (petroleum-derived) dessicant (keeps the wipe from drying-out) and solvent (has both water-soluble and oil-soluble properties) to help remove soil from baby's skin.

Quaternium 15
A synthetic antimicrobial.

Sodium hydroxymethylglycinate
A synthetic antimicrobial based on the naturally occurring amino acid glycine.

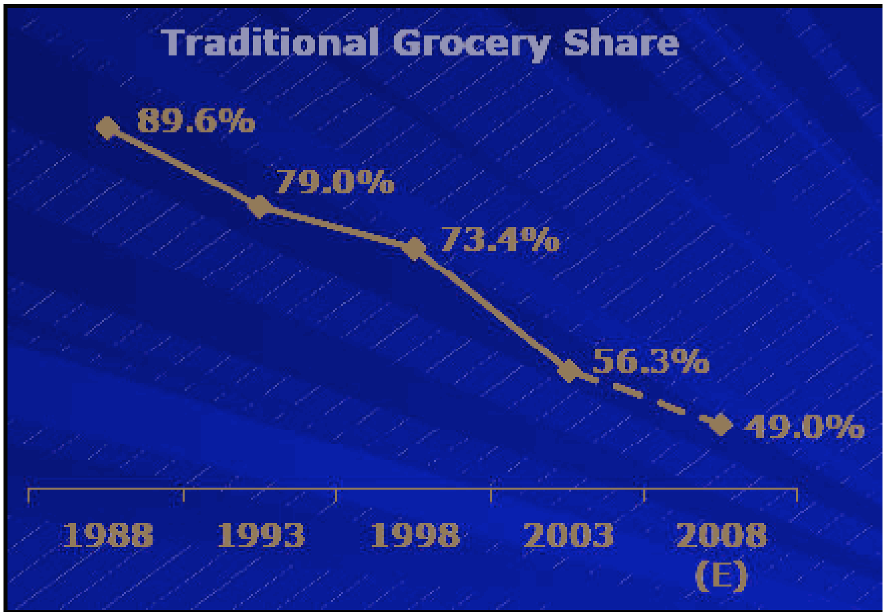
Vitamin E (Tocopheryl acetate)
A form of Vitamin E. Helps soothe and heal skin.

Exhibit 2
Industry Leader Financial Statistics (1995-2004)
(Dollar Figures in Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Proctor & Gamble[69]										
Sales	$33,434	$35,284	$35,784	$37,154	$38,125	$39,951	$39,244	$40,238	$43,377	$51,407
Operating Margin	16.2%	17.5%	19.5%	20.6%	23.2%	22.3%	22.6%	22.5%	23.3%	22.5%
Net Profit Margin	7.9%	8.6%	9.5%	10.2%	10.9%	10.6%	11.2%	12.6%	13.2%	12.6%
ROE	25.0%	26.0%	28.3%	30.9%	34.4%	34.4%	36.6%	36.9%	35.4%	37.5%
Unilever[70]										
Sales	$49,505	$57,323	$49,114	$44,895	$43,650	$45,259	$45,590	$45,839	$48,353	$50,246
Operating Margin	11.2%	11.1%	10.5%	13.2%	13.1%	16.5%	19.4%	21.9%	20.9%	13.9%
Net Profit Margin	4.7%	4.8%	5.9%	6.6%	6.7%	6.3%	6.3%	8.3%	11.6%	9.8%
ROE	13.7%	15.2%	14.3%	13.1%	19.3%	37.3%	24.1%	42.4%	71.6%	65.0%
Kimberly-Clark[71]										
Sales	$13,789	$13,149	$12,547	$12,298	$13,007	$13,982	$14,524	$13,566	$14,348	$15,083
Operating Margin	16.2%	19.9%	18.1%	18.7%	21.5%	22.9%	21.8%	18.7%	22.8%	22.3%
Net Profit Margin	8.0%	10.7%	11.2%	11.0%	12.4%	12.9%	12.0%	12.9%	12.0%	11.9%
ROE	30.2%	31.3%	34.0%	34.8%	31.6%	31.2%	30.9%	30.9%	25.4%	27.2%
Colgate-Palmolive[72]										
Sales	$8,358	$8,749	$9,057	$8,972	$9,118	$9,358	$9,428	$9,294	$9,903	$10,584
Operating Margin	17.1%	17.9%	18.5%	20.2%	21.7%	22.8%	24.0%	23.0%	24.9%	24.6%
Net Profit Margin	6.5%	7.3%	8.2%	9.5%	10.3%	11.4%	12.5%	13.9%	14.4%	13.0%
ROE	32.2%	31.2%	34.0%	40.7%	51.1%	72.5%				
Clorox[73]										
Sales	$1,984	$2,218	$2,533	$2,741	$4,003	$4,083	$3,903	$4,061	$4,144	$4,324
Operating Margin	23.3%	24.0%	23.4%	23.6%	23.5%	24.0%	22.9%	23.2%	25.2%	24.7%
Net Profit Margin	10.1%	10.0%	9.8%	10.9%	9.8%	10.3%	9.8%	7.9%	12.4%	12.6%
ROE	21.3%	23.8%	24.1%	27.5%	24.9%	23.4%	20.2%	23.8%	42.3%	35.5%

[69] Noh, Charles W. 2005. "Proctor & Gamble," *Value Line*, July 8.
[70] Smith, Jason A. 2005. "Unilever N.V/Unilever PLC," *Value Line*, August 5.
[71] Noh, Charles W. 2005. "Kimberley-Clark," *Value Line*, July 8.
[72] Kaplan, Jerome H. 2005. "Colgate-Palmolive," *Value Line*, July 8.
[73] Kaplan, Jerome, H. 2005. "Clorox Co.," *Value Line*, July 8.

Exhibit 3
Market Share of Traditional Grocery Chains in Grocery and Consumable Sales 1988-2008[74]



[74] Jacobson, Amy. 2005. "New Formats Edging out Traditional Supermarket." *Spins Industry Partner Newsletter*, 9: 3..

Exhibit 4
Growth Estimates for U.S. Population by Age Group[75]
(Numbers are in Thousands)

	2000-2050	2000-2010	2010-2020	2020-2030	2030-2040	2040-2050
NUMERICAL CHANGE						
TOTAL	**137,729**	**26,811**	**26,869**	**27,780**	**28,361**	**27,908**
Ages 0-4	8,862	2,208	1,506	1,340	2,027	1,781
Ages 5-19	19,736	479	4,146	4,877	4,494	5,740
Ages 20-44	26,822	369	4,189	6,115	6,912	9,237
Ages 45-64	30,665	18,573	2,641	-1,373	6,331	4,493
Ages 65-84	35,050	3,326	13,243	14,487	2,790	1,204
Ages 85+	16,594	1,856	1,145	2,334	5,806	5,452
PERCENT CHANGE						
TOTAL	**48.8**	**9.5**	**8.7**	**8.3**	**7.8**	**7.1**
Ages 0-4	46.1	11.5	7.0	5.8	8.4	6.8
Ages 5-19	32.2	0.8	6.7	7.4	6.3	7.6
Ages 20-44	25.8	0.4	4.0	5.6	6.0	7.6
Ages 45-64	49.1	29.7	3.3	-1.6	7.7	5.1
Ages 65-84	113.8	10.8	38.8	30.6	4.5	1.9
Ages 85+	388.9	43.5	18.7	32.1	60.5	35.4

[75] U.S. Census Bureau, 2004, "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin," http://www.census.gov/ipc/www/usinterimproj

Exhibit 5
Vision, Mission, and Values and Operating Principles[76]

Our Vision

Leadership, Inspiration, and Positive Change

A company with the authority to lead, the creativity to inspire, and the will to foster positive social and environmental change.

Make The World a Better Place

A community in which individuals possess the resources, knowledge, courage, and commitment to make the world a better place.

Sustainability, Justice, and Compassion

A society whose guiding principles include: environmental sustainability, social justice, and compassion for all living creatures.

An Earth Restored

An earth that is restored, protected, and cherished for this generation and those to come.

Our Mission

Trust & Authenticity

We are committed to becoming the world's most trusted brand of authentic, safe, and environmentally responsible products for a healthy home.

Service & Inspiration

We are dedicated to setting the standard for superior service and to providing our customers with the resources and inspiration they need to make informed, responsible decisions.

Balance

We strive to achieve balance between the fiscal, social, and environmental responsibilities of our company.

An Exceptional Workplace Community

We are committed to creating an exceptional workplace community, one that inspires honesty and trust, respect and compassion, and a spirited sense of play. A community that provides opportunities for growth and the freedom to realize our full potential.

---

[76] www.seventhgeneration.com

Exhibit 5
Vision, Mission, and Values and Operating Principles
(continued)

Community Participation

We will fully participate in and provide leadership to each community of which we are a part.

Our Values & Operating Principles

Trust

To provide authentic, high-quality, and competitively priced products that build trust in our brand and our mission.

Service

To provide service that exceeds the expectations of our customers.

Responsibility

To understand that our social and environmental responsibility can best be fulfilled through the financial success of our Company.

Empowerment

To empower employees by creating a work environment in which each person is entrusted with responsibility and held accountable; personal and professional development are strongly encouraged; mistakes are understood as opportunities for growth; and everyone is provided with the tools, information, and resources to do their best.

Community

To create a workplace community in which respect and dignity are promoted, honest communication is fostered, open minds and hearts are valued, trust is cultivated, fun and playfulness are encouraged, and a "can do" attitude is expected.

Leadership

To be leaders and role models in the communities and markets we serve.

Exhibit 6
Baby Wipes Meeting Attendees

Jeffrey Hollender, President & CEO

Jeff Phillips, Executive Vice President of Finance & Operations

Karen Fleming, Vice President of Marketing

John Murphy, Vice President of Sales

Jay Leduc, Vice President of Operations

Sue Holden, Manager, Consumer Relations

Martin Wolf, Director, Product Quality & Technology