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Mike Hannigan on How Business Can "Give Something Back"



Each year, California office-supply firm [Give Something Back](#) plows half of its profits back into local communities. We asked co-founder Mike Hannigan how his 17-year-old venture has managed to become the state's largest independent office supplier, competing head-to-head with the likes of Office Depot and Staples, without losing any of its soul. (To listen to our conversation with Mike, [click here.](#))

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SLM: How does a company that gives away half of its profits stay in business?

Mike: Most companies give away their profits in the form of dividends for stockholders as a return on their investment. The goal of every company is to give its profits away to someone. We just give them to a different group of stakeholders.

SLM: What about using profits for further capital investment?

Mike: Well, we launched the business in 1991 and our initial capitalization has held us through 17 years of profitable growth. We're now the largest independent office supply company in California. We employ a stockless model, very common in the office supplies business, in which our growth is supported by cash flow from sales.

SLM: I imagine there weren't too many companies employing a "give the profits away" business model back in 1991. Where did this sense of philanthropy come from?

Mike: We don't see it as philanthropy. We see it as a mechanism to use the power of business to create wealth by selling profitable products to businesses.

My partner Sean Marx and I learned how to operate profitably when we worked in the copy machine business in the late '80s. In 1990 the company we were working for was bought by a multinational corporate and we decided to make a transition into a more community-oriented business model. We were profitable our very first year and our profits - and therefore our donations - have increased ever since.

The approach has been popularized by [Newman's Own](#), a very successful food company whose products cost no more than its competitors', but whose proceeds are donated to nonprofit groups. And the pricing factor is key. Our customers are conventional businesses that make decisions based on cost criteria, so our prices have to be the best, our services have to be the best. We understand that they can't make philanthropic concessions in their purchasing decisions because, in effect, they're spending someone else's money. The bottom line is the motivating factor.

SLM: I'd imagine, though, that costs being equal, the community-oriented aspect of your business would be an additional draw for companies that are increasingly eager to establish their citizenship credentials. Is your commitment to community in fact a driver of business growth?



Mike: Actually, yes and no. The socially beneficial aspect of our business is certainly a competitive advantage with some customers. But if you're the procurement officer for a major corporation and you have to explain to your controller the decision to go with an independent supplier called Give Something Back over, say, a Staples or an OfficeMax, that can be a bit of a risk. A lot of prospective customers ask exactly the same question you did, which is how a company that donates its profits can operate successfully.

Once we overcome that objection - once a prospective customer has compared pricing structures, or talked to our other customers and found out that we're for real - then we're a "stickier" proposition. It's very difficult for a competitor to beat us. As survey after survey has shown, most customers would prefer to do business with a vendor that has a positive impact in the community if that opportunity comes at no compromise to them. Once we get past that threshold of proving ourselves it's pretty hard to get us out.

SLM: It sounds like even after 17 years of successful operations you're still encountering some initial skepticism on your basic value proposition. What does that tell you about how the role of business in society is traditionally viewed?

Mike: Many people are still surprised that a business might have anything in mind other than the bottom line, but that tradition is changing. There's a much greater openness among business consumers to incorporate social and environmental criteria into their decisionmaking process. Professional purchasers ARE asking about the environmental impact of a vendor's products and about the way they treat their workers. And vendors, to their credit, are incorporating these issues into the way they do business. That's not because they woke up one morning and decided to "make a difference"; it's because their corporate customers are demanding it.

SLM: You mentioned Newman's Own as a very high-profile example of a company that's donating profits. Are you seeing many other entrepreneurs adopting this approach now that they've seen it can be done successfully?

Mike: Absolutely. About five years ago I talked to these guys in Los Angeles who wanted to launch a bottled-water business and donate the profits to water-purification programs in the developing world. A couple years later the business - called Ethos Water - was bought by Starbucks.

SLM: When you talk to these folks just getting off the ground, what advice do you give them?

Mike: The first thing I do is point them to the growing infrastructure that's being set up to support the transition to socially responsible business. I'm thinking of the [Social Venture Network](#), the [Investors' Circle](#), [BALLE](#), [Business for Social Responsibility](#), the new [B Corporation](#) program - these networking organizations are the sinews that will help hold this burgeoning movement together.

Second, I tell them to learn their business. A lot of would-be business owners don't necessarily appreciate the technical expertise and level of complexity that's involved in running a successful new venture.

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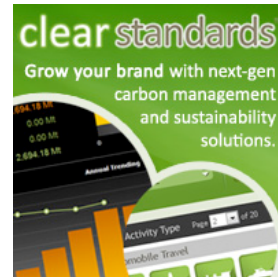
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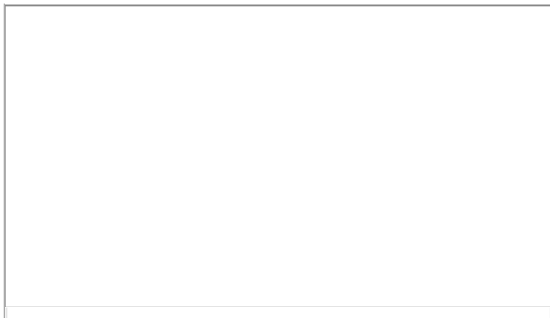
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