

Tom's of maine: doing good while doing business essay sample

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Tom's of Maine represents one of the first natural health care companies to distribute their product beyond the normal channels of health food stores. While it continues to grow, the owners, Tom and Katie Chappell, continue to emphasize the values that got them started over 28 years ago. The question becomes, can a small firm stay true to its founding principles and continue to grow in a fiercely competitive environment?

For its first 15 years, Tom's of Maine looked a lot like many other new businesses. It was started in 1970 by Tom and Katie Chappell, two people with an idea they believed in and felt others would also buy into, and financed by a small loan. Like many business startups, the company's first product was not successful. Its phosphate-free detergent was environmentally friendly but, according to founder Tom Chappell, "it didn't clean so well." Consumers did appear to be interested in "green" or environmentally friendly products, however, and the fledgling company's next products, toothpaste and soap, were more successful.

All Tom's of Maine products were made with all-natural ingredients and packaged using recycled materials whenever possible. New personal care products, including shampoo and deodorant, were developed while avoiding the controversial practice of animal testing. This refusal caused Tom's to wait seven years and shell out about 10 times the usual sum to get the American Dental Association's seal of approval for its fluoride toothpastes.

In 1992, Tom's deodorant accounted for 25 percent of its business. Chappell reformulated the product for ecological reasons (replacing petroleum with vegetable glycerin), but the new formulation "magnified the human bacteria

that cause odor” in half its customers. After much agonizing, Chappell ordered the deodorant taken off the shelves at a cost of \$400, 000, or 30 percent of the firm’s projected profits for the year. Dissatisfied consumers were sent refunds or the new product, along with a letter of apology.

Tom’s of Maine recovered from this experience, but founder Tom Chappell was not happy. The company’s products were a success in health food stores, and Chappell was beginning to think in terms of national distribution. He had hired a team of marketing people who had experience at major companies. At the same time, he felt that something was missing; he was “tired of creating new brands and making money.”

One pivotal event was the introduction of a baking soda toothpaste. The product was gritty and didn’t have the sweet flavor typical of commercial toothpastes, and the marketing manager told Chappell, “ In all candor I don’t know how we’re going to sell it.” Chappell insisted that the product be test marketed. It proved to be a best seller and was quickly copied by Arm and Hammer and Proctor and Gamble. It also appeared that a new product’s sales potential had become more important to the company than the qualities of the product itself. “ We were working for the numbers, and we got the numbers. But I was confused by success, unhappy with success” said Chappell. He later wrote, “ I had made a real go of something I’d started. What more could I do in life except make more money? Where was the purpose and direction for the rest of my life?” As a result of this line of thinking in the fall of 1986, the successful businessman Tom Chappell entered Harvard Divinity School.

The years that Chappell spent as a part-time student at the Divinity School brought him to a new understanding of his role. “ For the first time in my career, I had the language I needed to debate my bean-counters” he explained. He realized that his company was his ministry. “ I’m here to succeed. But there’s a qualifier. It’s not to succeed at all costs, it’s to succeed according to my principles.

One tangible result was a mission statement for the company. This document spelled out the values that would guide the company in the future. It covered the types of products ordered and the need for natural ingredients and high quality. It also included respect for employees and the need for meaningful work as well as fair pay. It pointed out the need to be concerned with the community and even the world. Finally, it called for Tom’s of Maine “ to be a profitable and successful company, while acting in a socially responsible manner.” Some of the company’s programs were the result of decisions made by top management. The company began donating 10 percent of its pretax profits to charities ranging from art organizations to environmental groups. These included funds donated to state and local curbside recycling program, and a pledge of \$100, 000 for the Rainforest Alliance.

The company also urged its employees to get involved in charitable causes. It set up a program that allowed employees to donate 5 percent of their work time to volunteer activities. Employees enthusiastically took advantage of the opportunity. When one employee began teaching art classes for emotionally disturbed children, others became interested, until almost all of

the company's employees were involved. One tangible result was a cardboard totem pole, which decorated the corporate hallways. Other employees worked in soup kitchens and homeless shelters. Employees formed their own teams to work on projects or used the company's matching service. Tom's even created the position of " Vice President of Community Life".

The volunteer program did have its costs, however. Other employees had to pitch in to cover volunteers absences, which amounted to the equivalent of 20 days a month. However, Colleen Myers, the V P of Community Life, felt that the volunteer activities were valuable to the company as well as the community. " After spending a few hours at a soup kitchen or a shelter you're happy to have a job. It's a morale booster, and better morale translates pretty directly into better productivity." Sometimes the company even benefited directly from these activities. Chappell explained, " The woman who headed up those art classes - she discovered she's a heck of a project manager. We found that out, too."

Employee benefits were not strictly psychological. The company offered flexible four day scheduling and subsidized day care. Even coffee breaks were designed with employee preferences in mind, providing them with fresh fruit. The company also worked with individual employees, helping them earn their high school equivalency degrees and develop skills for new positions. By 1993, Tom's of Maine was moving beyond health food stores and into supermarkets and drugstores, where 70 percent of toothpaste is purchased. Its products are widely distributed on the East Coast and are

moving up the West Coast from California; the brand is carried in 30, 000 mass market outlets nationwide, including Wal-Mart. Katie Sisler, vice president of marketing, felt that the company's marketing strategy was low key. " We just tell them our story. We tell them why we have such a loyal base of consumers who vote with their dollars ever day. A number of trade accounts appreciate our social responsibility and are willing to go out on a limb with us. Tom Chappell agreed: " We're selling a lot more than toothpaste; we're selling a point of view – that nature is worth protecting."

By the mid 1990s, Tom's of Maine was facing increasing competition. Its prices were similar to those of its national competitors for baking soda toothpaste, but 20 to 40 percent higher for deodorant and mouthwash. Tom Chappell did not appear worried, however. He felt that " You have to understand from the outset that they have more in the marketing war chest than you. That's not the way you're going to get market share, you're going to get it by being who you are." He explained his philosophy. " A small business obviously needs to distinguish itself from the commodities. If we try to act like commodities, act like a toothpaste, we give up our souls. Instead, we have to be peculiarly authentic in everything we do." This authenticity is applied to both ingredients and advertising decisions. " When you start doing that customers are very aware of your difference. And they like the difference."

By 1997, total sales approached \$20 million. Of its 250 all-natural products, including shampoo, deodorant, and mouthwash, toothpaste still provides the bulk of the sales with a contribution between \$10 million and \$12 million.

While behemoth Proctor and Gamble produces 250 million tubes of toothpaste annually, Tom's produces 8 million tubes. Nationally, Tom's has grabbed a 0.7 percent market share; in major markets such as New York, Boston, and the Rockies, the company claims the share is between 2 and 3 percent.

In addition, Chappell's message is starting to draw the attention of several Fortune 500 companies. Ralph Larsen, chairman and CEO of Johnson and Johnson, a \$20 billion company with 87,000 employees in 160 subsidiaries says that Chappell is "charting a new course" and recently invited him to address his top management team at J&J's New Brunswick, New Jersey headquarters. Robert Reich, former secretary of labor, says "The debate that sounds as if it's about maximizing shareholder returns versus being socially responsible usually comes down to whether a top manager is paying attention only to very short-term performance or is taking a longer-term view." Arnold Hiatt, former president and CEO of Stride Rite, agrees with Chappell's brand of "common-good capitalism," particularly as it impacts employees. Hiatt now serves as cochair of Business for Social Responsibility, whose 900 member companies include Ben and Jerry's, Home Depot, Levi Strauss and Reebok.

Interesting Facts:

Chappell's name is pronounced "chapel"

- Tom's of Maine gives away 10% of its pretax profits to charities, gives 3 months maternity leave, provides child-care subsidies, and encourages

employees to spend 5% of their paid work time doing volunteer service -with nearly 80% of the employees participating. The manufacturing plant is housed in an old converted railway station Toothpaste is mixed in 3000 pound batches

As an 11-year old, Tom served as a model for a Norman Rockwell portrait of a choirboy

Review Questions

1. Which way of thinking about ethical behavior best describes Tom's of Maine and its founder, Tom Chappell?
2. What potential dilemma did Tom Chappell face in the mid-1980's?
3. How important were Tom Chappell's personal views in helping Tom's of Maine to be successful?
4. Find five internet sites that discuss ethics and social responsibility.
5. Was Tom's correct to purchase the herbal-extract company – did it fit with his objectives?
6. Should Tom's stay independent – or should it merge with a larger company?
7. Can Chappell's approach to ethical management work at larger firms?