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INSIGHTS

Wholesaling Social Change: Philanthropy's Strategic Inflection Point

Ben Hecht
Living Cities

There are times in almost every sector that forces of change come together to funda-mentally disrupt the way that sector works. Former Intel Chairman Andy Grove calls this a strategic inflection point. Philanthropy is on the brink of its own strategic inflection point. Just as the internet changed the face of commerce, so it can change fundamentally the way that social change can happen. Today, organizations can wholesale social change or develop programs that almost overnight touch millions of people. These 'wholesaling' organizations share many common characteristics such as: (1) intent to impact the masses; (2) marginal, incremental cost to serve the next customer; (3) borderless service delivery; (4) grants plus' business model; (5) redefining fundamental power relationships; (6) engage markets and market-driven solutions; (7) redirect ongoing flows of public or private sector funds to institutionalize desired change; and (8) use technology itself to provide innovative solutions. Philanthropy should define what 'wholesaling activity' is, recognize it, and create mechanisms that will support acceler-ation of wholesale social change.

Keywords: *strategic inflection point; forces of change; wholesaling social change; technology and the internet*

There are times in almost every sector that forces of change come together to fundamentally disrupt the way that sector works. Former Intel Chairman Andy Grove calls this a sector's strategic inflection point, "when forces shift . . . from the old ways of doing business . . . to the new." Organizations and business practices that dominated the sector before the strategic inflection point rarely survive the change intact. Those who do not adapt, fail, merge, or become irrelevant. Ultimately, the consumer wins out in the end.

Examples of this are everywhere. Bookstores used to compete by having the best inventory at the best location until Amazon.com changed the busi-ness model. Companies like Barnes & Noble adapted and survived; many

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locally owned booksellers didn't adapt and failed. Newspapers were much sought after investments until online advertising and 24/7 news stations took hold. Companies like *The Washington Post* diversified their businesses and built competitive online Web properties. Companies like Knight Ridder did not and have been sold into many pieces. The Baby Bells used to make money hand over fist from long-distance calling and landlines until cell phones became ubiquitous. Now the six, formerly dominant regional telephone companies have collapsed into two. They face a life or death battle with cable companies in every market.

In every one of these cases, no one factor alone caused this tsunami of change. However, more often than not, technology played a disproportionately large part in accelerating it.

PHILANTHROPY'S STRATEGIC INFLECTION POINT

The philanthropic sector is on the brink of its own strategic inflection point. Extraordinary "forces of change" already are affecting the sector. One force is money. The 1990s and the dotcom boom saw the emergence of the West Coast as a source of extraordinary, individual wealth, rivaling the East Coast as never before. With that wealth came not only more money but new ways of giving, such as venture philanthropy. Warren Buffett's multibillion dollar transfer of wealth to the Gates Foundation was only the latest in a series of events that have rocked philanthropy. The sheer amount of money that will be transferred between generations in the next 15 years will dwarf Buffett's contribution. Another force is people. Never before in the history of man will there be so many people with so much wealth and so many ideas on what to do with it.

As with books, newspapers, and telephones, however, the greatest force of change is technology. Technology, especially the Internet, has changed fundamentals about the sector that cannot be ignored. It has changed the lives of those who donate and those who are the intended recipients of the donated funds. Most important, it has changed the methods by which social change can happen, making it easier to effectuate wholesale social change as never before.

CHANGING THE LIVES OF THE DONORS

Technology has changed fundamentally the way that those currently with wealth live as well as those who will soon be the beneficiaries of the intergenerational largesse described earlier. Many are "Digital Natives," part of the Always On generation (Prensky, 2001). They understand the power and potential of technology because they have harnessed it for 20 years, many since birth. In fact, many will have created or inherited wealth because of technology. Think early employees and founders of companies like Cisco

Systems, Microsoft, and eBay. Living on fast broadband, iPods, massive multiplayer role-playing games, and social networking sites like Face Book, this generation of philanthropists will not be content giving their money away the old, high touch ways.

CHANGING THE LIVES OF BENEFICIARIES

Less documented or covered in the social pages, but no less transformational, is the fact that technology fundamentally has changed the way that those intended to benefit from philanthropy live their lives as well. Contrary to popular belief, and to use Thomas Friedman's terminology, the world has already been flattened for low-income people (Friedman, 2005). In increasing numbers, they not only have technology at home, but they have pent-up desires to use it to make their lives better. They understand that the Internet can make it harder to preclude them from the economic mainstream because of race or place. Extensive research by the Pew Internet Research Project (http://www.pewinternet.org/) and an organization that I founded, One Economy Corporation, show three important realities of our times: (a) More than 55% of low-income people in the United States have computers in their homes and are online (Pew Internet & American Life Project, 2006); (b) low-income people with Internet access use it to help themselves, for example, look for a job, get affordable child care, or continue their education, to a greater degree than people with higher incomes (Pew Internet & American Life Project, 2006); and (c) their children already live in the Always On world, mixing education, entertainment, social interactions, and civic engagement (Pew Internet & American Life Project, 2005).

The facts surrounding this reality are remarkable. For example, lower income individuals are more likely to look online for information about a job—50% of individuals earning less than $30,000 have used the Internet to find information about jobs—than higher income users (45%) (Horrigan, 2005; Pew Internet & American Life Project, 2006). Figure 1 reflects this reality across the board.

CHANGING THE METHODS FOR EFFECTUATING SOCIAL CHANGE

Think of the Internet in terms of five transformational functionalities: aggregation, dissemination, customization, collaboration, and vocalization. These have changed fundamentally the way many sectors do business. Amazon.com is a great example. It aggregates books, records, toys, and more all in one place and disseminates these products worldwide through the Internet. Users customize the site so it remembers them every time they come and stores their credit cards, preferences, and even wish lists. In addition, the Amazon.com site provides its online community of users with a place to voice their opinions and collaborate with each other. On the site, individual users rate vendors and write product reviews. When put together, however,
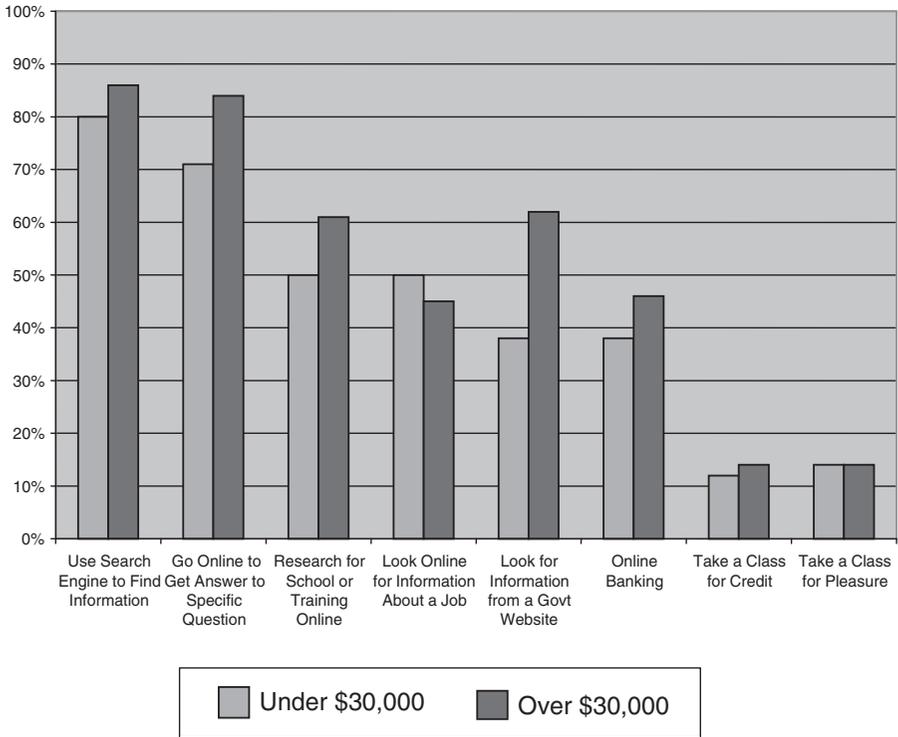
Figure 1. Use of Internet for Activities by Income Level

the sum total of everyone's individual voice is an extraordinary, virtual collaboration that makes every community member's decision making about a book or vendor better.

So too can these functionalities change fundamentally the way that social change can happen. In fact, this already is taking place with extraordinary results. There is no better example of this than what Environmental Defense has achieved with Scorecard (www.scorecard.org) and Action Network (www.actionnetwork.org). Scorecard aggregates information about environmental problems from all over the country and disseminates it by enabling users to type in their zip codes, click "go," and find information about pollution and toxins in their own neighborhoods. From the Web site, people can send faxes directly at no charge to major polluters and government agencies (vocalization) and personalize the site to stay current on developments of specific interest to them (customization). With more than 800,000 members, Action Network has become a gateway to online activism centers for more than 170 leading environment, health, and population advocacy organizations (collaboration). Action Network partners mobilize activists by e-mail, inviting

them to weigh in by sending personalized messages, handcrafted by Action Network, to key policymakers—locally, nationally, or around the world.

Similarly impactful applications can be found throughout the sector, such as CompuMentor/TechSoup, which has aggregated and disseminated more than 1.7 million technology products from vendors to 190 countries,[1] and YouthNoise.com, whose online community serves 700,000 young people a month.

WHAT DOES THIS MEAN FOR PHILANTHROPY?

Environmental Defense, Youth Noise, and others show us what 21st-century philanthropy can do that 20th-century philanthropy could not do: underwrite social change on a wholesale basis. The one common thread that ties diverse organizations like CompuMentor or Environmental Defense together is not what they do but their ability to develop programs that touch millions of people almost overnight. Poststrategic inflection point philanthropy needs to acknowledge that tools are now available that will enable them and their grantees to accelerate the speed of disruptive social change as never before possible. Intentional investments in these emerging approaches will serve as critical research and development for the field.[2]

Focusing on wholesaling does not mean abandoning "old" ways of giving that have worked. It means intentionally pursuing this nascent but exciting new part of the sector that can get more impact faster. We must define it, recognize it, and create mechanisms that will support acceleration of wholesale social change.

DEFINING AND RECOGNIZING WHOLESALING ORGANIZATIONS

The threshold issue is one of recognition: We have to be able to recognize wholesaling organizations so we can support them. That means identifying characteristics that are common to wholesaling organizations and that set them apart from other, more traditional nonprofits.

THE SEARCH FOR COMMONALITY

I reviewed more than 150 nonprofits that had been recognized as "outstanding"[3] organizations in the past 5 years in an effort to identify ones that might be considered "wholesalers" and then looked to find commonalities among those organizations. The vast majority of these organizations were not wholesalers, in large part because they did not intend to act on a grand scale. Generally, they were closely tied to an articulated place (a particular city, state, or country), using an intentional strategy that focused on incremental

change (e.g., building a successful pilot or model in anticipation of a later systematic, place-based rollout) and not using or contemplating using the Internet or technology to scale their impact.

Seven organizations, highlighted below, in addition to the institutions previously discussed here, did stand out as wholesaling candidates, sharing many of the common characteristics of wholesaling organizations described in greater detail later: (a) intent to impact the masses; (b) marginal, incremental cost to serve the next customer; (c) borderless service delivery; (d) grants plus business model; (e) redefining fundamental power relationships; (f) engage markets and market-driven solutions; (g) redirect ongoing flows of public or private sector funds to institutionalize desired change; and (h) use technology itself to provide innovative solutions.

These organizations were

- *Benetech*. Benetech's mission is "to create new technology solutions that serve humanity and empower people to improve their lives. It seeks to lead the world in creative, effective applications of technology to unmet social needs and focus on projects that offer the greatest social return on funds invested" (*About Benetech*, 2007). For people with vision and reading disabilities, Benetech has formed the world's largest accessible digital library of scanned material, bookshare.org. To improve literacy, Benetech founded a Web-based program, Route 66 Literacy, that enables anyone who is literate to help teenagers and adults learn to read and write. In 2003, Benetech launched Martus, an information and document management system based on client software and Internet-based infrastructure. These tools help to ensure that the documentation of human rights violations is safeguarded and disseminated.
- *International Development Enterprise (IDE)*. The majority of India's poorest people are subsistence farmers with small land holdings (IDE, 2007). IDE's approach to poverty alleviation and rural development is to put income-generating technologies into the hands of the rural poor families. To accomplish this, IDE stimulates the local private sector to (a) consider poor farmers as a viable market and (b) provide them with productivity-enhancing tools at a price that is affordable yet fair to manufacturers and distributors. IDE has helped empower more than 450,000 rural poor and enabled them to progress from subsistence agriculture to small-scale commercial farming, thus beginning an upward spiral out of poverty (www.ide-india.org).
- *PATH*. PATH advances health technologies that are user centered, workable, and affordable in low-resource settings. The technologies that it advances begin as well-defined needs and end as widely used tools. PATH researches, designs, or adapts a technology; creates a prototype; tests it; and refines it. This work takes place with partners in the private sector, in its own product-development shop and laboratory, and among people who will use the technology, in the setting where it will be used.

PATH also helps move the technologies to market and to integrate them into health systems. Partnerships with the private sector provide the capacity for large-scale manufacturing, marketing, and distribution and a commitment to making technologies available at an affordable price.

- *Human Rights in China (HRIC).* HRIC's E-Activism Project supports Chinese citizens' increasing activism and promotes the free flow of information in China by building a technology platform that uses proxy server technology and a weekly e-newsletter sent to hundreds of thousands of subscribers in China. The newsletter provides concise summaries of recent issues relating to the death penalty, labor, media censorship, petitions and protests, and human rights defenders. Proxy server technology enables Chinese Internet users to access and search the Internet anonymously, limiting the ability of authorities to censor their Internet activities.

- *TransFair USA.* TransFair USA is 1 of 20 members of Fairtrade Labeling Organizations International and the only third-party certifier of fair trade products in the United States. It audits transactions between U.S. companies offering fair trade–certified products and the international suppliers from whom they source to guarantee that the farmers and farm workers behind fair trade–certified goods were paid a fair, above-market price. According to its Web site, in the past 6 years, TransFair has leveraged limited resources to certify 74.2 million pounds of fair trade coffee alone. This has provided coffee farmers in some of the poorest communities in Latin America, Africa, and Asia with more than $60 million more than they would have earned selling their harvests to local intermediaries.

- *Global Footprint Network.* Global Footprint Network "strives to help the world live within the means of Earth's ecological capacity" (see www .Footprintnetwork.org). It has created a tool, the Ecological Footprint, that quantifies human demand on nature and nature's capacity to meet these demands. Its vision is to make the "ecological footprint" as prominent a metric for countries to adopt and use as the Gross Domestic Product. According to its Web site, Global Footprint Network aims to have 10 countries managing their ecological wealth in the same way they manage their finances by 2015. Currently, 22 countries are working with them as early adopters of this approach, including Australia, Brazil, Canada, China, Finland, France, Germany, Italy, Mexico, Russia, South Africa, Switzerland, and the United Kingdom (see www .Footprintnetwork.org).

- *Ceres.* Ceres is "a national network of investors, environmental organizations and other public interest groups working to integrate sustainability into capital markets and everyday decision-making" (see *About Ceres*, 2007). According to the organization, its Global Reporting Initiative is now the de facto international standard (used by more than 850 companies) for corporate reporting on environmental, social, and economic

performance. In 2005, it brought together 500 investor, Wall Street, and corporate leaders at the United Nations to address the growing financial risks and opportunities posed by climate change. The meeting included 28 U.S. and European investors approving a 10-point action plan seeking stronger analysis, disclosure, and action from companies, Wall Street, and regulators on climate change (see www.Ceres.org).

COMMON CHARACTERISTICS OF THE WHOLESALING ORGANIZATION

Despite the fact that these seven organizations and those discussed earlier each address very different social issues in very different ways, they share many of the eight "wholesaling" characteristics. The existence of these characteristics truly set them apart from their high performing, but not wholesaling, peer organizations:

1. *Intent to impact the masses.* Universally, these organizations set out, largely from their founding, to have a large-scale impact. They did not set out to build a better mousetrap, then once they did, try to spread it far and wide. These organizations thought big from the start. Benetech wants "to create new technology solutions that serve humanity and empower people to improve their lives" (*About Benetech*, 2007). Ceres is a national network of investors, environmental organizations, and other public interest groups working to integrate sustainability into capital markets and everyday decision making. TransFair wants to increase the income of third-world farmers.
2. *Marginal, incremental cost to serve the next customer*. These organizations built a delivery model that allowed them to add users or beneficiaries for a marginal cost. Oftentimes, it is the infrastructure that they set up to achieve their tax-exempt purpose that makes this a reality. One Economy's online self-help site, the Beehive; IDE's irrigation system; and HRIC's server proxies all can add new customers at little to no cost.
3. *Borderless service delivery*. Most designed their service delivery without a particular place in mind. Global Footprint Network's Ecological Footprint applies to any and all nations. CompuMentor's TechSoup Stock spreads donated products to nonprofits worldwide. PATH's R&D and private sector partnerships intentionally export solutions everywhere there is need.
4. *"Grants plus" business model*. Commonly, these organizations built their business models around multiple sources of revenue, not just grants. Sources of funds may include one or more of the following: licensing fees (PATH), sales revenue (IDE), subscriptions (Benetech), fees for service (One Economy), and membership dues (Ceres).
5. *Redefining fundamental power relationships*. Oftentimes, the activities of these organizations were not intended to deliver a product or service

alone but to help to fundamentally redefine the relationship between those with power and those without it. Environmental Defense did that by making it easy to both find information about polluters in your neighborhood and to send a letter of outrage to your locally elected official. HRIC made it possible for Chinese citizens to avoid Internet censorship, surf, and comment without retribution from the state. Benetech offers Martus so advocates for human rights can have a safe place on the Internet to store their evidence, so imprisonment or a house raid won't shut down their voice.

6. *Engage markets and market-driven solutions*. These organizations stand out because they achieve their missions by engaging markets and building market-driven solutions, not creating alternative markets that can't be sustained. Private sector collaboration allows them to achieve the maximum, sustainable public benefit. Without their involvement, these activities would not be a private sector priority.

Sometimes that means building a permanent bridge to the market for its target audience, paid for by user fees (CompuMentor). Other times, it is building a temporary bridge to the market until market forces can catch up and take over. PATH's creation and testing of medical products affordable in low-resource settings are brought to market by the private sector.

These wholesaling organizations also may engage in changing the terms of an existing ecosystem or supply chain. Transfair gets retailers to buy only products certified as fair trade and consumers to ask for such products. IDE makes the irrigation system and sets up a vertical supply chain with diverse vendors to sell and service them in rural communities.

7. *Redirect ongoing flows of public or private sector funds to institutionalize desired change*. A key characteristic of these organizations is their ability to literally redirect the flows of other people's funds so the nonprofit's ends are achieved year in and year out. One Economy convinced 42 states to require that affordable housing built with state funds provide broadband to residents. Environmental Defense convinced McDonald's to change their approach to the environment in 1989 and in 10 years eliminated 150,000 tons of McDonald's packaging by redesigning or reducing the amount of material used to make straws, napkins, sandwich packaging, cups, French fry containers, and numerous other items; facilitated the McDonald's purchasing of more than $3 billion worth of products made from recycled materials for use in the operation and construction of McDonald's restaurants; and aided in McDonald's recycling of more than 1 million tons of corrugated cardboard, the most commonly used material for shipping products to McDonald's 12,500 restaurants in the United States, decreasing restaurant waste by 30% (Environmental Defense, 1999). Ceres now has investors controlling billions of dollars considering risks of climate change prior to making their investments.

8. *Use technology itself to provide innovative solutions*. Last but far from least, many of these organizations actually used technology itself to have more impact. Oftentimes, they applied technology to provide more or improved services to help the poor or underserved directly. Benetech scanned books and made many more books available online to many more readers with impaired vision. HRIC used proxy servers and e-mail newsletters to avoid Internet censorship. PATH built their own prototypes or used existing, but underused, private sector medical products to get simple, affordable solutions to isolated and poor communities around the world.

Other organizations apply technology directly to improve the performance of the nonprofit sector as a whole so it can then serve more individuals, better. CompuMentor built TechSoup Stock to efficiently distribute an array of private sector productivity tools to nonprofits. Benetech built Route 66 Literacy so literacy organizations and those who care about those issues could have access to state-of-the-art literacy materials and support.

CONCLUSION

We are in a very special moment in time. Forces of change, from technology to the largest intergenerational transfer of wealth in history, provide us with the opportunity to do things differently. Today, some nonprofits are using the same level of effort that historically would have helped only a handful of people, to help millions. Through the Internet, for example, they are aggregating users worldwide, disseminating information and services to wherever the Internet can be accessed, allowing their customers to customize their own interaction with them, collaborating with usual and unusual partners, and vocalizing their opinions and the opinions of those they serve on a scale unimaginable even 15 years ago. In short, these nonprofits are facilitating social change on a wholesale, not retail, basis.

Most of this work, however, has been done ad hoc. Few, if any, of the wholesaling organizations described earlier were funded because of their "wholesaling" potential. In addition, few funders, and no sources of capital or technical assistance, are dedicated to building a wholesaling industry. To accelerate wholesale social change, philanthropy should acknowledge the extraordinary potential of these approaches, promote the successes enjoyed to date, and build the ecosystem needed to support their growth. This ecosystem would include, but not be limited to, stable operating support for organizations identified as having wholesaling potential,[4] start-up and growth capital, and technical support. This intentional infrastructure would not only legitimize "wholesaling" and give organizations an incentive to innovate in these ways, but it would provide research and development for the field as a whole.

Notes

1. Since 1987, CompuMentor has been dedicated to helping nonprofits enhance productivity and build sustainable technology systems that foster their missions. In that time, it has developed innovative programs with international reach. One of them is the nonprofit technology Web site TechSoup, which is visited by more than 400,000 unique monthly users from more than 190 countries. In addition to providing educational resources, TechSoup distributes technology product donations through its TechSoup Stock service. To date, TechSoup Stock has distributed more than 2.7 million technology donations to nonprofits in the United States and beyond, saving the sector $690 million for other uses (CompuMentor, 2007).

2. This idea of "disruptive philanthropy" has been gaining mindshare in the past year. It helps to provide a further philosophical framework for my approach to wholesaling (Christensen, Baumann, Ruggles, & Sadtler, 2006; Lavizzo-Mourey, 2007).

3. These organizations were recognized by one or more of the following organizations or award programs in the past 5 years: Fast Company's Social Capitalist Award, Skoll Foundation Social Entrepreneurs, Schwab Social Entrepreneurs, and the Tech Museum Awards.

4. My eight characteristics of wholesaling organizations could serve as the filter for interested organizations.

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