

The mission is “baked in”

## Better World Books

**The Story |** Better World Books had its genesis when a group of college friends organized a book drive to help improve literacy in their local community. This led to a potential business opportunity, but with a twist: source used books from college campuses as well as from libraries and other institutions that can no longer use them, sell them on the internet, and direct some profits to fund global literacy programs.

Today the company sells used books on major sites like Amazon.com and E-bay’s half.com as well as its own website. Just six years old, the company earned \$31 million in revenue in 2009 and has prevented over 33 million books from entering landfills to date. As part of its expansive social mission, Better World Books is a certified B-Corp, a movement to expand the legal structure of corporations to include employee, community and environmental interests when making business decisions.

**Engagement Strategies |** Better World Books’ 300 mostly full-time employees work at its Indiana warehouse where its shipping and receiving operation is based. The company offers a generous benefits package to 100% of its full time workers, and supports its part time employees toward having “a path to full time employment and benefits,” says CEO David Murphy. He notes that as healthcare premiums have gone up, the company has worked to assume a significant amount of the financial burden to help lessen the impact of higher contribution costs for employees.

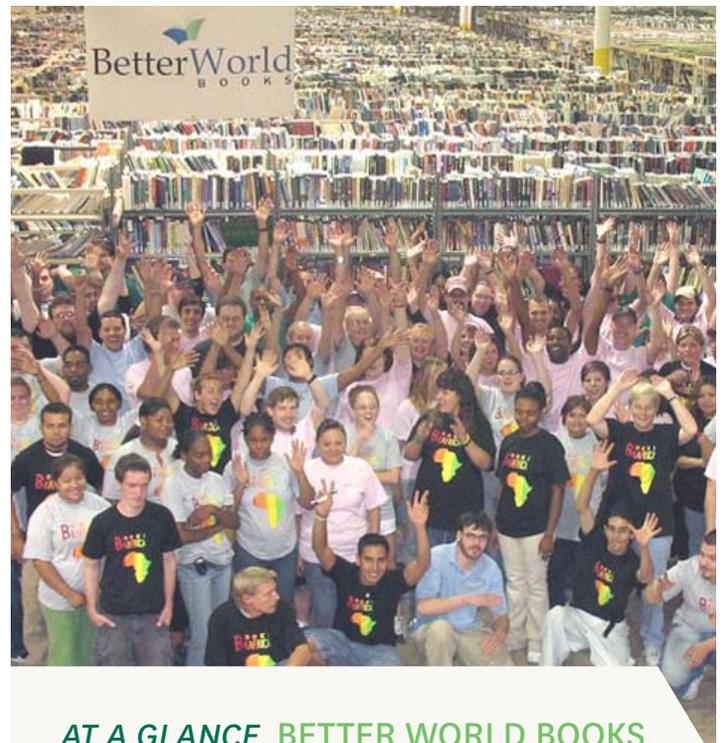
The company has developed an extensive scorecard by which it tracks its social, environmental and financial metrics for continuous improvement, as well as surveying employees annually to get their input.

The recent economic downturn provided the company with a test of its core values. The South Bend / Mishawaka / Elkhart, Indiana area was hard hit by the recession, with deep losses in its manufacturing base. The company met this challenge by stretching to avoid layoffs.

When reducing the workforce by 42 was all but inevitable, the CEO and Co-Founders took a 20% pay cut, VPs took 15%, managers 10%, and floor employees took 5% (without a loss in benefits). Management promised employees that if they hit their target by the end of the year everyone would get a bonus. They delivered.

The company was profitable by the second half of the year and all salaries were reinstated – except the executives’. Murphy says the move to retain the executives’ pay cuts for a year instead of six months prompted questions from employees who thought everyone should benefit from the company’s return to growth. Murphy thinks that the employees’ concern shows that the management team did the right thing by “making the cuts, sacrificing, and communicating,” he said. Openness and transparency with the financials during the downturn was also key in keeping the team intact.

**Shared Ownership |** Better World Books shares equity with all employees through its incentive stock option program. Each employee receives an initial grant of stock options after one year, followed by subsequent awards based on performance. While Murphy notes some challenges in educating employees about the benefits and risks of sharing equity, small group “lunch and learns” on a range of financial literacy topics have contributed to a



## AT A GLANCE BETTER WORLD BOOKS

### **Business:**

Online bookseller of new and used books

### **Locations:**

Alpharetta, GA; Goshen and Mishawaka, IN; Edinburgh, Scotland

### **Revenues:**

\$45 million

### **Employees:**

300

### **Ownership:**

- road based stock options for both employees and nonprofit partners
- bonuses for employees

### **Engagement:**

- comprehensive benefits
- detailed quarterly updates provided to all employees
- engagement surveys

### **Business result:**

- low employee turnover
- increased profitability during economic downturn

more financially savvy workforce.

The company has received outside investment from Good Capital and several angel investors. If there is a liquidity event, the partners expect significant rewards for investors, management, and all employees who hold options. In addition, however, the book seller will have another, more unusual, beneficiary in the deal – its nonprofit literacy partners.

Better World Books had always planned to share gains with these partners – Books for Africa, Room to Read and others – which help the firm achieve its mission of eradicating illiteracy around the globe. When Good Capital invested, they helped the company think through adding the nonprofits, not just as beneficiaries of charitable contributions, but as equity holders.

The CEO and Co-Founders initially created a 5% equity stake with a regular vesting schedule for these nonprofits, based on the promise that if Better World Books could finance their work, the partners would help even more people learn to read. To keep the incentive structure in place, the nonprofits gain a greater equity stake through measureable improvements in their literacy targets. As Good Capital principal Kevin Jones puts it, the social mission is now “baked in.”

**Business Results** | Although Murphy says that he cannot empirically tie the firm’s employee

engagement practices to better financial results, he points to the company’s turn from unprofitable to profitable during difficult economic conditions as evidence. “Over the past year, our business has done better than ever during a time when we easily could have had losses and high employee attrition,” he said. “Instead, we held together and the fact of shared cuts – later reinstated – kept everyone’s spirits up.”

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LESSONS LEARNED:

- **Shared sacrifices and clear communication about the firm’s financial situation during an economic downturn can help maintain morale and may even improve business performance.**
  - **There can be creative solutions for engaging both employees and other stakeholders in company**
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