



# Profiling small businesses using Spiral Dynamics

Spiral Dynamics is a method of classifying people, organisations and even societies, which has grown in popularity in the US in recent years. *Stephen Aguilar-Millan* reports on new research using the technique to profile small businesses and examine their customer relationships.

## What is Spiral Dynamics?

Spiral Dynamics is currently relatively unheard of in Europe, but the technique has started to enter the mainstream in the US. The ‘early adopters’ have taken the technique to their hearts, and it is simply a matter of time before this system of analysis crosses the Atlantic into Europe.

The main thesis of Spiral Dynamics is that, in our dealings with others, we merely reflect our own life conditions. These life conditions are bundled into ‘memes’ – an aggregation of cultural influences, attitudes, ways of doing things, and so on. Memes are memetics what genes are to genetics. Whereas genetics allows us to look at two very different faces and see a number of ethnic and familial similarities, memetics allows us to look at two very different organisations and see the shared life conditions facing those organisations.

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The memes are analysed in terms of the eight stages of development that have been referenced with an array of colours for semantic convenience, and are collectively known as the Spiral. The eight stages of development, and their key characteristics, are:

1. Beige – a basic level of existence, where survival is very dominant. In the context of small business, we are unlikely to encounter too many Beige small businesses. Their strategic vulnerability means they are constantly on the verge of going out of business.
2. Purple – still a basic level of existence, but no longer solitary. In the context of small businesses, the Purple business would be one that has reached critical mass in commercial terms – it is a viable business – but it is still vulnerable to the whims of others (an over-dominant customer, for example).
3. Red – this might represent a number of Purple groups joined together in a simple structure. In the context of the small business, this would represent the SME that has achieved a stable existence. The owners are able to exert a greater degree of control over their lifestyles, as they are far less vulnerable to the whims of dominant customers, the loss of key workers, and so on.
4. Blue – the simple structure has given way to a rules-based authority structure. In the context of the small business, the owner is likely to have become less pragmatic in the conduct of business, and more prescriptive in the way in which the business is run (for example, ‘This is how we do things here!’).
5. Orange – at the heart of the Orange level is the success-driven strategic enterprise. Success is often measured in materialistic and status terms. In the context of small businesses, this is the home of the success-driven business owner who is on a mission to fulfil personal goals.
6. Green – beyond the pursuit of self lies the social network that operates on a co-operative basis. Green organisations are the natural home of the networkers. At this stage of development, the small business owner is starting to become more concerned with personal fulfilment than material accumulation.
7. Yellow – growing out of projects and networks are business systems. The Yellow business is arranged on a systemic basis, where systems and processes deliver customer value. In the context of the small business, we would expect to find in this category those SMEs whose owners have a focus on personal achievement by connecting with other high achievers.
8. Turquoise – the organisation now adopts a holistic approach to delivering customer value. The future is regarded as a matter of concern in business decisions, as are social costs instead of economic costs. In the context of the small business, Turquoise SMEs are ones in which the owners see themselves as part of a connected world.

## Business implications

This analysis can produce some interesting results when we apply it to the business context. The theory is all about relationships, which is, effectively, what business is about. Every business has three key external relationships to concern itself with. It has a relationship with its customers, its suppliers, and the public authorities who provide a ‘licence to practice’.

Knowing where your customer lies in relation to these eight levels can be quite important in building up a rapport with them. For example, if your customer is from a Green organisation then, although price may be a factor, it is likely that you would want to highlight the features and benefits of the product rather than the price. You would seek to compete on quality and reliability; the extent to which the product could be used at all levels within the organisation, and so on. If you are at the niche end of the market, then Green, Yellow, and Turquoise customers are your key market segment. You will be able to wow the Yellow, but the Beige wouldn’t think much of you – you will be far too expensive.

If this is so, then how can we recognise the life conditions of our customers? It is believed that we reflect to others our own life conditions. This is an important key to understanding where a company is on the Spiral. When you ask small business owners why they are in business, the answer they give reflects where they might be on the Spiral. For example, if we are told that the business owner operates in order to earn a living and that the living is hard-earned, then we have a clue that the business may be operating in the Beige/Purple part of the Spiral. Alternatively, if we are told that the business owner operates in order to fulfil their own lifestyle ambitions, then we have a clue that the business may be operating in the Green area of the Spiral. One of the more interesting aspects of this analysis is that we can examine the shared memes of a number of very different organisations.

## The Suffolk Small Business Survey

We decided it would be interesting to try and produce a quantitative analysis from what is a reasonably esoteric theory. If the analysis did provide a set of interesting results, then we would be able to widen application of the technique to other organisations in different contexts. It was our intention to develop the technique as a means of comparing service demand with service offerings made by an organisation to its constituency, and to show how it might be of use in classifying customer relationships.

In the spring of 2004, we undertook the Small Business Survey as part of the Suffolk Small Business Project, a pro bono futures project looking at options for the

Suffolk small business community out to the year 2020. Our primary objective was to produce a Spiral Profile of the Suffolk small business community to use as a benchmark against which we could measure the services provided for small businesses. We hoped that the survey would generate other interesting data, but our primary focus was the Spiral Profile.

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Faced with the question of how to measure the Spiral Profile of a community, we were struck by the simplicity of the solution that offered itself – we would just ask the members of the community where they are on the Spiral. Of course, we could not ask this question directly, because few people would probably be able to answer it with any great precision. In order to get to the result we wanted, we needed to ask a number of surrogate questions and to interpret the response of those surveyed to provide a locus in the Spiral.

The question then arose over who could represent the Suffolk small business community. Much of the previous research in Suffolk has been conducted with a sample of small businesses that are registered for VAT, but this excludes the micro-businesses who are below the compulsory VAT registration threshold. This is a serious problem with generating an unbiased sample and we wanted our survey to capture fully the range of small business, including those micro-businesses who are too small to face compulsory registration for VAT.

With this end in mind, we decided to survey the entire membership of the Ipswich and Suffolk Small Business Association (ISSBA), as this would generate a full range of small businesses, from the very small to the reasonably large. We decided to exclude any ISSBA members that were multinational businesses, together with any government agencies, on the grounds that these ISSBA members are not small businesses.

The questions in the survey formed the basis of a telephone interview lasting 20–45 minutes. We took the view that, in order to be consistent in recording the responses – a very subjective task – it would be best if the same person conducted each survey. Notes were taken during each interview and summarised at the end. The summaries were then collated and interpreted according to the metrics of the survey. The response received was

comparable with other similar surveys, and, more importantly, represents a statistically significant response at the 99% confidence level. We have confidence in the robustness of the sample, and we feel that the results drawn from the survey can be relied upon.

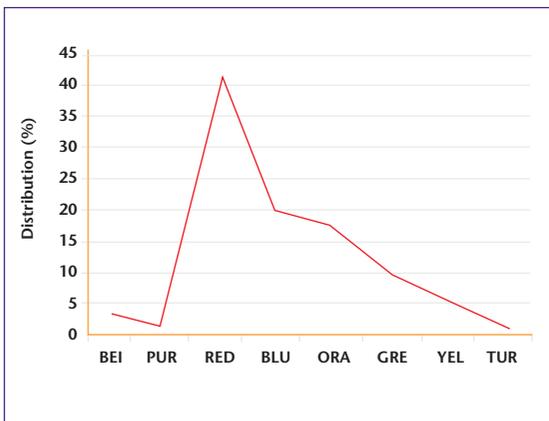
### The Spiral Profile

The intention of the interview was to help us determine where the business was located on the Spiral. Our intention was to persuade the respondents to tell us about their motivation in running their own businesses, because we felt this would highlight the underlying life conditions that the business faced.

From the outset, we expected a wide variety of responses. It was of paramount importance for us to record as much detail of the conversation as possible. This was important because, at the later interpretation stage, we needed to make as informed a decision as possible about coding the answers in terms of the Spiral.

Once we had gathered the data relating to the classification of the businesses, we plotted the distribution of the population on a simple line chart (exhibit 1).

**Exhibit 1: The Spiral Profile of Suffolk SMEs**



The distribution exhibits a peak in the Red zone, which was not surprising given the importance of the control of one’s destiny to small businesses. However, we were surprised at how few Beige and Purple businesses were represented in the sample. Beyond the sample peak in the Red zone, the distribution exhibits a straightforward decay function, again as we might have expected at the outset of the investigation. There is a slight uptick in the Orange zone, but this is not statistically significant, and can be explained by general sampling variations.

### Using the Spiral Profile

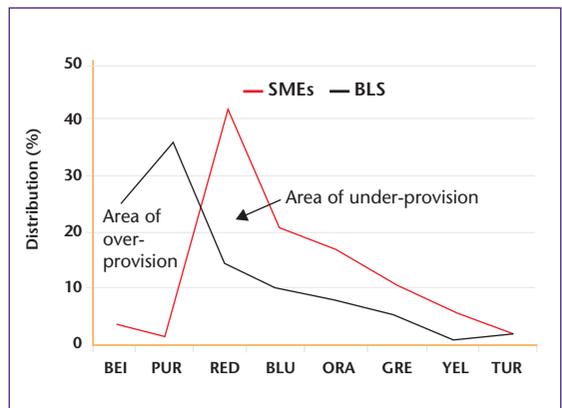
The Spiral Profile can be used in one of two ways. First, it can be used as a tool to describe the characteristics of a given community. In this case, the tool is purely descriptive and is used to provide a profile of the community at one point in time. However, this approach can be quite limited, and the tool is more useful when used as a comparative tool. As part of the study, we looked to develop our analysis to include a comparator of some sort.

A Spiral Profile could be used to compare service delivery with service demand, within both the private sector and the public sector. If there was a significant mismatch between the Spiral Profile of service offerings (service supply) and the Spiral Profile of the community to which the services were offered (service demand), then action could be taken to address this. In this case, the objective would be the congruence of service supply and service demand. We felt that a review of the services offered to Suffolk small businesses in relation to the profile of the Suffolk small business community would suit our needs in terms of the resources available for this study.

At the time of sampling, Business Link Suffolk (BLS) was charged and funded by the Department of Trade and Industry, through the Small Business Service, to provide services to small businesses in Suffolk. As an objective, we decided to measure the Spiral Profile of this service offering, with a view to examining whether or not it was congruent with the Spiral Profile of the Suffolk small business community.

This suited our needs very well, as the services offered by BLS are well advertised and described on its website. We reviewed the objectives of the service offering in relation to the Spiral Profile, categorised the service in terms of the Spiral, and collated the results. The resultant profile is shown in exhibit 2.

**Exhibit 2: Comparing Suffolk SMEs to Business Link provision**



The comparison between the two profiles helps to explain a paradox in the Suffolk small business community. Surveys of those businesses that use the BLS services show a high level of satisfaction with the service they have received, and they feel that Business Link are doing a good job. However, surveys of a more general small business population show a high level of dissatisfaction with Business Link services. Our small business survey picked up this view. In the words of one respondent (a Red business), 'there is a lot of training for start-ups but not for existing businesses'.

This one statement is very significant, particularly because it was made by a Red business. The Spiral Profile indicates the bulk of the BLS provision is being offered to businesses at an early stage of the development process, whereas the profile of the population as a whole indicates that the bulk of small businesses are at later stages of development. This is easy to understand. If the business does not progress through the Beige and Purple life conditions fairly fast, they will be removed from the population by a combination of business failure and the lure of the security of employment.

It is at the Red stage of development that the small business starts to have a choice in its progression. The survey indicates that many small businesses choose to remain small, that control of the business is a key motive for the business owner. This rather deflates the view that in every small business there is a large business waiting to develop. It is true that some small businesses do go on to become larger companies – they progress through the stage of developing business processes (the Blue stage) to break into a larger scale of operations (the Orange stage). However, for a good majority of small businesses, the key objective is to tick-over at a much smaller scale of operation.

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From our analysis, we rather take the view that, in Suffolk, there are two areas of service provision that Business Link might like to address. The first is the over-provision of services for small businesses at the most rudimentary stages of development. The second issue to address would be the relative under-provision of services for the more established small businesses that are at a later stage of development.

In particular, there seems to be something of a void for the Red business – the small business based around one or two owner/managers who are completely happy in having control of their working lives and who do not wish to have

too much responsibility for staff. The challenge for Business Link is to develop a service offering in this area. The invitation to other bodies is to fill this gap if Business Link does not rise to meet the challenge.

## Conclusions

The object of this exercise was to take the esoteric theory of Spiral Dynamics, give it a quantitative base, and develop the metric as a means of comparing service provision with service delivery. We found that using an attitudinal survey did allow us to monitor the revealed life conditions of the small businesses we interviewed. We also found that the technique of Spiral Profiling™ could be used as a descriptor to profile a community as well as being a comparator to profile the needs of that community against the means by which those needs were being served.

This has some interesting implications for those businesses based in the service industry. If we are to believe a number of commentators, there is a crisis of trust between 'big business' and its customers. This crisis can be seen in terms of the loss of confidence in the output of those businesses. For example, we could ask, to what extent is the 'pensions crisis' the product of a loss of confidence and trust in the financial services industry? If so, to what extent could this be ascribed to a mismatch between the life conditions of the savers and those presumed by the industry in designing their product offerings? Spiral Profiling™ gives us a metric by which we can engage this question and which allows us to engineer new service offerings for a particular customer base.

Spiral Profiling™ is a tool that businesses can use to get closer to their customers, that governmental agencies can use to get closer to electorates, and that employers can use to get closer to their staff. It has a number of uses as a descriptive tool and as a comparative tool where service needs can be measured against service provision. In a world in which the service sector predominates, this is an important technique to embrace.

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