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A Give-back Policy

GoodWorks Insurance Practices 'Responsible Capitalism'

By *GEORGE O'BRIEN*



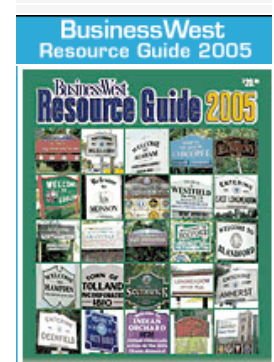
Joe Grochmal says his business model has been well-received by consumers, insurance carriers, and professionals who want to join his team.

Joe Grochmal says any start-up venture, especially one in the insurance field, where there is often little to differentiate products, could use a good 'door opener,' as he called it, a unique story to pique the interest of the buying public.

Grochmal's is better than good.

A former insurance stock analyst and venture capitalist, he has started a company, GoodWorks Insurance, LLC, that blends insurance with charity; the company's slogan is 'Purpose Beyond Profit.' He intends to give 50% of his operating profits to organizations working in three areas — education, health care, and safety — and he's even put that pledge in writing.

He calls it the Charitable Contract, and each community that hosts a GoodWorks branch office will get such a document. Right now, that's Great Barrington, where Grochmal opened his first agency this past spring, and Granby, Conn. Start-ups need time to reach profitability, he



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said, so he's pledging \$15,000 for the first year of both branch locations; he recently wrote his first check, for \$4,000, to something called the Berkshire Hills Fund for Excellence.

All this begs a basic question that must certainly be on the lips of every competitor and nearly anyone else in business: why?

There are a number of reasons, said Grochmal, president and CEO of Good-Works, who admits he's asked that question often. Part of it is in own personal situation — he has two boys, ages 9 and 10, who have prompted him to put new emphasis on health and especially education. He was also inspired by some socially conscious businesses such as Newman's Own, Ben & Jerry's Homemade, and others. There was also a desire to enhance the reputation of the insurance business itself, which has never been the favorite of consumers nor known for its philanthropy.

And then, there was the recent surge of negative headlines on business pages, ones that depicted greed, arrogance, and disregard for the law.

"The Wall Street Journal is reading like a rap sheet," said Grochmal. "There are more people in Corporate America who are doing bad things than we wish there were; they're being highlighted more and more, and I think it's just the tip of the iceberg."

There is still another reason for creating this unique business model, he said, noting the attractive margins — 30% on average over the past 20 years — that he says most insurance agencies enjoy.

"I thought to myself, 'you can do good things with half of that, and still have a business that a lot of companies on the New York Stock Exchange would kill for in terms of profit margin,'" he explained, adding that he expects his agencies to reach \$900,000 to \$1 million in sales volume within five years.

Those looking to quantify Grochmal's philanthropic efforts can do the math and see what he calls "enormous potential to give back to the community."

All of these factors combined to inspire Grochmal to not only create GoodWorks, but also to take

some extraordinary steps — such as a business-method patent — to make sure that his concept isn't borrowed and twisted for profit, not community service.

"Corporate America can ruin a good thing," he explained. "It can make a good thing great, but it can also make a great thing bad; I wanted to protect this concept."

BusinessWest looks this issue at why this unique business model came about and how Grochmal believes it may inspire more of the responsible capitalism he now practices.

Inspiration — at a Premium

As he was molding his vision for GoodWorks in 2003, Grochmal said he was operating on some simple assumptions.

He figured that an insurance agency that gave half its profits back to the community would be a novel, but also quite popular, concept with consumers, investors, potential employees, and insurance carriers alike. And as it's turned out, he was right.

Many of the nation's top carriers have signed on with GoodWorks, including Arbella, Chub, the Hartford, Travelers, Drive Insurance from Progressive, and others, giving the agency a large suite of personal lines and commercial products. Meanwhile, the business model has attracted several investors, who have collectively pumped more than \$2.5 million into the venture, providing capital for additional branches in Western New England and perhaps New York state. The give-back concept has also attracted some talented professionals to the first branches.

And consumers have warmed to the concept as well. "Many people I've talked with are impressed with our approach, and with our sincerity," said Grochmal, who stressed repeatedly that his business model is not a publicity stunt — although it has garnered considerable ink. "Many people have said they would enjoy doing business with a company that gave back to the community. Some businesses have asked, 'can we buy insurance from you?' — and they say it like it's a privilege."

GoodWorks represents something of a career path diversion for Grochmal, who previously has been

focused on maximizing profits, not devising methods for giving them back to cities and towns.

An Economics and Mathematics major at Amherst College, he gravitated toward the financial services sector and eventually landed at Conning & Company, a New York Stock Exchange insurance research firm, which he first served as an assistant to the director of acquisitions. He later became an insurance stock analyst, dealing with institutional investors, and, at age 27, helped close the \$5.2 billion acquisition of the Farmers Group by B.A.T. Industries.

Grochmal greatly enjoyed his time at Conning, but eventually partnered with some others at the firm in a new venture called Northington Partners Inc., a specialty investment bank and venture capital fund focused on the insurance industry. He eventually opted to quit stock-research work and focus instead on his own ideas.

One of them being GoodWorks, a venture that involves a business plan unlike any other he had written before.

"Every other deal I completed did me a lot of good, but no one else," he said. "This one has the potential to touch so many other people."

Grochmal can't recall exactly when the GoodWorks lightbulb went on over his head, but said it was the product of several years of analysis, introspection, and a simple desire to blend a business venture with his wife Anne's desire to become involved in the Housatonic area where the two had planted roots.

Policy Maker

He was in his office eating a Newman's Own pretzel when the concept for a company that would give profits back to the community started to come into focus.

"I had kids in the public schools, and I was worried that both Boston and Hartford had cut funding at the public level," he told BusinessWest. "I saw this as a way to possibly enhance or enrich the educational experience of large numbers of students."

He wanted the name Noble View for his insurance agency, but couldn't secure it because it was already protected (he was able to take it for the

holding company, however). Thus, he settled on GoodWorks, a name he believes says it all.

The GoodWorks business model borrows from some other socially responsible companies, including Newman's Own Inc., the Connecticut-based producer of coffee, salad dressing, tomato sauce, and other products, that has donated more than \$150 million — all of its after-tax profits — to charity, and Ben & Jerry's Homemade Inc., the Vermont-based corporation that donates more than \$1 million of its pre-tax profits each year.

But Grochmal wanted to go a step further and inject something missing from the equation with those corporate giants and others — transparency. And this is something he intends to create through the Charitable Contract, which will enable individuals, including competitors, to track GoodWorks' revenues, profits, and charitable contributions and make sure the company is donating 50% of profits, not 49%.

"People can connect the dots between what we said we would do and what we did; we're going to have one set of books, and anyone who wants to see it can see it," Grochmal explained. "I spent a lot of time researching Newman's Own, Tom's of Maine, Timberland, and other companies that tie themselves to charitable activity through sale of the product, and found that there wasn't anyone who had that degree of disclosure."

This transparency will reveal patterns of philanthropy, said Grochmal, noting that, for now at least, 70% of the amount donated in a given region will be put toward education initiatives, while the remainder will be split evenly between efforts in health care and safety.

Review panels will analyze and prioritize requests for funding, he said, adding that a number of submittals have already been received. The Berkshire Hills Fund for Excellence was chosen for the first donation to help it continue and enhance its efforts to provide yearly grants to teachers in the Berkshire Hills Regional School District who need funds for educational programs not covered in the school budget.

As for the business itself, Grochmal said that, while the Great Barrington office has only been open a few months and thus there is little data to

work with, sales are currently ahead of projections, and he sees this as a form of validation of his concept.

"We're written more premiums than we thought we would in our first quarter," he said. "If our thoughts were right, that's good validation, but when you start from scratch you're never really sure what right is.

"In terms of feedback, we get a lot of people who think this is terrific," he continued. "The only people who criticize us are insurance agents. They haven't done it to our face, but they've tried to cast doubts on our sincerity; overall, I think it's good that they're talking about us."

Looking forward, Grochmal said expansion will likely occur throughout Connecticut, Massachusetts (including the Greater Springfield area), and eastern New York before GoodWorks is eventually taken national. By the end of next year, he expects to open at least one office every two months.

That's an ambitious game plan, but he believes the combination of quality products and services and the company's unique focus on philanthropy make those plans quite realistic.

"We firmly believe that consumers, both individuals and businesses, will embrace this concept," he said, adding that the 15% margins he expects will provide plenty of capital to plant more of what he calls "GoodWorks seeds" across the country.

The Bottom Line

Grochmal told BusinessWest that he didn't want GoodWorks to be confused with a non-profit venture — something that has happened due to its unique model.

He said this is very much a for-profit company, and it is because of that model that he is committed to strong, steady growth of those profits.

And by doing so, he is ensuring that, with this latest business venture, or deal, that he has put together, he is spreading the wealth — the good — around.

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