New updated, revised edition!

Managing the Double Bottom Line:

A Business Planning Reference Guide for Social Enterprises

By Sutia Kim Alter

Save the Children

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About Save the Children
Save the Children Federation (SC/US) works to help disadvantaged children and their families overcome the devastating impact of poverty and conflict. Founded in 1932, SC/US is a leading provider of development assistance, working in 40 countries worldwide. Save the Children's Economic Opportunities (EO) sector strives to increase economic security for women and children in need through microfinance and business development programs. The EO sector and its partners are currently making lasting, positive changes in the lives of 63,000 women microentrepreneurs and their children. This manual is a product of the Economic Opportunities Technical Unit.

About the Author
Sutia "Kim" Alter, formerly of Save the Children, is Founder of Virtue Ventures, a consulting firm that provides business and management services to social entrepreneurs. She has worked in over 25 countries worldwide advising social purpose enterprises ranging from microfinance to manufacturing. Kim also worked on the management teams of several start ups, including a flagship Internet social enterprise. Kim holds an MBA and lives in Washington DC. She can be contacted at: kalter@virtueventures.com

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"Profit and morality are a hard combination to beat."

—Hubert H. Humphrey
U.S. Politician

This manual is dedicated to social entrepreneurs and their enterprises around the world.

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Acknowledgments

A single bracelet does not jingle.

—Congolese proverb

This manual was conceived as a result of reengineering and preparing a business plan for Save the Children's business development program in Haiti. During this process my colleagues and I became aware of the absence of appropriate planning and management resources for social entrepreneurs. Although I have changed many details of the Haiti case and added new tools in the course of preparing this manual, it was the assistance of the Kellogg Corps (Northwestern University Graduate Business School) and the brilliant work of Heather Shapter that sparked the development and testing of the social enterprise business planning methodology elaborated herein.

First, I would like to thank Save the Children colleagues for their contributions: specifically, Mark Edington, my boss, who, despite many competing priorities, covered the bases so I could complete this work and remained supportive to the very end; Diana Myers, Associate Vice President of Development Programs and author, who has been there herself and ensured that I had the necessary space to do this project; Jay Banjade, for his colorful anecdotes, which added illustration and humor to the text; Ntongi McFadyen, who gracefully, tactfully, and supportively managed logistics and provided many useful comments on this work; and Gary Shaye, Vice President of International Programs, who provided the resources for the second edition. Noteable appreciation is owed to Gagik Vardanyan, a charismatic social entrepreneur, and the whole dynamic team at Micro-F for their contributions and exemplary performance. A special word of thanks goes to the Save the Children team in Haiti and partner, Association des Paysans de Vallue, whose hard work and perseverance have made the light at the end of the tunnel visible. Finally, tremendous appreciation goes to Heather Shapter for her invaluable contributions to all sections of this manual, but most notably TARTINA's business plan example; without her, this manual quite simply could not have been written.

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I would also like to thank The Roberts Foundation and The Alliance (www.allianceonline.org) for generously allowing me to reprint sections from their excellent resources.

A special word of thanks is also owed to my husband Vincent whose informal job description includes counselor, advisor, editor, pillar, partner and best friend.

I am very grateful to these friends and colleagues for their contributions; however, responsibility for any errors in this document remains my own.

Sutia Kim Alter
Save the Children Federation

About this Manual

“If you apply business principles and practices to entrepreneurs in developing countries, it really works. Capitalism employed in a positive manner can do a lot for social change and economic development.”

— *Rochelle Beck, Founder, Cultura Del Sol*

This manual is intended to equip social entrepreneurs with a business planning tool for their market-led social enterprises. Information, case studies, examples, and planning methodology in this manual are steeped in Save the Children’s philosophy and approach to social enterprise programs, and although its opinions resonate throughout, the manual is not expressly about Save the Children’s methodology, which at this point continues to evolve.

Terminology

The term “social enterprise” was coined by U.S. nonprofit professionals who sought to create jobs and training opportunities for low-income, homeless, and other at-risk individuals by starting businesses. Their definition of social enterprise is a nonprofit enterprise, social-purpose business, or revenue-generating venture founded to create jobs or training opportunities for very low-income individuals while simultaneously operating with reference to the financial bottom line.[1]

In light of its mission and program focus, Save the Children (SC) defines its social enterprises as “founded to afford economic opportunities to women microentrepreneurs in developing countries.”

According to this definition, Save the Children regards *all* its economic opportunities programs, business development services (BDS) and microfinance, as social enterprises. Therefore, the reference to “social enterprise” used throughout this book pertains to *any* business intervention, domestic or international, established as a business venture (microfinance institution, BDS provider, cooperative, or small/medium-scale enterprise) and used as a vehicle to serve a disadvantaged population.

[1]Emerson, Jed, and Fay Twersky. 1996. New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation. San Francisco: Roberts Foundation.

Save the Children's Social Enterprise Philosophy

Enterprise Perspective

Save the Children believes in creating "businesslike organizations."[2] To this end, the social enterprise program is viewed as a business and is separated from nonbusiness activities of the lead or implementing organization. The intervention is structured as a social-purpose business or social enterprise to best address the combination of social and business interests unique to these programs.

Financial Viability

Viability is at the forefront of Save the Children's approach. SC employs pricing, marketing, production planning, and financial tools to measure and achieve cost-recovery objectives. SC is convinced that without a viable social enterprise, it will be unable to have a long-term positive economic impact on the poor.

Sustainability

Save the Children stresses the sustainability of the social enterprise. Capacity building of enterprise management and entrepreneurs through training and technical assistance has a high price tag yet is important to ensuring longevity of the program.

Market Led

Being market led requires clearly understanding who the customers are and responding to their wants and desires. SC's approach advocates thorough market research to ensure that the social enterprise has the potential for healthy performance in a competitive free marketplace. Additionally, products are developed with attention to the benefits enterprise customers seek.

Social Impact Objectives

The mission, and cornerstone, of the social enterprise is its commitment to serve the poor, which is ultimately what separates a social enterprise from private business.

Women Focused

Save the Children is a child-centered agency whose mission includes improving the economic security of children. Thus, its social enterprise programs target poor women under the assumption that affording them increased economic opportunities will directly benefit their children. SC's social enterprise clients are poor self-employed women.

Business Planning Methodology

Save the Children's methodology merges private-sector tools and methods with development practices to create dynamic, market-driven social enterprises as a means to effect increased economic opportunities for poor women in developing countries. Save the Children's business planning methodology has been field-tested in programs in several countries.

Audience

As a business planning resource for social enterprises, this manual is meant to be used by whomever is concerned with supporting the social enterprise efforts. Although Save the Children's social enterprise experience was acquired in an inter-

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[2]Gibb, A.A., and G. Manu. 1990. Design of extension and related support services for small scale enterprise development. International Small Business Journal 8, no.3.

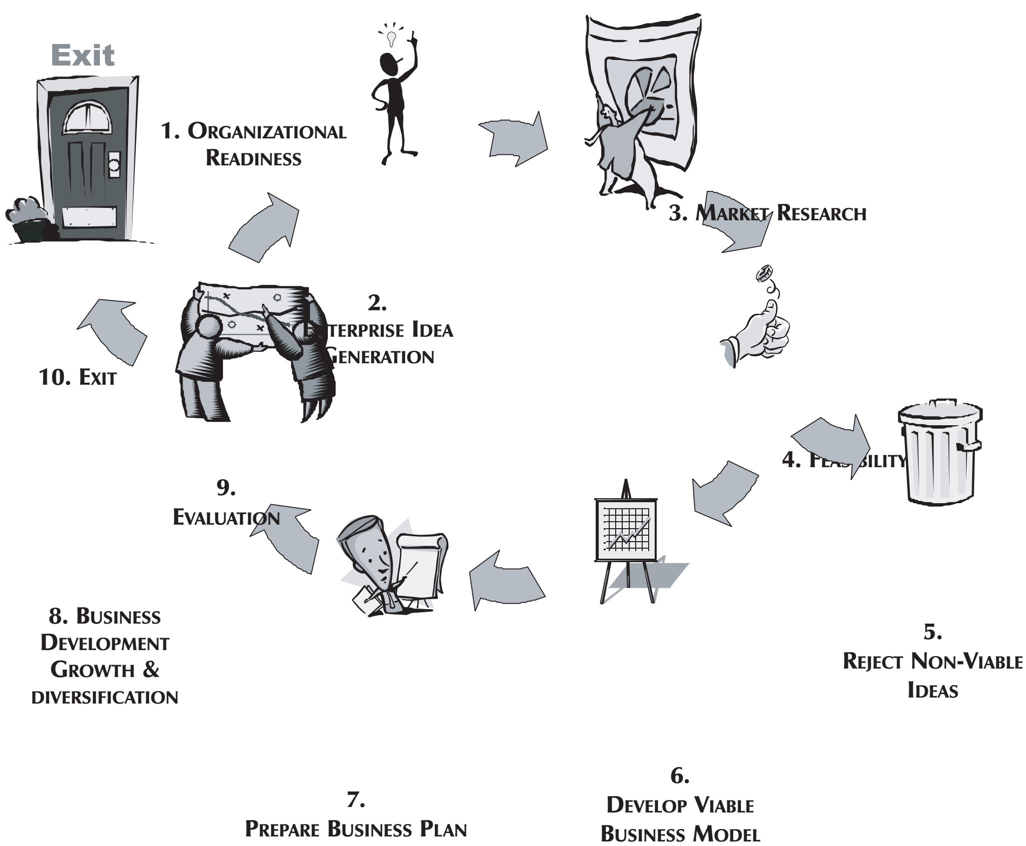
national context, the book also has practical applications in the domestic social enterprise sector. The author was surprised to learn that these disciplines are more similar than not; therefore, this second edition goes to great lengths to be useful in both international and domestic arenas.

- Foremost, it is intended for social enterprise practitioners (social entrepreneurs) and technical staff at the international PVO (Private Voluntary Organization), nonprofit parent organization, local intermediary, or social enterprise management levels.
- Second, it can also be a useful reference for the nonprofit community and donors to help them better understand the nature and requirements of social enterprise programs.
- Finally, it is appropriate for students, academics, or individuals inspired to discover more about this dynamic field or who are searching for nontraditional learning/teaching aids.

Manual Contents

Save the Children's approach distinguishes 10 discrete stages in the social enterprise development cycle, beginning with generating ideas for a new business and ending with an exit plan. This manual centers around step seven, *business planning*, although some information about market research as it relates to creating business plans is also included.

SOCIAL ENTERPRISE DEVELOPMENT CYCLE



Thus, this manual addresses key issues of human resources, marketing, finance, and operations and guides the reader in a step-by-step formulation of a business plan. It provides goal-setting and planning tools required to establish sustainable and viable enterprises geared toward achieving both social and business objectives.

None of the information or tools in this manual can be considered wholly new; many market research and business planning guides have previously been published. Indeed, the author felt some reluctance about reinventing business planning for the social enterprise field. Save the Children's perception is that although significant lip service is given to employing "business planning" and "private-sector tools," in practice few development professionals know how to apply them. Therefore, this manual attempts to bridge the gap between formal business and nonprofit enterprise disciplines by setting business planning in the nonprofit context, an approach that may be more palatable to nonprofit professionals. The "newness" of the standard business plan discussed herein is in its emphasis on achieving the "double bottom line"—social and business objectives—inherent in social enterprises.

The Manual's Purpose

This manual aims to help practitioners improve social enterprise program performance by:

- Sharing Save the Children's stories from the trenches, including lessons learned that lend themselves to developing best-practices social enterprise programs as well as experiences that are better avoided.
- Equipping practitioners with program planning and management, market research, and business planning tools that can be applied to any type of social enterprise.
- Furnishing a guide that can also be used as part of a training curriculum by practitioners providing business education or technical support services to clients, implementing partners, other social enterpreneurs or students.

Throughout, the manual aims to engender strategic thinking. Exercises are conceived to be multidimensional, pushing practitioners "to think outside the box." Starting, then running, a social enterprise is far from a static process. Businesses need to reinvent themselves constantly to adapt to ever-changing environments. This entails endless strategic reflection and analysis on the part of social enterprise managers and stakeholders, with an understanding that each decision they make may have a ripple effect on other aspects of their business.

What This Manual Is Not

This manual is not a "how-to guide" for creating the perfect social enterprise program. Chapter 9 details the mistakes Save the Children made in its early BDS program in Haiti, the lessons drawn from these experiences, and the changes that SC implemented as a result. Save the Children does not profess to know all the answers in this field, which is immature, dynamic, and rapidly changing.

It is also not a reference book for the other nine stages of social enterprise development. Although all stages are critical for program success, each topic is vast, warranting its own product, and well beyond the scope of this manual.

About the Case Study

Throughout the manual a case study called "TARTINA Enterprise" is used to illustrate business planning for social enterprise programs. This example is heavily based on Save the Children's "TOPLA" social enterprise program in Haiti, but it is not representative of TOPLA and should not be read as such. Although many of the examples are drawn directly from the TOPLA business plan, details have been modified both to protect program staff and to support the manual's business planning methodology. Save the Children felt it was important to use a real-life study to substantiate the approach used herein but, at the same time, did not want to detract from it by discussing the particulars of TOPLA. For reader reference and edification, the TOPLA case study is documented in Chapter 9. Huge credit is due to those involved in TOPLA, who greatly contributed to this work.

How to Use the Manual

The introductory overview in each chapter highlights the chapter's contents and learning objectives. Exercises begin with an explanation of the purpose and rationale behind them. This format is intended to be user-friendly. By seeing the content and purpose upfront, readers can decide if a particular section is pertinent to their needs and skip certain exercises as desired. However, completing all sections of the business planning manual culminates in an actual social enterprise business plan in the final chapter of the manual. The results of some exercises are documents used in their entirety in the business plan, whereas others provide background or preliminary information. It is recommended that readers at least peruse the entire manual, since business planning is a cumulative process, with each section elaborating on information obtained in the previous section. This manual may be used to produce sub-plans—i.e. marketing/operations plans—to assist market research or to prepare complete business plans.

To guide the reader through the business planning process, the following icons are employed:

 = a written exercise.

 = suggested participants for exercise.

 = a potential caveat or problem area to watch out for.

 = implications for human resources.

 = financial implications.

 = implications for management information systems (MIS).

 = included in the appendix.

 = a written exercise included in the actual business plan document.

It is recommended that A Business Planning Resource Guide be used in combination with A Business Plan Workbook for Social Enterprises, the second resource in the Managing the Double Bottom Line series. Building on the Reference Guide's approach, *The Workbook* uses a simple "fill in the blanks" format that is easily customized to suit the unique needs of individual social enterprises. Most important, it supplies blank worksheets for the exercises in this manual, which can be distributed for training purposes or used in business plan development. Additional added value comes from the inclusion of the 'Business Plan Score Card,' a tool to help social entrepreneurs evaluate their business plans before submitting them to investors, and an example of a financial services social enterprise business plan.

Use of Language

The author has tried to avoid jargon at all cost, which has proved challenging when attempting to crosscut industries to reach a wider audience. Unfortunately, jargon seems to be a deep-seated demon in all industries and there is particular disparity between words used in the domestic and international social enterprise fields. There, to avoid alienation and enhance usefulness of the manual, the author has attempted to: 1) omit jargon when possible using mainstream business vocabulary instead; 2) use inclusive jargon (all terms); and 3) define jargon. The following is a list of terms and definitions used in this manual:

Customer - one who purchases from the social enterprise or buys a client-made product (if the social enterprise is a marketing or distribution business).

Client or target population - the particular group of people the social enterprise assists: poor self-employed (also known as microentrepreneurs) or disadvantaged people (poor women/men, youth at risk, homeless, physically handicapped, people with developmental disabilities, etc.). Note that in the TARTINA Enterprise case study that runs throughout this manual the clients are "microentrepreneurs" or self-employed poor women and therefore are referred to as such.

Parent organization - lead organization, host organization, PVO, NGO or nonprofit that started the business program or enterprise, and is providing technical assistance, or implementing the program directly, but is not the enterprise itself. (See "Relationship with Parent Organizations" in Chapter 1 for examples.)

Implementing partner - Nonprofit organization, nongovernmental organization (NGO), local partner (nonprofit), cooperative or private company executing the social enterprise program. The implementing organization is also referred to as the "intermediary" because it is often the conduit between the parent organization and the social enterprise. *Please note that the parent organization and the nonprofit can be one and the same if the parent organization is a also a direct implementer.* (See "Relationship with Parent Organizations" in Chapter 1 for examples of some configurations.)

Social enterprise - any nonprofit enterprise, social-purpose business or revenue-generating venture, BDS program, microfinance institution or cooperative [which uses business models] and is founded to support or create economic opportunities for a particular target population while simultaneously operating with reference to the financial bottom line.[1]

[1] Emerson, Jed, and Fay Twersky. 1996. *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation*. San Francisco: Roberts Foundation.

Social entrepreneur—social enterprise practitioner (international development, nonprofit domestic, or private sector) implementing a business program, social enterprise or social purpose business for the dual objectives of earning income and contributing to a social cause.

Intervention—refers to the social enterprise as a program "coming in between" the target population and parent or implementing organization, for the purpose of affecting a positive impact on the target population.

Nonprofit professional—a person working for a domestic or international nonprofit organization.

This manual uses and defines mainstream business vocabulary throughout. The aim is to help practitioners gain access to a plethora of related resources available in the private sector. A glossary of terms is available at the end of the manual.

History of the Manual

This manual has been through two distinct incarnations. Former Save the Children staff, Alexandra Overy-Miehlbradt and Kim Berman wrote the first version. It represented early BDS work, referred to as women's microenterprise networks (WMEN), pioneered by the authors during their tenure at Save the Children. The first manual was essentially a guide to designing and implementing a WMEN methodological approach to BDS programs.

As fate would have it, publication of the manual was delayed and leadership changed in the Save the Children's Economic Opportunities Office. The time lapse gave us a curious 20-20 hindsight advantage with which to view the waning performance of our two WMEN programs. This, coupled with advances in BDS best practices and new SC staff, meant revisiting the unpublished manual.

A revised manual was published in 1999 under a Best Practices grant from USAID. This manual took a more commercial approach reflective of experiences gained from the WMEN programs, the present culture of Save the Children's Economic Opportunities Office, and evolving BDS practice. The book's success and larger than anticipated audience warranted a second edition.

Over the last year additional research—including studying well-documented lessons in the domestic social enterprise sector and developing and field testing social enterprise methodology—has contributed to the production of a more comprehensive and practical business planning tool.

The final result is the first two books in a series called Managing the Double Bottom Line: *A Business Planning Reference Guide for Social Enterprises* and *A Business Plan Workbook for Social Enterprises*. The Reference Guide, the second edition of the first book, is intended to be a comprehensive "how to" resource for business planning. It has been updated and enhanced with many new exercises and lessons. The *Workbook* is designed with the practitioner in mind to use in training purposes and business plan development. It supplies blank templates for the exercises in this manual, business plan evaluation tools and a working example. The materials in these new manuals present social enterprise business planning in broader terms suitable for a wider audience and crosscut both international and domestic sectors.

Business planning is a huge task involving immense amounts of time and effort. Our hope is that readers will find *Managing the Double Bottom Line* resources useful aids for developing a solid guiding document—a business plan—for their social enterprises. It is important to bear in mind that no one social entrepreneur should embark on business planning alone. This process should be supported by all stakeholders in the enterprise program and, if necessary, with the aid of external assistance. Good luck in your venture!

Save the Children invites readers to share their comments, suggestions, social enterprise experiences and business plans with us. We may be contacted at:

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Or

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Business Planning for the Social Enterprise

Chapter 1

Chapter 1

"Failing to plan is planning to fail."

— *Effie Jones, Educator*

What Is a Social Enterprise?

Social enterprise is a generic term for a nonprofit enterprise, social-purpose business or revenue-generating venture founded to support or create economic opportunities for poor and disadvantaged populations while simultaneously operating with reference to the financial bottom line.[1] A social enterprise may use revenue it generates to reduce the need for external donor dollars to cover program costs, or as a means to cross-subsidize other social programs. A social enterprise can also be referred to as an "affirmative business," "***business development service*** provider," "employment creation enterprise," or "microfinance institution" depending on the type of business it is in, the language of the nonprofit sector, the business model used, and the target population it serves. Try not to get stonewalled by vocabulary used in one particular industry or another (see "Use of Language" in "*About this Manual*" for definitions used in this book). Specifically, social enterprise literature is segmented by international and domestic program sectors. Despite specific complexities related to operating in overseas markets versus US markets, where the business framework is less ambiguous, Save the Children (SC) is of the opinion that practitioners in both disciplines face similar programming challenges. International and domestic social entrepreneurs venture to gain practical lessons, applicable tools and knowledge from each other provided they remain open-minded and avoid getting hung up on terminology.

Social enterprises are highly differentiated depending on the needs of their target populations, and their program and financial objectives. Thus, social enterprises can be take several forms: a direct employer of disadvantaged, at-risk or poor populations; or a provider of services to disadvantaged business owners (exhibit 1A: Social Enterprise Approaches). Enterprise models are configured to simultaneously serve their clients and survive in the ***market***. Some sell products or services directly to their ***target population***: In this case the market and the client are the same (exhibit 1B, model 1). This is the model typically used for a financial service or ***microfinance program*** whereby enterprise viability is achieved through the sale of sufficient volume of services, and social impact via providing poor entrepreneurs with access to affordable credit to fuel their businesses. Other social enterprises act as intermediaries, buying goods produced by poor or disadvantaged entrepreneurs and then selling these products in external markets (exhibit 1B, model 2). Marketing enterprises or economic development programs use this approach, realizing income through a markup on products to final customers and achieving ***social impact*** by helping the disadvantaged self-employed access markets for their products. A third

[1]Emerson, Jed, and Fay Twersky. 1996. *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation*. San Francisco: Roberts Foundation.

Business development services (BDS)—development service interventions that aim to reduce barriers faced by microentrepreneurs such as market access, restrictive regulations, and poor infrastructure, all of which impede microentrepreneurs' productivity, profits, and income. BDS programs may also seek to leverage opportunities for the purpose of profit maximization. Through addressing barriers, business development services not only increase the profitability of enterprises but transform them as well as the environment in which they operate. Business development services fall into a number of categories: linkages to markets, technology, referral services, business skills development, common service facilities, organizing, and advocacy. (Nelson, 1996).

Market—all the people who have a specific, unsatisfied need or want and are willing and able to purchase a service or product to satisfy that need.

Target population—the poor microentrepreneurs whose income or economic opportunity BDS programs seek to improve.

Microfinance program—Type of economic development programming that assists low income and poor self-employed people through the provision of financial services (credit, savings, insurance, etc.). Traditionally, microfinance programs provide reliable access to collateral-free small working capital loans (hence the name "micro") to a poor or disadvantaged target population deemed uncreditworthy by the formal sector.

Social impact—a positive effect on the target population as a result of an intervention. Social impact can be measured numerous ways; Save the Children primarily uses increased economic security and its reverberations for children.

possibility is a social enterprise that employs its target population and sells products or services on the open market (exhibit 1B, model 3). This type of social enterprise is viable in much the same way as a private business; social impact is accomplished by employing a target population that may otherwise be barred from work opportunities.

Exhibit 1A: Social Enterprise Approaches

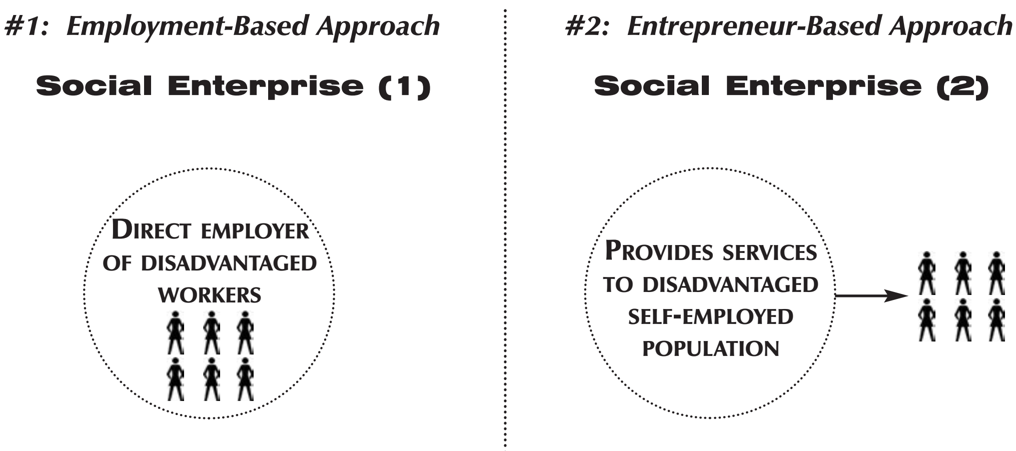
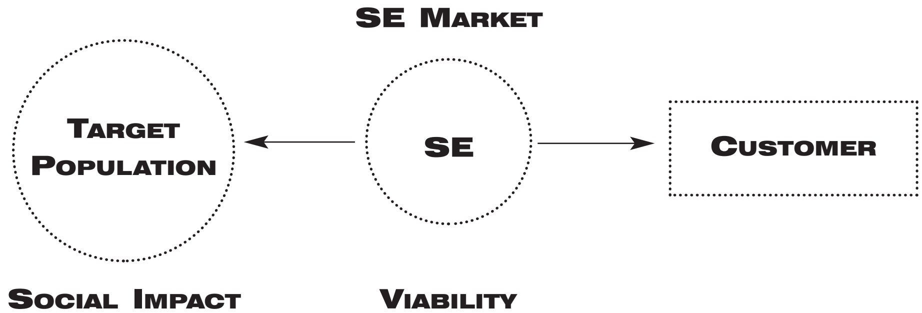


Exhibit 1B: Social Enterprise Models

Model 1: Entrepreneur Model

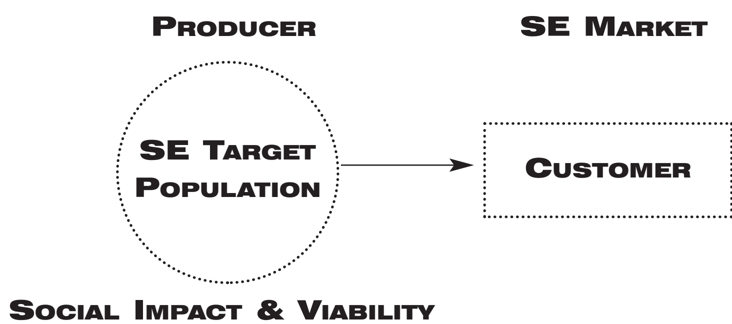
Social enterprise sells needed business products and services directly to its target population, self-employed poor or disadvantaged populations, to improve their business income. This is a classical model of Business Development and Microfinance Programs.

Model 2: Market Intermediary Model



Social enterprise acts as an intermediary between the target population and the market; it achieves viability through the sale of client-made products to the final customer and helps clients reach markets otherwise inaccessible to them.

Model 3: Employment Model



Target population—the poor microentrepreneurs whose income or economic opportunity BDS programs seek to improve.

This social enterprise is a direct employer of its target population, (disadvantaged, at-risk individuals); it attains viability through the sales of its products and services to an external market.

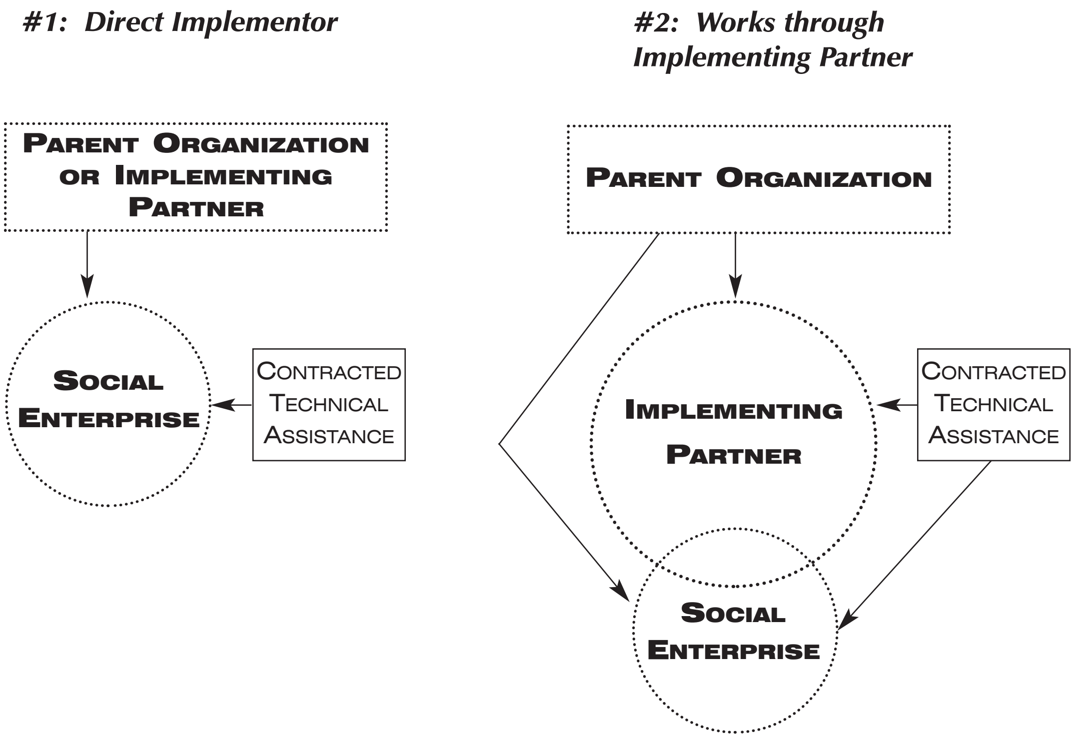
Financial viability—a social enterprise is considered financially viable when it no longer requires subsidies. It may still require loans or other investments to support its business operations as many profitable private sector enterprises do. A financially viable social enterprise would be one that is able to secure the necessary funds through regular, unsubsidized financial channels. (See also ***viability***).

Parent Organization Role

The role of the "parent organization"—an international private voluntary organization (PVO) or nonprofit organization—that initiated the business program or enterprise also varies. Parent organizations provide oversight to the social enterprise and may do so by working through another nonprofit partner, or directly with a social venture. The parent organization (PO) is also responsible for the provision of technical assistance to build capacity enterprise aimed at developing a sustainable social venture. Some parent organizations elect to outsource technical assistance full time or on occasion by contracting a separate entity or independent consultant (exhibit 1B: Relationship with Parent Organization.) The decision to outsource technical assistance depends on in-house capabilities and mission compatibility of the parent organization.

The commonality among all types of social enterprises is that they are nonprofit programs that seek to achieve social impact objectives and ***financial viability*** through the creation of an enterprise that serves disadvantaged populations. Social enterprise revenues must cover normal business operations as well as subsidize social program costs incurred by working with its target population. Save the Children has piloted all models and approaches of social enterprise programs shown in the diagrams; it is distinct only in that it uses modified private-sector business tools *and puts viability at the forefront as the means to achieve social impact.*

EXHIBIT 1A: RELATIONSHIP WITH PARENT ORGANIZATION



Business Planning for the Social Enterprise

Social enterprise programs are inherently highly differentiated, making it difficult to fit them into a neat framework. Mass customization at this point can take place only in the tools we are able to provide, one of which is business planning. The type of business intervention you choose and how it is structured will be largely dependent on the conditions specific to your market, industry, operating environment, and target population and, therefore, will be unique to your program. No matter what type you choose, a business plan is a standard tool that can be *applied to most social enterprise models*. The focus here, however, is on Save the Children's version of a social enterprise; it is up to you to make necessary adaptations to fit the needs of your program.

WHY A BUSINESS PLAN?

Nonprofit programming is changing. Social enterprise programs are increasingly part of the nonprofit program agenda. The inevitable consequence is that "business" is being integrated into nonprofit culture. Phrases like "operational sustainability," "financial viability" and "cost recovery" have become a standard part of the nomenclature. There is now considerable agreement among agencies of the importance of operating in a businesslike way.[2] Indeed, more and more organizations and donors are viewing interventions through a business lens—with respect to performance-based objectives, results-oriented outputs, and viability—thus leading the way for

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[2]Gibb, A.A., and G. Manu. 1990. Design of extension and related support services for small scale enterprise development. *International Small Business Journal* 8, no.3.

mainstream change. Tools and methods borrowed from the private sector are being adapted and applied to development programs as a means to better serve underprivileged and disenfranchised populations.

Save the Children is one organization taking this approach. At the same time, we recognize that standard business tools are not necessarily distributed through normal nonprofit channels; nor are they translated for use in the nonprofit context. Business terminology, corporate case studies, and the single bottom-line focus often act as a smoke screen, barring nonprofit professionals from utilizing the important resources available in the private sector. Nonetheless, as we have witnessed in the microfinance discipline, tools borrowed and adapted from the banking sector can help practitioners "do better at doing good." To this end, SC/US is attempting to bridge the "culture gap" between the business and nonprofit sectors with a modified business planning tool that addresses the "double bottom line" (social and business goals) of social enterprises.

BUSINESS PLANNING FOR *YOUR* SOCIAL ENTERPRISE PROGRAM

Developing a business plan does not mean that you have to compromise or forsake your organization's social objectives in favor of running a profitable enterprise. On the contrary, a business plan is a tool intended to help increase the overall performance and impact of your social enterprise program. A good business plan should be personalized for your program, embodying its goals, culture, and values. At the same time, it furnishes you with a proven instrument to operationalize your goals into a program that both provides business services to the poor or disadvantaged and can withstand the pressures of the marketplace. In sum, a business plan is a prescribed method for clarifying the objectives of your social enterprise program and developing a comprehensive plan to realize those objectives.

WHAT IS A BUSINESS PLAN?

A business plan is the road map of your social enterprise program; it directs your ***stakeholders*** and staff on how they will execute the intervention, manage the program, and ultimately realize the program's goals and objectives.

A business plan:

- ▲ articulates the mission of your program;
- ▲ defines a ***strategy*** based on needs of the target population and customers, market conditions, industry forces, operating environment, and institutional profiles;
- ▲ outlines specific actions to achieve program goals and objectives;
- ▲ establishes targets for planning, measuring, and improving performance;
- ▲ motivates employees;
- ▲ communicates your ideas and plans to your stakeholders (board of directors, donors, partners, clients);
- ▲ projects necessary resources, costs, and revenues of your program;
- ▲ provides a basis for sound decision making.

WHY IS A BUSINESS PLAN IMPORTANT?

The success of your social enterprise depends largely upon the decisions you make. A business plan is fundamentally a planning tool; it allocates resources and measures the results of your actions, and it helps you set realistic goals and make decisions. A lack of planning leaves you poorly equipped to anticipate future decisions and actions you must take to run your social enterprise. Inherent within a business plan are several tools that facilitate planning and, hence, decision-making.

***Stakeholder*—**a person entrusted with a stake or an interest; something staked for gain or loss. (Merriam-Webster) A stakeholder is someone vested in—or willing to invest in—a social enterprise, someone willing to take a risk regarding its success or failure. Stakeholders can be donors, international PVOs, nonprofits, local NGOs, parent organizations, enterprise staff, board members, clients, etc.

***Strategy*—**a careful plan or method for achieving ends. In a business plan, these ends are the objectives.

A Design Tool

The rigors of developing a business plan help you think through the design of your intervention and conceive a program that is realistic and doable within the given context. Precursors to creating a business plan—such as analyzing the market, the operating environment, implementing partners' capabilities, and financial needs—provide an opportunity to examine your social enterprise program in its entirety from an objective, critical perspective to determine whether what you are planning is feasible, and how it can best be implemented.

A Strategic Planning Tool

The combined tasks of inward and outward examination in a business plan, from institutional self-assessment to competitive analysis, help you plot a strategy for your social enterprise program. Strategic thinking is necessary if your social enterprise is to survive in a competitive marketplace. Business plans pit your products or services against those of competitors, examine your market position, and keep you abreast of the twists and turns in a dynamic operating environment to help you make strategic decisions based on these fluid variables.

A Performance Tool

A business plan is an operating plan that guides the management of your social enterprise program and helps you work effectively toward its success. It allows you to set realistic targets and thus also provides a basis for measuring and monitoring your program's performance against these targets. Using the business plan as an ongoing performance tool helps practitioners modify future targets based on actual performance of the social enterprise.

A Communications Tool

The business plan communicates your program's mission, management approach, objectives, and proposed methods of achieving the objectives to staff, leadership, clients, and donors. A business plan also helps you gain credibility with potential partners and donors by demonstrating that your social enterprise program has a clear direction and thoroughly conceived strategy to achieve its ends.

A Financial Tool

Break-even point—the point at which revenues from sales equal costs.

This section of the business plan serves several financial management functions. The budget establishes how resources will be allocated in your program. Financial statements help you understand your financial position and the cash needs of your business. Calculating your enterprise's ***break-even point*** tells you how much income is required to cover expenses and gives you a basis for pricing services or products. Finally, the financial section provides estimates of how much money is needed for financing start-up expenses, the day-to-day costs of running operations, and your income.

A Management Tool

As previously stated, a business plan tells stakeholders where you are going and how you plan to get there. It is important for the social enterprise program management team to continually refer to the business plan to ensure that the enterprise is not going off course and that the business plan accurately reflects changes in the strategic environment or market conditions. This process of creating and then frequently revisiting and refining the business plan hones critical thinking and analytical and decision-making skills, enabling the management team to troubleshoot problems related to competitors or changing economic factors and take advantage of new promotional or product opportunities.

A Human Resource Tool

A well-articulated program mission, clear goals and objectives, and a comprehensive plan are the keys to rallying motivation and teamwork in your social enterprise program. Low motivation stems, in part, from poor planning and ambiguity in the workplace. If staff, management, and leadership do not know precisely what they are trying to achieve, it is hard to create a coherent, collaborative, and productive work environment. Business plan targets and outputs are used to create human resource plans and can also be used as performance measures for individual and collective performance.

A Marketing Tool

The target market segment of the business plan gives you important information from which to derive your marketing plan. ***Market research*** techniques help you identify who your customers are and where they are located, in addition to distinguishing their preferences, needs, and desires. The marketing plan that results is a strategic guide to reaching your customers through promotional efforts, product enhancements, and changes in price and distribution channels.

Market research—systematic, objective gathering of information to support a business' marketing efforts. Market research uses specific methods and tools such as surveys, interviews, focus groups, product tests, etc., to understand the size and scope of certain markets and consumer behavior as they relate to the product or service the company sells.

A Donor and Investor's Guide

In the private sector, a business plan is used to attract investor financing. The plan is a prospectus of sorts for financiers to verify that the person seeking funds has (1) a solid business idea built on a market that is sizable enough to support continued viability; (2) a concrete plan to reach that market and manage operations; and (3) realistic financial forecasts of the business' future profitability. In short, investors want a return on their investment, and a sound business plan is the best means to communicate that potential to investors.

In the world of business development services, donors are the investors. As the return on their investment, they want recipient institutions to meet their targets for social impact, cost-effectiveness, revenue, cost recovery, and scale. It is Save the Children's belief that, as in the private sector, business plans are the most comprehensive guides to our social enterprise programs that we can give our investors. Although business plans are not currently a standard requirement for requests for applications (RFAs) or grant proposals, donors are demonstrating a heightened interest in them.

Business Plan Brass Tacks

New Versus Existing Social Enterprises

The business planning process is somewhat different for new social enterprises than it is for existing ones. Established social enterprises have a track record and historic information to draw from regarding their operations, costs, marketing experience, and staff that contribute to the development of a solid business plan. Every enterprise, however, has to start at the beginning and develop a first plan. If you have been involved in an existing social enterprise, you should be able to make fairly accurate projections and devise strategies steeped in experience. But if yours is a new business, we recommend that you develop your plan for the first year of its operations only. Start-up enterprises may not have all the information required to complete some of the exercises in this manual.

Components of a Business Plan

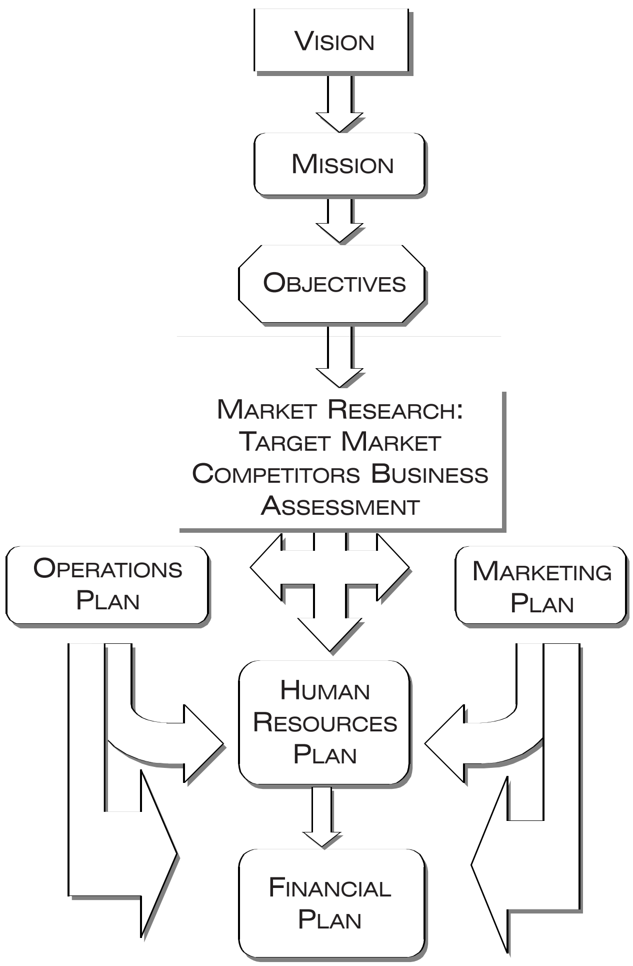
The structure of a business plan is a series of plans built around your vision and mission statements that are intended to execute your objectives and business concept.

Business Plan Outline

- Executive Summary
- Vision and Mission Statements
- Objectives
- Description of the Social Enterprise
- Target Market
- Business Assessment
- Operating Environment
- Competitive Analysis
- Marketing Plan
- Operations Plan/Production Plan
- Human Resource Plan
- Financial Plan
- Appendices

TARTINA product sales at Annual Processed Foods Trade Show in Port-au-Prince

EXHIBIT 1D: BUSINESS PLAN INFORMATION FLOWS



BUSINESS PLAN ESSENTIALS

A good business plan conveys your ideas, goals, and plans for the social enterprise program. To accomplish this, a business plan should:

- **Indicate focus.** What is the core thrust of your social enterprise?
- **Demonstrate an understanding of the target market.** Who are your customers; where are they; and what are their needs and wants?
- **Evidence an appreciation of stakeholders' interests and needs.** What are the essential interests of your donors, leadership, staff, clients, management, and partners; and how are their needs embodied in your social enterprise program?
- **Confirm that your business concept is solid and market driven.** How does your business concept respond to the market, and what strategy will you use to adapt this concept in the face of changing market conditions?

- **Prove there is a sufficient market to support the products or services you are selling.** Is there a large enough pool of potential customers with a need or desire, sufficient income and the willingness to pay for your products or services to support your business? Is this market reachable?

- **Post financial projections that are healthy and realistic.** Do your financial projections clearly show that you will be able to meet your financial objectives (i.e., you will cover a specified percentage of your expenses with income that your business will generate)? Or are you over- or underestimating expenses or revenues?

- **Demonstrate that key staff and management personnel are competent and experienced.** What skills and experience do your management and staff have to operate your business successfully?

Our Example: "TARTINA Enterprise"

Throughout this manual we use a fictional case, "TARTINA Enterprise," which is loosely based on Save the Children's social enterprise program in Haiti, to depict business planning processes.[3] In our example TARTINA is a food-processing social enterprise located in a rural Haitian village called Colline, about 2½ hours outside Port-au-Prince. Its business is to transform agricultural products—peanuts and fruit—into peanut butter, jams, and jellies. TARTINA began as a Save the Children/Haiti program designed to link rural food processors to commercial markets and was funded by a donor called ASSIST. The program was initiated through SC's local partner, a nonprofit called the Association pour le Développement Economique (ADE), then gradually evolved into a social enterprise, assuming its marketing brand name, TARTINA. "TARTINA" comes from the French verb *tartiner*, to spread, and the noun *tartine*, a sandwich. Although the enterprise is still warehoused in ADE, a multisector organization that specializes in education and community development, little programmatic crossover remains. In our example, TARTINA operates as a business with its own mission and objectives and has hired many new enterprise staff. It has just completed its first one-year business plan, which is used as a running example in this manual.

Please keep in mind that depending on the industry, the type of social enterprise, and the products or services it provides, your program may or may not bear a close likeness to our example. Our fictional social enterprise manufactures products, whereas many social enterprises render services. An enterprise that sells services directly to its target population or clients will be configured differently from our example, which is operated by the target population but sells its products in a commercial market. The same is true for a social enterprise that is composed of several partner organizations or a network, since TARTINA works with only one local partner.

The TARTINA case is intended to be a user-friendly aid and not an example of a flawless social enterprise program that practitioners should emulate. Therefore, the example herein should be regarded simply as an illustration of the various forms a social enterprise business plan can take. While the sections of a business plan remain more or less constant for every social enterprise, the particular emphasis given to each section will vary according to the type of business and its stage of development.

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[3] See "About This Manual" in the introduction for a complete explanation of our case study approach and philosophy. Also see "Chapter 9: Lessons Learned" for a summarized overview of Save the Children's experience in Haiti with TOPLA, from which this example is drawn.

The Business Plan Process

PREPARATION TIME CAN BE BROKEN DOWN INTO TWO SEGMENTS—MARKET RESEARCH AND CREATING THE ACTUAL BUSINESS PLAN.

▲ ***Market research*** should be extensive and can take weeks or months depending on depth of study, techniques chosen (surveys, questionnaires, or focus groups), and availability of information. To some extent, time needed for market research will be driven by the number of products or services you are offering, the location of your target market, the complexity of the industry, and the competitive and operating environments. We strongly recommend not taking shortcuts when it comes to doing market research; the overriding reason identified for SC's past social enterprise program failures was inadequate market research prior to launching the program.

Market research—systematic, objective gathering of information to support a business' marketing efforts. Market research uses specific methods and tools such as surveys, interviews, focus groups, product tests, etc., to understand the size and scope of certain markets and consumer behavior as it relates to the product or service the company sells.

This manual neither provides comprehensive information on market research methodologies, nor gives advice on which approaches to use when conducting market research. Providing guidance on which market research techniques to employ in preparation for your social enterprise program is beyond the scope of this manual. Conducting solid market research before you start is imperative (see Lessons Learned, chapter 9). If you do not have a competent and experienced market researcher on staff, we strongly encourage contracting a market research professional to assist with this step.

▲ ***Business plan preparation*** is to some degree dependent on coordinating the available time of key participants and stakeholders in your social enterprise. Segments that require the participation of executives, senior staff, or those with dual responsibilities are harder to schedule than those that involve staff members dedicated 100 percent to the social enterprise. If you are planning to hold a series of workshops, meetings, discussion groups, or mini-retreats with participants, allow a minimum of *six to eight weeks* to complete the business plan. Consensus building sometimes takes time. What's more, we have been surprised by how this process has illuminated the need to go back and do additional research. In short, give yourself ample time, including contingency time of a few weeks, for completing unforeseen necessary research and smoothing any ruffled feathers.

FINANCIAL CONSIDERATIONS

Pre-program research and business plan development take considerable time, which implies a financial cost. Prior to embarking on social enterprise planning and development, allocate a budget for preprogram expenses to be incurred during the market research and business plan development phases. Although the upfront costs may be considerable, careful planning will pay off in the long run.

LENGTH

A good business plan must be thorough, which will be a factor in its length. It should be long enough that your information is complete but not so long that it is verbose or redundant. There is no hard and fast rule, so you must use your own judgment.

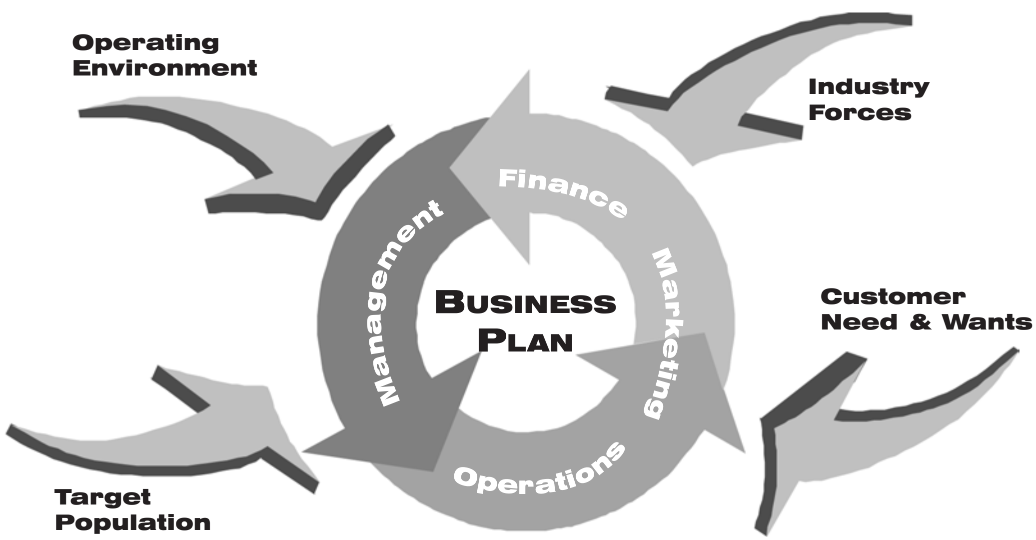
TIME PERIOD

Business plans need to cover a specific period of time. Although there is no prescribed duration, most are developed for one to five years of operation. As is the case with private companies, a business plan may be linked to financing needs for a certain stage of enterprise development, such as start-up or expansion. If you are writing a business plan as part of a grant application requirement, it may coincide with the funding cycle but should nonetheless reflect business reality and not be driven solely by the time frame or price tag of the donor-investor.

Changes

A business plan is a fluid document, a blueprint for your enterprise that must be revisited and modified periodically. Modifications usually result from changes that occur in the operating environment, industry forces, client needs or customer preferences. For example, a new law regulating health and safety standards, an increase in direct competition, or an upturn in economic conditions could positively or negatively impact your business. When this happens, it is essential to make changes to your business plan to reflect the current reality as well as projected future trends.

Exhibit 1E: Business Plans Respond to the Market and the Environment



Methodological Framework for Business Planning

Clearly, writing a business plan is a process which involves a significant amount of time, effort, resources and advanced planning. The methodological framework is a preparation guide to address these issues. Practically, it is a projected timeline, a list of participants and key stakeholders of the various business segments, and a description of the methods that will be used for deriving information. More importantly, the framework facilitates a thorough and efficient business planning process, helping to promote consensus throughout the business planning process and create a sense of ownership upon its conclusion.

Consensus and ownership

Consensus throughout the business planning process and *ownership* of its conclusions by key stakeholders are essential at each stage. **A business plan unilaterally developed, or one prepared despite discord, is bound to fail during implementation.** Stakeholders of the social enterprise must be 100 percent on board before the venture is launched. In addition, to imbue ownership, the social enterprise stakeholders should be the ones who actually write the business plan, regardless of whether you hire a consultant to help facilitate the process.

Method

Save the Children recommends using a participatory process throughout business planning. Most development and nonprofit organizations are well versed in participatory processes. Use your discretion, style, and experience to approach business planning with your partners and clients in a participatory way. Common methods include workshops, discussion groups, meetings, retreats, and collaborative fact finding or research.

Participants

It is very important to include the **appropriate participants** when preparing your business plan. As previously explained, a business plan is the compilation of a subset of plans for the different segments of your business. It contains plans for marketing, production, finance, operations, and human resources. *Include key decision makers, staff, and external resource people implicated in each function to help develop the related plan*. For example, to develop your marketing plan, include the business and marketing manager, the sales staff, and an independent market researcher or specialist as you see fit. Whether or not you choose to use an external specialist depends on the level of in-house expertise. Also, include input from your target population where opportune. If your social enterprise is rendering services directly to the target population, they will contribute greatly to your market research and product strategy. In the case of TARTINA Enterprise, microentrepreneurs manufactured the products, so their input was invaluable when developing the production plan.

Building your Methodological Framework

A sample of the Methodological Framework for TARTINA Enterprises is provided in exhibit 1F. This example demonstrates how the framework steers the business plan development by addressing key questions in each section of the plan. The framework also helps direct participation at each level of planning and delineates a timeline for completing the sections.

Preparing a Business Plan Framework

- ▲ Locate the blank Business Planning Framework in *The Workbook* or create your own. An example for TARTINA Enterprise is provided in exhibit 1F.
- ▲ As you work your way through each chapter of this manual and learn more, list which participants will be included in the planning exercises, the methodology you will use, and the anticipated time period to complete each segment.
- ▲ It is not necessary to use every section or answer every question laid out in the framework, as the particulars of your program may not warrant it. This framework is intended as a guide; make adjustments where necessary to fit your business planning needs.

TARTINA clients prepare containers prior to packaging Mamba peanut butter

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants[1]	Time Required
2	**I. Mission & Objectives**			
	1. What is the vision and mission?	1. Workshop	1. Board members(TE[2]), Business Advisor (SC), Senior Project Staff (ADE), Executive Management (ADE), delegate clients (TE).	1. One day
	2. What social impact and business objectives will be accomplished?	2. Workshop	2.-3 Same, less board members.	2.-3. Two days
	3. What is the description of this business?	3. Workshop		
3	**II. Understanding Target Markets for Each Product**			
	1. Who is our target market(s)? Actual customer and final consumer and decision-makers for each product?	1.A. Discussion/workshop on preferred target market: consumer, purchaser, and actual customer levels. 1.B. Demographic reports, survey customers, focus groups. (market research).	1. Marketing Manager (TE), Business Manager (TE), sales staff (TE), Business Advisor (SC), Program Manager (ADE)	1.A. One day 1.B. Two weeks for study
	2. How is the market segmented?	2.A. Discussion/workshop on market segmentation. 2.B. Reports, interviews, surveys with coustomers. (market research)	2. Same as 1	2.A. Half day 2.B. One week for market research

[1] There is crossover between participants identified from ADE and those from TARTINA Enterprise. Some staff from SC or ADE are allocated on a time percentage to the enterprise program and may wear more than one hat. At the time of developing this business plan, TARTINA was still a "program" of ADE with its staff on the ADE payroll. (See Chapter 7, Human Resources, for more information.)

[2] TE = TARTINA Enterprise

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
3	3. What are the primary buying motives/habits of the target market for each product?	3.A. Debrief sales staff, marketing manager on what they know about customers' buying habits and motives.	3.A. Sales staff (TE), Marketing Manager (TE), Business Manager (TE)	3.A. Half day
		3.B. Observation method: At point of purchase, observe buying patterns and habits. (market research)	3.B. Sales staff (TE), Marketing Manager (TE), Business Manager (TE)	3 B. Half day: orient sales staff; one week study
		3.C. Survey current and potential retailers with questionnaire.	3.C. Sales staff (TE), Marketing Manager (TE), Business Manager (TE)	3.C. One week to conduct survey: combine with market test survey
		3.D. Conduct focus groups with consumers. (market research)	3.D. Sales staff (TE), Marketing Manager (TE), Business Manager (TE)	3.D. Two weeks to organize and conduct focus groups
		3.E. Synthesize information/discussion on strategic implications.	3.E. Same as 1 & 2 + Business Advisor (SC)	3.E. One day
	4. What are the future trends and size of the target market?	4. Workshop.	4. Same as 3. E.	4. Half a day
4	**III. Institutional, Environmental and Industry Assessments**			
	1. What are TE's strengths and weaknesses?	1. Business Assessment workshop	1. Program Manager (ADE), Production Manager (TE), Business Manager (TE), production staff, (TE) marketing staff (TE), Business Advisor (SC), clients (TE)	1. Half day

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
4	2. What are the opportunities and threats in the external environment that TE faces?	2. Environmental Assessment workshop	2-4. Same as 1	2. Half day
	3. What are the strategic implications for TE's Strengths and Opportunities? And Threats and Weaknesses? How can S/O be leveraged and W/T mitigated?	3. SWOT Analysis workshop		3. Half day
	4. Is the industry hospitable or hostile for TE's business? What aspects of the industry will impact business and profit potential?	4.A. Industry Analysis workshop 4.B. Statistical information on industry, surveys, questionnaires. (market research)		4.A. One day workshop 4.B. Two weeks Research
	IV. Industry Analysis			
	1. How susceptible is TARTINA's business to seasonal fluctuations? For production? For sales?	1.A. Discussions with sales staff, retailers, farmers, and external resource people. 1.B. Printed information and agricultural reports, surveys/interviews with retailers, farmers (market research)	1.A. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), external market resource people and producers. 1.B. Same as 1A.	1.A. One week to hold discussions with various players 1.B. Two weeks to collect information; do market research
	2. How sensitive to economic cycles is TARTINA?	2. Discussions with economist, bankers, industry specialists. Printed economic information & reports. (market research)	2. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), Financial Director (SC), Accountant (TE), external market resource people.	2.-5 Three weeks to collect information; do market research

Exhibit 1F Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
4	3. How will the legal and regulatory environment affect TARTINA's operations?	3. Discussions and interviews with government agencies, lawyers, business people, industry regulators. Printed economic information & reports. (market research)	3. Business Advisor (SC, TE), Business Manager (TE), external market resource people (lawyer, industry consultant).	
	4. How sensitive is TARTINA Enterprise to changing technology?	4. Discussions with production staff, MIS, management and administration, logistics, sales, retailers, industry analysts.	4. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), Financial Director (SC), MIS Manager, Production Manager (TE), external market resource (industry consultant).	
	5. What are the financial characteristics of the food processing industry?	5. Discussions with sales & marketing staff, retailers, industry analysts.	5. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), Financial Director (SC), Production Manager (TE), Accountant (TE), external market resource (industry consultant).	
	6. What is TARTINA"s Strategy with respect to these industry factors?	6. Workshop to synthesize findings. Plot strategy.	6. All above except external resource people.	6. One Day
	V. Competition Analysis			
	1. How are the main competitors and their overall strengths and weaknesses? And per product?	1.A. Discussions with sales staff, retailers, market resource people. 1.B. Printed information/ reports. Interviews with competitors, suppliers, and customers. (market research)	1. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), external market resource people. (market research)	1.A. One week to hold discussions with various players; do research. 1.B. Two weeks Market research

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
	2. How much market share does the competition have relative to TE's? 3. What will the competition look like in the future?	2.-3. Discussions with sales staff, retailers, market resource people. Printed information/reports if available. (market research)	2 -3. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), external market resource people.	2-3. Two weeks to collect and analyze competitive information.
	4. What is TE's strategy with respect to the competitors?	4. Workshop to synthesize findings. Plot strategy.	4. Same as 2.	4. One day
PLEASE NOTE: Information on product testing has not been included in this manual.	**V. Product Test** 1. What 4-5 products (maximum) will offer the greatest feasibility of achieving the enterprise project's objectives?	1.A. Systematic evaluation of products using market-driven criteria and sales performance figures using a workshop forum.	1.A. Business Advisor (SC), Project Advisor (SC), Business Manager (TE), sales staff (TE), external resource person with relevant market overview	1.A. Half day preparation
		1.B. Feasibility test: Desk review of financial feasibility in workshop forum.	1.B. Marketing Manager (TE), Business Manager (TE), Accountant (TE), Financial Director (SC), Business Advisor (SC)	1.B. One day
		1.C. Market test: Sample of current and potential target markets for reduced product line list using survey method.	1.C. Business Advisor (SC), Marketing Manager (TE), Business Manager (TE), sales and production agents (TE), Program Manager (ADE)	1.C. One day to develop/ translate survey. Half day enumerator training on market survey Ten days - Market test/ collection of Market data One day - Analysis of market test results

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
		1.D. Discussion on technical feasibility of products with food-processing resource person.	1.D. Program Manger (ADE), Production Manager (TE), Business Manager (TE), production staff (TE) resource person, Business Advisor (SC), representative clients	1.D Half day discussion Two weeks to locate resource person
		1.E. For those products passing the first three steps of feasibility test, evaluate on social feasibility terms—management team discussion.	1.E Senior Project Management (SC/ADE/TE), Business Advisor (SC)	1.E. Half day workshop
5	**VI. Marketing Plan** 1. What are our marketing objectives for the TE product line? Sales targets?	1. Discussion/workshop	1. Business Manager (TE), Program Manager (ADE), Marketing Manager (TE), Business Advisor (SC), sales staff (TE)	1. One day
	Part 1. Product Strategy 2. What are the features and benefits of TARTINA's products? 3. What stage of the product life cycle is each product in? 4. What is the desired position of each product relative to the competition for the most important purchase criteria?	2. Discussion/workshop 3. Discussion/workshop 4.A. Discussion based on primary information collected to date.	2&3. Sales staff (TE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC) 4.A.& B. Project Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Advisor (SC), Production Manager (TE), Production Agents (TE)	2-3. Half day 4.A. One day

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
5		4.B. Product changes should first be tested on sample target group prior to full-scale commercialization. Testing can be done through limited regular sales approach (limited quantities) and focus group market research.		4.B. Two months (ongoing) Implementing changes and testing impact of changes on marketing objectives Depends on magnitude of changes
	5. What is the plan for the product in terms of physical characteristics and servicing to help achieve marketing objectives? 6. What are the cost implications for product changes?	5. - 6. Discussion/workshop	5.- 6. Same as 4.A. & B.	5.- 6. One day
	7. What is the strategy for each TE product?	7. Workshop	7. Sales staff (TE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC), Production Manager (TE), Production Agents (TE)	7. Two days
	8. What is the strategy for the entire product line?	8. Discussion/workshop	8. Same as 7, less production agents	8. One day
	Part 2. Distribution Strategy 9. Where should we sell? What are the priority markets? 10. What are the best methods and distribution channels to reach priority target markets? 11. What is the distribution plan? How will this help achieve marketing objectives?	9.-11. Workshop and desk review of historical sales performance to help evaluate most lucrative sales opportunities; market study on target markets, cost advantages of distribution markets and methods.	9.-11. Business Advisor (SC), Marketing Manager (TE), Program Management (SC, ADE), sales staff (TE), Financial Director (SC), logistic manager/operations.	9.-11. Two days

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
5				
	Part 3. Pricing Strategy			
	12. What is the break-even point for units and revenue? 13. For the planning period, at what level should the basic price be set for each product? 14. For the planning period, what will the strategy be for elements beyond the basic price?	12.-14. Workshop	12.-14. Sales staff (TE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC), Program Manager (SC), Accountant (ADE), Production Manager (TE)	12-14. Two days
	Part 4. Promotion Strategy			
	15. What are logo and promotional message?	15. Workshop/ designer presents prototypes	15.A. Marketing Manager (TE), Sales Staff (TE), Business Manager (TE), graphic artist (external), Business Advisor (SC), Program Manager (ADS)	15. Half day
	16. What types of promotional vehicles and low-cost options should be used to meet the marketing objectives?	16. A. Workshop 16. B. Market test promotion	16.A. & B. Sales staff (ADE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC), Accountant (ADE)	16.A. One day 16 B. One-month test for new promotional strategy
	17. How do we want to package TE products?	17. Workshop	17. Same as 15 + Purchasing	17. One day

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
5	18. How many staff and what kind will we need to market TE products?	18. Workshop/discussion	18. Marketing Manager (TE), Business Manager (TE); Business Advisor (SC)	18. One day
	19. What is the promotional strategy to achieve marketing objectives?	19. Workshop/discussion	19. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Promotional resource people (external)	19. Two days orientation on promotion and development of promotional strategy.
	20. What is the implementation plan for promotional strategy in Year 1?	20. Implementation (i.e., development of promotional materials) will be done outside of workshop.	20. Managed by Market Manager (TE); All Marketing & Sales Staff, Business Advisor (SC)	20. Three weeks to prepare promotional materials.
	21. What is the sales structure? What are the costs associated with selling? Sales strategies and plan for Year 1?	21. Workshop/discussion	21. Same as 19 + Accountant (ADE), Production Manager (TE) (to help set sales targets only)	21. Two days
6	**VII. Production Plan** **Part 1: Diagnostic** 1. What is the production process? Who is responsible for operations stages and production steps? 2. What is TARTINA's level of productivity? 3. What are our constraints to production? 4. At what level of capacity are we operating?	1-4. Workshop at production site	1-4. Business Manager (TE), Production Manager (TE), production staff (TE), Inventory Manager (TE), clients, Business Advisor (SC), Production Agents (TE) 5. Business Manager (TE),	1.-4. Two days

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
6	**Part 2: Operations/Production Plan**			
	5. What are TARTINA's production objectives? For quality control, product improvements? What are the production targets?	5. Workshop	Production manager (TE), Marketing Manager, production staff (TE), Business Advisor (SC), Program Manager (ADE), Finance Director (SC)	5. One day
	6. How can we improve production process? Improve capacity utilization and productivity?	6. Planning sessions with production staff and microentrepreneurs	6. Business Manager (TE), Production manager (TE), production staff (TE), Inventory Manager (TE), Business Advisor (SC), clients: TA (external)	6. Two days; facilitated by external technical assistance
	7. How can efficiency and quality control of production process be improved?	7. Workshop/planning session facilitated by external technical assistance.	7. Program Manager (ADE), Production Manager (TE), Production TA (external), Inventory Manager (TE), production staff (TE), clients.	7. One day on Quality Control, one month training of production staff and MEs following B-Plan
	8. How can we respond better to customer wants with our products? Will this help us to meet business objectives? What are the costs associated with R&D?	8. Workshop/planning session	8. Program Manager (ADE), Production Manager (TE), Marketing Manager (TE), production staff (TE), Business Advisor (SC), R&D (TE)	8. Two days

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
6	9. How can information sharing be improved between production steps and throughout the business? How can we track this information? Develop MIS?	9. Workshop/planning session	9. Program Manager (ADE), Production Manager (TE), Production TA (external), Inventory Manager (TE), production staff (TE), MIS Specialist (external)	9. Three-day workshop, facilitated by external technical assistance
	10. What are the shortcomings of the existing system? What changes should be made? What type of management information system (MIS) should be used?	10.A. Systems audit with external MIS professional. 10.B. Workshop/ Discuss recommendations	10.A. & 10.B. Business Advisor (SC), all general and line managers (TE), MIS specialist (TE), financial staff (TE), contracted MIS professional	10.A. Three days audit/recommendations; 10.B. One day to discuss and decide on options.
	11. What internal controls are already in place within the enterprise? Where are the gaps? What changes need to be made in order to strengthen internal controls?	11.A. Systems audit with external MIS professional 11.B. Workshop	11. Business Advisor (SC), Business Manager, Operations Manager (TE), MIS specialist (TE), financial staff (TE), contracted MIS professional	11.A. Internal controls audit (included in above) 11.B. One day to incorporate new controls
	12. What is the customer feed back/perception regarding TARTINA's customer service? What is the current order fulfillment process? How can customer service be improved to better meet customers needs and expectations?	12.A. Market study 12.B. Workshop	12.A. & 12.B. Business Advisor (SC), Business Manager and relevant managers (marketing, customer service, inventory, operations, finance, etc.) (TE), MIS specialist (TE), sales staff (TE), external market research person	12.A. One week for market research 12.B. One-day workshop to develop customer service plan
	13. What will the production schedule be? What is the plan to manage purchase of raw material supplies?	13. Workshop and training of production staff and clients	13. Production Manager (TE), production staff (TE), clients, Business Manager (TE), Business Advisor (SC)	13. Two days to develop production schedule with production staff and MEs

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
6	14. How can the inventory be better managed? What type of controls can we put in place to reduce spoilage, loss, or theft?	14. Workshop and training of production staff and clients	14. Production Manager (TE), Inventory Manager (TE), production staff (TE), clients, Business Advisor, Marketing Manager	14. Three-day training One-day planning
	15. What are the costs of the production plan and the cash flow requirements? What are the unit costs for each product?	15. Financial planning workshop	15. Program Manager (ADE), Business Manager (TE), Financial Staff (SC, ADE, TE), Production Manager (TE), Business Advisor (SC)	15. Two days on finance plan to support production plan
	16. Production targets and their impact on the bottom-line?	16. Financial production planning workshop	16. Same as above	16. One day setting targets
	17. What social impact indicators will TARTINA track? Direct impact? Indirect impact? What systems will be used to monitor and assess impact for the enterprise?	17.A. Systems audit with external MIS professional 17.B. Workshop with statistician impact specialist. Discuss recommendations; build into plan	17.A. & 17.B. Business Advisor (SC), Business Manager (TE), Program Manager (ADE), production agents (TE) MIS specialist (TE), contracted impact specialist	17.A. Three days audit (same as for MIS); 17.B. Two-day workshop for planning. MIS development ongoing
7	**IX. Human Resources Plan** 1. What are the roles of enterprise actors? What is the relationship between them? Who is serving whom? 2. What kinds of human resources are required to support the marketing, production, enterprise management? On what salary scale? 3. What is the staff recruitment plan and timeline to hire new employees?	1-5. Workshop, staff inventory	1-5. Senior Program Management (SC, ADE, TE)	1-5. One day

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
7	4. What organizational structure is most appropriate? 5. What are the outputs, objectives and responsibilities of each position? Job descriptions?			
	6. What is the board's current development stage? Who is on the board? What are their skills, professions, and areas of expertise? Who is the board chair?	6. Workshop/discussion	6. Board members, Business Advisor (SC) and Country Representative (SC), Executive Director and Senior Management (AD, TE).	6. Half day
	7. What kind of incentive plan can we employ to motivate and retain staff?	7. Discussion/financial projections	7. Program Manager (ADE), Business Manager (TE) with assistance from project financial staff	7. Half day to prepare implementation plan
	8. What type of development plans do we need for staff and clients to build capacity? What are the specific training and TA needs for the enterprise staff? The clients? Who will provide training; what are the associated costs? Will external resource people be contracted or will TA/training be done in-house?	8. Needs assessment, internal skills inventory, planning session to schedule training and technical assistance	8A. Business Manager (TE), Marketing Manager (TE), Production Manager (TE), Business Advisor (SC), Financial Director (SC), Program Manager (ADE) 8B. Include production agents in discussion on client development needs	8A. Five days for needs assessment 8B. One-two days to develop technical assistance and training plans.
	9. When and where will plan be implemented; by whom and with what money (HR budget)?	9. Planning session, budget projections	9. Business Manager (TE), Program Manager (ADE) with assistance from financial staff	9. One day to prepare implementation plan

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
8	**X. Financial Plan**			
	1. What are the financial objectives and targets?	1. Workshop	1. Senior Management, Financial Director (SC), Business Manager (TE), Program Manager (ADE), financial staff (ADE/TE), Business Advisor (SC)	1. One-day workshop A number of calculations should have been made during preparation of above plans
	2. What social costs will be covered by the enterprise? How are they quantified? Using what methodology?	2. Workshop/discussion	2. Business advisor (SC), Financial Director (SC), Program Manager (SC), Senior Management: production, finance, program (TE) and production agents.	2. One day
	3. What are the financial requirements to support above plans (budget planning)	3. Workshop	3. Same as #1	3. One-day workshop
	4. How is TARTINA performing financially at present? Development and analysis of financial statement (balance sheet, profit and loss, cash flow statement and cash flow projection). What is the double bottom line? What are the strategic implications?	4. Presentation of financial statements by Financial Director (SC) and Business Manager (TE) followed by discussion	4. Three days	4. One day

Exhibit 1F: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
8	5. What is TARTINA's current financing mix? What is the projected financing mix over the next 2 years? From where will additional funds be sourced? What is the resource acquisition plan?	5.A. Workshop/discussion	5. A. Business advisor (SC), Financial Director (SC), Business Manager (TE), Finance Manager (TE), Business Advisor (SC) and accountants	5.A. One day to derive financial calculations
		B. Donor research	B. Business Advisor (SC), Business Manager (TE), Program Manager (TE), Executive Director (ADE)	B. Four weeks to do donor research
		C. Planning workshop	C. Same as A plus Executive Director (ADE)	C. One day to develop plan

The Vision, Mission, Objectives, and Business Description

Chapter 2

Chapter 2

The Vision, Mission, Objectives, and Business Description

"Strategic planning is worthless—
unless there is first a strategic vision."

— John Naisbitt, Author of "Megatrends"

Overview: The overriding challenge to managing a social enterprise is balancing business objectives with social objectives. The final goal of your program is to improve the lives of your target population through new or value-added economic opportunities. On the other hand, you are tasked with making your social enterprise (totally or in part) financially viable. In the private sector the bottom line is very clear: to increase the company's value for its shareholders, in other words, to make money. Social enterprises have two bottom lines—a financial and a social one—and the culture of one is very different from the other. Many development professionals fear compromising their social objectives by succumbing to pressure to increase the income of their enterprise. The irony, however, is that by focusing solely on achieving social objectives, they put their entire program at risk because it may not be sustainable in the future. So how does one maintain equilibrium between these seeming polar opposites?

A clear **vision** and ***mission statement***, **objectives**, and **business description** are important points of departure. The vision is what guides your social enterprise and energizes your stakeholders; it is the "big picture" illustrating what you expect to achieve. The mission statement defines who you are and where you are going. The objectives give you tangible milestones by which to get there. Finally, the business description summarizes your business profile and asserts what business you are in. In this chapter you will begin developing your business plan with exercises that answer fundamental questions about your social enterprise, which will ultimately help you strike a balance between social and financial objectives as they pertain to each section of your plan.

Mission statement— a short declaration of the central purpose, strategies, and values of a social enterprise.

We suggest that all key stakeholders participate in this stage of business plan development.

Exhibit 2A: TARTINA Enterprise Prior to Vision and Mission Realignment

This program has an identity crisis. It wants to know: "What am I, a program or an enterprise?" Save's perception is that the social enterprise is a program on its way to being an enterprise that has both social and profit motives. A united vision for the social enterprise is desperately needed. Whether TARTINA remains a program or becomes an enterprise has radically different implications for its objectives and priorities.

On the one hand, if we decide that TARTINA is to be a true enterprise, then stakeholders must commit to engage only in business activities that can eventually survive in "the real market." In the extreme case, they may find that none of the products currently being produced have any hope of being competitive. This will present a different set of challenges for the enterprise. In this business model, objectives of full cost recovery and certain profit targets will come first and social objectives will follow. On the other hand, if we proceed on an assumption that TARTINA is an "enterprise program" that will always be subsidized, then more attention can be focused on meeting social objectives. In addition, this type of incarnation would relieve stakeholders of making potentially painful decisions.

Save the Children believes that social enterprise stakeholders are striving for the former scenario—a true enterprise model that is self-sufficient and that also meets the desired social objectives. The question is whether we are ready to make some of the hard business decisions that come with this prioritization of objectives within the mission.

Therefore, before we can proceed, all stakeholders in the social enterprise program must develop a common vision and mission for the TARTINA venture, one that embodies its identity, priorities, objectives, and vision for the future.

Vision Statement

A vision is a global concept, it paints a picture of the social enterprise's direction and future. An effective vision statement succinctly communicates an uplifting philosophy that energizes social enterprise stakeholders to embrace challenges in order to successfully accomplish its goals.

Rationale:
A vision statement should remain relatively constant well beyond the life of your involvement as an international organization or intermediary in the social enterprise. The normal life span of a vision statement is 10 to 20 years. It articulates the ultimate long-range goal for your social enterprise. The time to revisit your vision statement is the point when your enterprise either has achieved its vision or has substantially moved away from it. For example, Microsoft's corporate vision since 1975 was "to put a computer on every desk and in every home." In March 1999 Microsoft drafted a new company vision that focuses on the power of the Internet, "offering people and businesses the ability to be connected and empowered any time, anywhere, and on any device."

All Key Social Enterprise Stakeholders—Board members, partner executive, senior enterprise managers, parent organization, business advisor, staff

Creating a Vision Statement

Use the following questions as a guide to formulate your vision:

▲ How do you envision your social enterprise in 10 years?

▲ How is what you hope to achieve embodied in this vision? In one or two lines, write a vision statement for your social enterprise. An example is given for TARTINA Enterprise in Haiti (exhibit 2B).

Vision Statement is included in the Business Plan

EXHIBIT 2B: SAMPLE VISION STATEMENT FOR TARTINA ENTERPRISE

"To develop the self-determination of a large group of disenfranchised self-employed women engaged in food transformation of agricultural production in rural Haiti by way of a viable enterprise that contributes to a higher standard of living for themselves and their families."

Mission Statement[1]

Rationale:

The mission statement is the heart of your social enterprise. It describes its central purpose and the basic principles that guide the actions of employees, partners, and management. As well, it articulates the strategy you will use to accomplish your goals and objectives. A mission statement also defines your target population and embodies the organizational values of your social enterprise.

The mission statement also provides direction to your social enterprise. If the business plan can be considered the *road map* of your social enterprise and the vision is the *direction* in which you are going, then the mission statement consists of the *street signs* to get there. ***Your business plan must be consistent with your mission statement, so use it as an anchoring guide in each step of the planning process.***

[1] Methodology in this section adapted from "*What's in a Mission Statement*," The Alliance, Washington, DC (www.allianceonlone.org); the text has been edited.

All Key Stakeholders (same as previous exercise)

Five Steps to Developing a Mission Statement

- ▲ Developing a mission statement entails defining the "who," "what," "why," "for whom," and "how" of your social enterprise.
- ▲ Work through the following exercises with your stakeholders to develop a comprehensive mission statement that clarifies these key questions.
- ▲ Arriving at a mission statement that all stakeholders can support may require several iterations.

1. Client Statement

The client statement is the "for whom" of your social enterprise; it identifies the members of your target population and the basic strategies you will employ to reach them. In one sentence, articulate whom your enterprise is intended for, using the following questions as a guide:

- ▲ Whom have you identified as the target population of your social enterprise?
- ▲ What needs have they stated to you?
- ▲ What activities and subsector are they engaged in?
- ▲ Where are they located?
- ▲ How will you reach them?

> ***Example:*** *"The target clients of the Haiti social enterprise are poor women engaged in food transformation of agricultural products in the Goavian region, the community surrounding the local implementing partner."*

2. Problem Statement

The problem statement is the "why" of your program. It defines the problem you are seeking to mitigate through your social enterprise. In a few lines summarize the problem, using the following questions as a guide:

- ▲ What is the predominant need you identified among your target population?
- ▲ What are the constraints the target population faces in maximizing profit in its businesses?
- ▲ Is the prevailing problem of a business nature, such as poor-quality products, raw material limitations, or lack of working capital? Or is it of a social nature, such as gender discrimination or other social dynamics within the industry or subsector?
- ▲ Can this problem realistically be alleviated through a social enterprise?

If you find that you have identified several problems, be pragmatic about which ones can realistically be tackled in your program. You will not solve all the country's ills with one social enterprise program, so it is best to focus on what is doable.

> ***Example:*** *"The main problem faced by these self-employed women is access to markets in which to sell their products."*

Mission Statement Planning

Be careful not to confuse the mission statement of your social enterprise with the mission statement of the parent organization or implementing partner you have identified. The purpose, principles, and strategies employed by the other institutions involved will not be the same as yours. This is especially true with regard to multisector organizations, which may serve several missions simultaneously—ranging from health to education to business services. The mission statement of your social enterprise complements those of the organizations you are working with, yet it stands alone.

3. Statement of Purpose

The statement of purpose describes "what" your social enterprise seeks to accomplish. It answers the question, "What will the ultimate result of your work be?" The statement of purpose uses infinitive verbs such as "to eliminate," "to increase," "to improve," and "to prevent," indicating a change in status related to the problems you seek to alleviate.

▲ In defining purpose, focus on *results* rather than methods. Consider questions like "How is the situation going to be different because of the social enterprise?" and "What is going to change for the target clients?" For example, the purpose of a marketing social enterprise would not be "to provide marketing services to poor women entrepreneurs" but "to increase market opportunities and income of poor women entrepreneurs."

▲ In one or two sentences, using infinitive verbs, describe the desired result of your social enterprise and the problem or condition that you aim to change.

> ***Example:*** *"To increase economic opportunities and income of poor women entrepreneurs engaged in food transformation of agriculture."*

4. Business Statement

The business statement describes "how" your social enterprise will achieve its purpose by depicting the activities you will undertake to this end. In doing so, the business statement characterizes the basic strategy you will use. Most purpose statements yield several potential strategies, each one constituting a different "business." To increase poor women entrepreneurs' income, you could provide access to affordable credit, business training, and improved production technology, among other options. Writing a business statement clarifies the means to accomplishing your purpose and gets everyone reading off the same page.

▲ If the word "and" appears in either your statement of purpose or your business statement, ask yourself if you are equally committed to both ideas connected by the word "and" and, if not, acknowledge that one idea is more important. In other words, prioritize your ideas while writing your mission statement.

▲ Write a business statement for each statement of purpose.

> ***Example:*** *"To increase economic opportunities and income of poor women entrepreneurs through production technology, research and development, and marketing services that enable them to produce commercially competitive, high-quality goods and link them directly to markets."*

5. Value Statement

The value statement communicates the "who" of your social enterprise by embodying the beliefs and principles of your program. Values guide staff, management, and leadership in performing their duties. Often, the values of an institution, such as commitment to economic justice for the poor, integrity, honesty, innovation, cost recovery, or religious conviction, are important elements in a staff member's decision to work with an organization or are the reason a donor or board member supports a particular program. Ideally, the personal values of stakeholders are aligned with the values of the social enterprise program. Through a participatory process of developing a written value statement, program staff and leadership have an opportunity to delineate the values they want the organization to encompass and realign them if necessary. In addition, such a statement holds stakeholders accountable in programming and operations.

All key stakeholders

▲ In a few lines, write a value statement for your social enterprise.

> **Example:** *The social enterprise is committed to bridging gaps of economic disparity among poor self-employed women and developing self-determination. The guiding principle of the social enterprise is to operate as a business with the goal of full cost recovery, believing this to be the only viable means to achieve sustainable objectives of economic justice and improved quality of life for poor women in the Goavian region of Haiti.*

Same as above

Writing a Mission Statement

▲ Synthesize the work completed in the previous five steps into a comprehensive statement. Although length is not specified, a mission statement should be brief, consisting of just a few lines or sentences.

Mission Statement is included in Business Plan.

Example of Mission Statement for TARTINA

"To increase economic opportunities and income of poor self-employed women engaged in food transformation of agricultural production in the Goavian region of Haiti through the creation of a financially viable social enterprise that provides them with commercialization services and market linkages so they can supply high-quality products to their customers."

A Mission Statement Example From A For-Profit Community Health Food Store,[2] The People Garden

"To strengthen the Mount Pleasant community by developing nourishing, multicultural, and enjoyable food resources and, in the process, connect people and build resources to support holistic community-driven development."

[2]Permission to reprint provided by Jeff Brechbuhl, proprietor of The People Garden.

Social Enterprise Objectives

A social enterprise requires both efficiency and effectiveness.

Rationale:
An objective is an end result, and it is often referred to as a "target" in development literature and proposals. Objectives serve as quantitative measures within a fixed time frame that propel your social enterprise toward accomplishing its mission. The time frame for achieving the objectives should correspond with viability and other mid-term goals set forth in the mission statement. Secondary objectives for marketing, human resources, and production flow from these main objectives, and subsequently, operational strategies are built upon them. For example, financial viability is determined by forecasting the enterprise's break-even point (see Chapter 5, "Break-even Analysis"), then benchmarks are set and aligned with the business plan, which details strategies for achieving these objectives (chapter 8, "Setting Financial Targets").

Exhibit 2C: Objectives Align With Mission and Vision

The objectives must address both bottom lines—business and social—of your enterprise and can be divided into two categories: social impact objectives and financial sustainability objectives[1].

Regardless of type, objectives must be **SMART:**

- ▲ **S**pecific — well-defined and clearly stated
- ▲ **M**easurable — quantifiable or absolutely calculable
- ▲ **A**chievable — realistic under the circumstances
- ▲ **R**elevant — supporting accomplishment of the mission and contributing to realizing the vision in the long term
- ▲ **T**imebound — time based (corresponding to the period of the business plan)

Social Impact Objectives[1]

Social impact objectives enable you to measure the social aspect of your mission statement.

Two objectives among these can be easily defined as SMART objectives:

- ***Scale*** — the number of the target population—self-employed, small producers, poor people, homeless, physically or mentally handicapped, etc.—that your social enterprise will benefit. How scale is quantified depends on the goals and design of the program, but it is often expressed as a number of individuals served or jobs created.

Profit sharing—a compensation arrangement whereby employees receive additional pay or benefits when the company earns or increases profit.

- ***Income Level*** — the level of net income distributed to the target population. It can take the form of wages, salaries, or ***profit sharing***. It is often expressed in dollar or other currency value, as a total income per individual.

Other social impact objectives can be slippery and difficult to measure, and are likely to vary greatly among enterprises based on the needs of the target population and mission. Some generic examples are:

- Skill and management capacity to run enterprise operations measured by the ability to conduct certain tasks;
- Asset Accumulation;
- Percentage of clients' children in school;
- Decrease in out-migration;
- Improvement in housing or living situation.

Financial Viability Objectives

Financial viability objectives represent the business component of your mission by addressing the social enterprise's financial bottom line and measuring its viability.

- ***Cost recovery*** — gauges the ability of the social enterprise to cover its costs through generated revenue. Cost recovery is expressed as the percentage of

[1]Several new initiatives aimed at developing social enterprise performance and social impact indicators are being conducted by Small Enterprise Education Promotion Network (SEEP) and the Roberts Foundation, among others.

expenses covered by the revenues in a given period. For instance, a 25% cost recovery means that 25% of the total cost was covered by 25% of the total revenue, the remaining 75% being covered by subsidies.

- ***Net Profit/Loss*** — measures social enterprise profitability via the financial bottom line. A net positive number indicates a profit, whereas a net negative number indicates a loss. *Net profit*/loss can also be considered a "test of the market" indicator demonstrating the enterprise's ability to operate as a successful business. Net profit/loss is reflected in the last line of the income statement and expressed in dollar or other currency value.

- ***Cost-efficiency*** — measures the ability to render services at a decreasing cost over time. Cost-efficiency is often quantified as a net loss or profit per individual, expressed in dollar or other currency value. If the cost-efficiency amount is a negative value, it represents the amount of subsidies per individual necessary to support the social enterprise. If it is a positive value, it represents the profit generated by each individual.

Net profit—what remains after all expenses have been subtracted from revenue; also referred to as net income.

Combining the Objectives

> *"There are potential conflicts between some of these [social impact and financial sustainability] criteria. For example, strong outreach (scale) performance may occur at the expense of both business and development impact. High levels of financial sustainability may well be at the expense of outreach, particularly among more disadvantaged groups. Looking at performance in relation to only one or two criteria can easily distort the true picture of performance."*[2]

If your objectives seem incompatible or incongruous, it is a red flag that they may not be achievable. In this case, adjusting expectations and objectives within limits that all partners can agree on—i.e. reconsider the target income level or the scale of the program; change the cost structure of the business to increase efficiencies; or increase the number of years before financial sustainability—can help you find a better fit between your objectives and mission. If this approach doesn't yield stakeholder satisfaction, you may need to rework your mission statement and repeat the process until a workable mix is found. Finally, if dissatisfaction prevails, you are probably in the wrong type of business or industry to support a social enterprise venture (see chapter 4), therefore you will have to ***select another business***.

In TARTINA's example, the enterprise is projected to break even in a little more than six years; however, the scale and impact targets may not be sufficient to fulfill its mission. The enterprise cost-efficiency is very low in the early years, which could be due to high costs of capacity building, typical in social enterprises. TARTINA's stakeholders may decide to scrutinize enterprise objectives and renegotiate them before moving forward with this venture.

[2]Business Development Services for SMEs: Preliminary Guidelines for Donor Funded Interventions, October 1997.

Business advisor, enterprise managers, staff, partner executive

Developing Objectives

- ▲ Establish social enterprise objectives. Use the TARTINA example in exhibit 2D as a reference to help you complete this exercise.
- ▲ Our approach does not require using exactly the same objectives we define in this manual. You may use any objectives in your business plan provided that they (1) address **both bottom lines**—business and social—of your enterprise; (2) advance the enterprise mission; and (3) are SMART.

Objectives are included in the Business Plan.

Exhibit 2D: TARTINA Social Enterprise Objectives

TARTINA projects viability in seven years, therefore objectives are projected over that period.

Social Impact Objectives

Scale[3]

TARTINA's objective is based on beginning with 120 clients and increasing that number by 20% each year over a seven-year period.

Year	1	2	3	4	5	6	7
# of Clients	120	144	173	207	249	299	358

Income Level

Income potential must be greater than what the self-employed poor earn in other income generating activities and more stable in order to raise standards of living. A base-line analysis on current income levels of the self-employed poor is conducted. Based on this information, TARTINA established the following objectives for income level on a seven-year period:

Year	1	2	3	4	5	6	7
Monthly Income per client	$67	$73	$78	$85	$91	$98	$106
Total Annual Income per client	$804	$876	$936	$1,020	$1,092	$1,176	$1,272

Vertical integration—expansion by moving forward or backward within an industry. See also *backward* and *forward* integration.

[3] The SC/Haiti social enterprise program is in the process of widening "scale of impact" to other beneficiaries. In addition to enterprise clients, raw material suppliers, notably, rural Haitian peanut farmers, are also receiving benefit from the social enterprise program. Peanut farmers need assistance in improving productivity yields and the quality of peanut species. This ***vertical integration*** is needed to ensure timely access to the required quantity and quality of supply. (Note that the expected number of peanut farmers to be reached by the social enterprise program has not yet been determined.)

Other Social Impact Objectives for TARTINA

By the conclusion of year seven, the social enterprise aims to:

- Create 370 new job opportunities: 358 clients and 12 ADE/TARTINA staff.
- Decrease rural out-migration by 50 percent.
- Link a minimum of 65 percent of clients to ADE's other development activities, including agricultural extension, education, and health services.
- Develop organizational and management capacity, as measured by achievement of specific performance targets identified in the human resource plan.

Estimating the Financial Viability objectives

Cost Recovery Formula: Total estimated revenue divided by total estimated expense, multiplied by 100.

Year	1	2	3	4	5	6	7
Total revenue	$15,000	$45,000	$95,000	$145,000	$190,000	$215,000	$235,000
/Total expense[4]	$150,000	$265,000	$280,000	$285,000	$270,000	$225,000	$185,000
Cost recovery	10%	17%	34%	51%	71%	96%	127%

Net Profit/Loss Formula: Total estimated revenue minus total estimated expense

Year	1	2	3	4	5	6	7
Total revenue	$15,000	$45,000	$95,000	$145,000	$190,000	$215,000	$235,000
/Total expense	$150,000	$265,000	$280,000	$285,000	$270,000	$225,000	$185,000
Net Profit/Loss	($135,000)	($220,000)	($185,000)	($140,000)	($80,000)	($10,000)	$50,000

Cost-efficiency Formula: Net Profit/Loss divided by number of clients

Year	1	2	3	4	5	6	7
Net Profit/Loss	($190,000)	($220,000)	($185,000)	($140,000)	($80,000)	($10,000)	$50,000
/ by # of clients	120	144	173	207	249	299	358
Profit/Loss per client	($1,125)	($1,528)	($1,071)	($675)	($322)	($33)	$140

Business Description

In keeping pace with the widespread notion that "the guiding paradigm for the management and operations of social enterprises should be SMEs [small or medium enterprises] themselves,"[5] Save the Children champions this kind of businesslike organization[6] by creating the program as a separate ***entity*** or social enterprise. Therefore, regardless of the type of social enterprise (marketing, training, advocacy, technology, employment etc.), it should be treated as a business with its own guiding mission and objectives, human resources and accounting system, and be definitively segregated from other nonprofit, implementing partner or parent organization programs.

Entity—something that has a distinct existence or conceptual reality.

[4]Save the Children does not include SC/Haiti overhead or technical assistance costs as part of program expenses in this calculation (see chapter 8, Financial Plan, for more information).
[5]Gibb, A.A., and G. Manu.1990. Design of extension and related support services for small scale enterprise development. International Small Business Journal 8, no.3.
[6]Ibid.

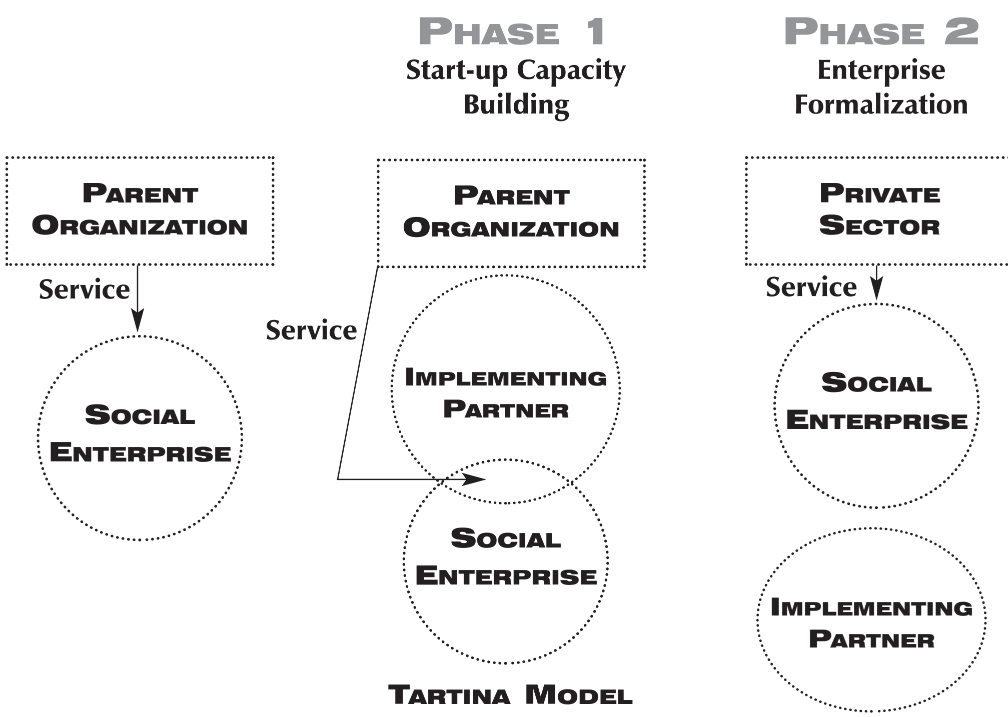
Capacity building—the act of transferring skills or management knowledge through training, technical assistance and applied learning. Capacity building occurs on two levels. *Client capacity building* refers to hard and soft skills development aimed to increase clients' employability, economic security and self-esteem. In some cases, clients are also trained in management. *Institutional capacity building* transpires at the level of the social enterprise. It is the supported process of transforming a nonprofit program into a business. Management capability of nonprofit and business professionals is developed to simultaneously achieve the enterprise's financial and social objectives.

Formalization—the process of shifting the social enterprise from a nonprofit program under auspices of the parent organization to a separate business entity. Formalization requires changes in legal structure and ownership to detach from the parent organization.

The danger of not using this approach is the confusion that can arise on all fronts among the parent organization, the implementing partner and the social enterprise program itself. Income and expenses blur. Accountability for realizing business objectives is unclear. Human resource roles and functions are vague when the social enterprise is considered an extension of the partner organization. Priorities related to achieving the partner's mission versus the enterprise's mission become muddled. Hot debate occurs around issues of asset ownership and the use of enterprise revenue.

Save the Children employs two different methods of social enterprise creation (exhibit 2E). In the first method[7], SC launches a new local social enterprise without working through an intermediary. Start-up costs for this strategy of enterprise creation may be higher, but this structure performs better as a business in the long run. SC builds management and technical "business know-how" capacity so the enterprise becomes viable. The second model[8] (center) is implemented in two phases. The enterprise begins as a program of the local intermediary, and some crossover exists between personnel, leadership, and resources, although the vision, mission, objectives, and "business of the two entities" are distinctly separate. ***Capacity building*** is achieved through the external assistance of the parent organization (in SC/Haiti, a PVO). In the next phase, ***formalization***, the enterprise spins off as a business that is completely separate from the implementing partner (nonprofit, private company, etc.). Once formalized, the enterprise shifts from subsidized third party technical assistance and seeks fee-based specialized support from the private sector, or another service provider.

EXHIBIT 2E: SAVE THE CHILDREN'S APPROACH TO SOCIAL ENTERPRISE CREATION



[7]At the time of this writing this new enterprise creation strategy had been successfully executed only in SC's microfinance programs.
[8]TARTINA Enterprise in Haiti follows this model.

The Name of the Business

Rationale:
Many social enterprise programs use the implementing partner or parent organization name rather than creating an independent name for their enterprise. If your organization has an established image or reputation for its other programs, such as in health and education, you may lose potential enterprise customers who think they already know what the organization is about. *What would you think about a name like Save the Children Peanut Butter?* It is best to give your social enterprise its own name. A name also helps to mentally separate the enterprise activity within your organization and position it for formalization and viability.

Brand—product group identified a name of a company or manufacturer.

About Social Enterprise Names
The name should reflect your social enterprise's image and attributes. In choosing a name, decide what you want people to know about your business. Remember that the name is the first impression prospective customers have of your social enterprise. Here are a few types of names to consider:

Suggestions for Choosing Names

- A name should sound positive.
- It should reflect your identity (self-determination for the poor, local identification, high quality, etc.).
- Avoid difficult names. Names should be easy to remember, spell, and pronounce.
- Names should be unique so people do not confuse your business with others.
- Do not use a name that will limit you in the future if you want to diversify your products, services, or the geographical areas you serve. Choose a name that will allow you to expand.
- Use a descriptive name that tells potential customers about the attributes you want them to remember.
- Pick a name that will sound good and look attractive in print, such as on letterhead, posters, brochures, etc.
- Use descriptive names unless you are certain that a person or place name will be recognizable and understood by your target customers.
- All stakeholders should agree upon the name of your social enterprise.

- ***Fanciful names***, like Nike or Lotus. Marketers spend a lot of money trying to associate a name in customers' minds with a product that is unique or special. This is called developing ***brand*** image.
- **Descriptive names.** These are names that give specific information about your enterprise or product; they often mention product attributes. For example, a microfinance institution in Lebanon is called "Al Majmoua," or "the group" in Arabic, stressing its group lending methodology. "TOPLA," (see Chapter 9) includes "top" to indicate its mountainous rural location; and "top" is a Haitian colloquialism meaning "the best." "Msasa Phone and Fax Bureau" tells you exactly what the business does, but it may be limiting if the firm decides to offer other services, like e-mail.
- **People or place names.** Businesses can be named after a person, usually the founder, or a place, indicating the actual location of the business or referencing a place that conjures up an image related to the business. For example, "Rocky Mount Bar-B-Q" in the Illinois flatlands suggests Southern-style barbecue from

Rocky Mount, N.C. Consulting firms often use the name of the principals in their title, such as Coopers and Lybrand or Morehouse and Associates. The problem with using people or place names is that they may not be recognizable to your customer. If the social enterprise's name does not ring a bell in the mind of the customer, too much time and money will be spent on branding.

- **Combination.** Some businesses combine descriptive terms and names of people, such as "Ncube Construction" in Zimbabwe.

Enterprise managers, staff, clients

Creating a Name

- ▲ Brainstorm potential names with the key stakeholders in your social enterprise. What image or attributes do you want people to think about when they hear your enterprise's name?
- ▲ Select a name for your social enterprise.

Description of the Business

Rationale:
The business description defines the business identity of your social enterprise. The exercise that follows will help you segregate your social enterprise program from other programs in your portfolio and conceive of it as a business.

Enterprise managers, parent organization advisor, staff, partner executive

- ▲ Write a description for your social enterprise business using the Business Description Template (exhibit 2F).
- ▲ In brief summary form, describe the nature of the social enterprise business as well as the key factors that will contribute to its success. The nature of your business encompasses the reasons you chose this particular business, namely the prevailing needs of your clients and demands of your marketplace. Without going into great detail, include how you plan to satisfy these needs using your products and services. The key success factors can often be translated as comparative advantages and might include a superior ability to satisfy your customers' needs, an efficient method of delivering your services, or the availability of highly qualified personnel.
- ▲ If your social enterprise is a business start-up rather than one that builds on an existing enterprise or program, you will not be able to give details of its history or performance to date. Instead, focus on the experience and background of your organization and partners that led you to the decision to start a social enterprise. Describe the problems in your target market and what solutions you will provide. Demonstrate how your and your partners' expertise will contribute to these solutions.

Business Description is included in the Business Plan.

Although this section raises several important questions about your social enterprise, the business description is considered an overview and should be no longer than *a few paragraphs to one or two pages*. You will have ample opportunity in other sections of the business plan to develop and expound on the topics broached here. Focus on the subjects that will help you conceptualize your program as an enterprise and portray that concept to your stakeholders.

Exhibit 2F: Business Description Template

- ▲ Date the enterprise began
- ▲ Name of the enterprise
- ▲ Sector
- ▲ List of products manufactured or services rendered
- ▲ Legal status
- ▲ Location
- ▲ Description of the nature of the business
- ▲ Key success factors
- ▲ List of service providers involved
- ▲ Management and leadership
- ▲ Description of facilities or plant
- ▲ Financial status
- ▲ Description of relationship with partners and/or donors
- ▲ Description of organization's and local partners' relevant experience
- ▲ Summary of the business' history
- ▲ Summary of future plans for the business

Exhibit 2G: Business Description from TARTINA Enterprise

Date the enterprise began: May 1997.

Name of the enterprise: TARTINA Enterprise.

Sector: Manufacturing; food processing.

List of products manufactured or services rendered: Mamba peanut butter, four flavors—salted, unsalted, sweetened and spicy; Chadèque grapefruit jam; Grenadia passion fruit jam; and Karapinia sugar- and spice-coated peanut snack food.

Legal status: NGO, a program of ADE.

Location: Colline, a rural, hilltop village 2½ hours from Port-au-Prince (PAP).

Description of the nature of the business: TARTINA Enterprise adds value to existing food-processing activities of poor rural women living in and around Colline by commercializing their products. In doing so, TARTINA imparts management and manufacturing skills, and extends income and employment opportunities to these women, as well as providing Haitian families with the nutritious, high-quality, high-value domestically-produced foods they desire.

Key success factors: All raw materials and production inputs are domestically sourced; clients have equity stake in TARTINA; all production staff, management, and some sales staff are from the Colline community; marketing and sales staff support the social mission behind the product; TARTINA is a socially responsible community enterprise.

List of service providers involved: Association pour le Développement Economique (ADE).

Management and leadership: Charismatic, well-connected executive director of ADE; an expatriate business advisor based in PAP; a production manager with 1½ years' experience in food processing; a part-time TARTINA business manager with extensive management experience; and a financial director and accountant. ADE is currently recruiting a TARTINA marketing manager.

Description of facilities or plant: Production center—one vented building with two production rooms, one for peanut products, one for jam, and a courtyard for sorting raw materials, crating products, etc. Two peanut silos for raw material storage. There are two grinders, four industrial cookers, and storage space for jars and materials.

Financial status: Seed capital and operating costs funded and underwritten by an ASSIST grant for a total of $500,000 for three years. At the close of this grant period, additional donor funds will be required. TARTINA is projected to earn a profit in seven years.

Description of relationship with partners and/or donors: Save the Children and ADE have an open and collaborative relationship with ASSIST. Despite changes in the original design and model, ASSIST has continued to invest in the social enterprise project, leveraging lessons learned in order to define standards for cost-effectiveness, cost recovery, and scale in the business development services sector of international development.

Description of organization's and local partners' relevant experience: ADE is a community-based organization with experience in education, community development, and microcredit. ADE currently has a portfolio of 8,000 clients receiving financial services. ADE had no food-processing or manufacturing experience prior to the TARTINA launch.

SC supports social enterprise programs in 15 countries worldwide. In 1993 SC launched its first social enterprise in the Philippines, then called "WMEN." Economic opportunities staff (U.S. & Haiti) have appropriate credentials (MBAs and CPA) and several decades of cumulative business experience.

Summary of the business' history: The original three-year program agreement was designed as a decentralized network in which self-employed women sourced their own raw materials and produced their own food products at the homestead level. ADE managed marketing and distribution functions through the creation of TARTINA Enterprises.

As it turned out, TARTINA customers demanded a highly standardized product, which could not be achieved through decentralized production. TARTINA therefore pursued a strategy of backward integration, assuming production and raw materials acquisition aspects of the business. Decentralization remained only in the form of home-based peanut roasting and acquisition of fruit for grapefruit jam. The new centralized model stabilized product quality and realized some economies of scale and cost savings (economies of bulk purchase). During this time ADE also tested 23 products. After analyzing break-even points, profit margins, and demand for each product, TARTINA's product line was narrowed down to seven products. ADE also experimented with distribution channels, settling on a formal sales staff structure to reach commercial and artisan markets.

Summary of future plans for the business:

- The customer preference for product standardization and quality control will be met through centralized client training and follow-up and supervision on a continuous basis. Standardization also extends to the need for tight quality control at the raw material purchasing stage.
- Cost savings will also be realized through centralized bulk purchases of production inputs, and seasonality of raw material inputs will be reduced to some extent through storage facilities and proper storage techniques.
- TARTINA will pursue a deep market penetration strategy in large urban markets. The product strategy will focus on two established products and invest in two new products.
- To increase economic opportunity and income, clients will be paid wages plus a percentage of profits.

Target Market

Chapter 3

Chapter 3

"I don't know the key to success, but the key to failure is trying to please everyone."

— *Bill Cosby*
Comedian

Overview: It is not enough to have a great idea as the basis of your social enterprise; you must also have a market that is sufficiently large, accessible, and responsive to sustain your business. If you can't reach your market or it isn't ready for you, your enterprise will fail. The lack of a well-defined target market has been the undoing of numerous social enterprise programs, including Save the Children's own. Many a sustainability plan has hinged on neat calculations of products or services that will be sold to cover program costs, without regard to the needs, wants, or preferences of the customers buying these products. Considering these factors is what is meant by being "demand led."

This chapter will help you define and understand the target market or customer for your social enterprise. The activities involved are in essence a market study, yielding information about what makes your social enterprise customers tick—their likes, dislikes, buying habits, and tastes. Later, when you create your marketing plan in chapter 5, you will use this information to devise a strategy to reach them.

> **"Client" vs. "Customer": A Note on Vocabulary**
>
> Target population—the microentrepreneurs on whose lives your social enterprise program is trying to have a positive impact by increasing economic opportunities is often referred to as the client. The word customer refers to the target market, those purchasing the products or services being sold by your social enterprise. The distinction should be clear in your mind before you begin this segment.

For All Exercises in Chapter 3

PO business advisor, market manager, business manager, sales staff, external market research consutant (if desired).

The Customer

Identify Customers

Rationale:

A social enterprise may have several different groups of customers, or target markets, in its total market; it may sell products or services to nonprofit organizations, individuals, companies, traders, artisan markets, vendors, entrepreneurs, etc.

Market segmentation—dividing the total market into distinctive groups of consumers who share common characteristics.

The task of dividing up the larger market into smaller units with common characteristics is called creating ***market segments***. Segmenting the market serves to prioritize the principal target markets you will concentrate on. Throughout the chapter we discuss numerous ways to segment and analyze markets to gain intimate knowledge of your customers.

Determining Customers

- ▲ Who is your customer? Who is paying for your service or product?
- ▲ What customers are you not reaching who might be potential target markets for your social enterprise?
- ▲ Which customers are the most important (primary, secondary, tertiary, etc.)? (See TARTINA market example, exhibit 3A.)
- ▲ Most important using which criteria? Do you need to sell many or a few products?

Customer Identification is Included in the Business Plan

Who Is the Social Enterprise Customer?

As social entrepreneurs, the most obvious response is that we are serving the poor and disadvantaged. In social enterprise programs the customers and the client may be the same; as in financial service businesses, services are usually, but not always, sold directly to the client. Many social enterprises serve their clients by providing them with a service to improve their businesses, but the final customer is the one who buys the "client-made" products.

Exhibit 3A: Market Rating for TARTINA

Primary Market	Secondary Market	Tertiary Market
Retailers	Institutional Sales	Individuals
Criteria: (1) sales volume; (2) profit margins		

Although TARTINA products are made by its clients, the target market is consumers of peanut butter and jam. Since ***profit margins*** are low on these products, covering social enterprise costs requires identifying markets where TARTINA can sell the products in high volume. Haitians who buy peanut butter and jam do so first from grocery and convenience stores, then from artisan markets. Therefore, wholesaling to retailers is the best means by which to reach large numbers of customers. Selling directly to institutions or individuals reaches fewer customers, though there is a higher profit margin because there is no retail markup.

Profit margin—an accounting term that describes the ratio of income to sales.

DISTINGUISH CUSTOMER LEVELS

Rationale:

Once you have identified your principal target markets, you will have to probe beneath the surface a bit. Customers can be more complex than they appear. Often there are people other than those who purchase the product or service who have an influence on the purchase decision, and they have to be viewed as customers as well. The following is an exercise in vertical market segmentation intended to help you distinguish customer levels in your target markets. You need to identify all customers first to begin to understand their buying habits and motivations.

Explanation of Customer Levels

Within a given target market there may be several layers of customers, or additional markets, to understand. If your social enterprise does not sell its products or services directly to the end user, but instead sells them to wholesalers, retailers, or distributors, you have two markets to define—the final customer and the actual customer. For example, if your enterprise is a grain mill that produces and sells millet flour to retailers, your actual customers are stores, bakeries, and cooperatives, but your final customers are individual consumers of millet flour products. And in some businesses, even the final customer and the purchaser may not be the same. For a training organization that contracts with governments to train their staff, for example, the final customer is the people getting trained, whereas the purchaser is the one paying for the training, the government. Women are often charged with purchasing food for their families, which includes items they do not consume themselves but that have been requested by other family members. In such a case, there might be as many four customer levels: (1) the actual customer (the store carrying the product); (2) the decision-maker (a father who requests the purchase); (3) the purchaser (the mother who buys the product at the store); and (4) the final consumer (the child who eats it). *Be sure to carefully distinguish all of your markets* (exhibit 3B).

Which Customers Are Most Important?

Criteria for determining which customers, or markets, are the most important are based on your business objectives and mission, established in chapter 2. Usually these criteria are a combination of who pays, how many they buy, and how much they pay (which customer, volume, and revenue).

If your social enterprise is providing training services to clients, yet is paid as a percentage of clients' income, you have a vested interest in the purchasers of the client-made products. In another example, a social enterprise provides market access services to clients by selling their products to industrial and commercial markets. The enterprise pays producers directly for their goods, then sells them at a markup to cover the costs. Who is the customer of this social enterprise—the companies buying the products or the clients?

Exhibit 3B: TARTINA Market Study Outline Aimed at Defining Target Markets

In the analysis of our target market we will attempt to understand:

Level 1: The Actual Customer
Currently, the lion's share of sales are to supermarkets and institutions through consignment sales in Port-au-Prince (PAP). These customers will ultimately agree to purchase TARTINA products if they can be guaranteed a high sales turnover. That part is easy enough. But we must understand and address the other buying motives of the retailer. Likely priorities for the retailer include timely delivery of product, favorable payment terms and conditions, and responsive servicing of product.

Level 2: The Decision-Maker—The person who makes the decision to purchase TARTINA products.

Level 3: The Purchaser—The person who actually purchases the product.

Level 4: The Consumer—The person who primarily consumes the product.

Beware: ***Levels 2-4 are not necessarily the same!***

Understanding buying motivations of these three levels is tricky. For instance, children are the biggest consumers of peanut butter and jam. They also play a role in deciding what brand is purchased, a bigger one than was initially expected. Children push around their own shopping carts in PAP and put all of their favorite items into them; they are thus in a position to exercise a significant degree of control over the purchase decision-making process. We need to learn a lot more about the tastes and buying preferences of these young consumers because they affect every aspect of production and marketing. For example, promotion (including product packaging) should be primarily targeted at children, placement of TARTINA product on shelves in supermarkets should be at a child's eye level, etc.

Children don't completely rule the roost, however. Parents still play a role in deciding what brand of peanut butter and jam to buy—whether to buy Mamba at all and so on down the line for each TARTINA product. For each product, we need to know who in the household bears the greatest influence on the decision to make the purchase. The assumption is good old Mom. Likewise, the assumption is that it is the female head of the household who physically makes the purchase at the supermarket. So we need to know as much as we can about her buying habits and motives.

The above levels have to be considered for every product that TARTINA plans to market.

Identifying Enterprise Customer Levels

▲ Identify customers for each product or service, following the example given for TARTINA Enterprise (exhibit 3C).

EXHIBIT 3C: CUSTOMER LEVELS FOR TARTINA ENTERPRISE

Product	Actual Customer	Decision Maker	Purchaser	Final Consumer
1. Mamba	Retailers (1), Institutions (2)	Women(1), Children (2)	Women (1), Men (2)	Children (1), Adults (2)
2. Chadèque jam	Retailers (1), Institutions (2)	Women (1), Children (2)	Women (1), Men (2)	Children (1), Adults (2)
3. Grenadia jam	Retailers (1), Institutions (2)	Adults (1), Women (2)	Women (1), Men (2)	Adults (1), Children (2)
4. Karapinia	Retailers (1), Street vendors (potential market)	Men (1), Women (2), Children (3)	Women (1), Men (2), Children (3)	Men (1), Children (potential market)

Test Results for TARTINA Target Market

Results for the market study reveal that in most instances women are the primary purchasers of TARTINA products.

In the case of **Mamba** (peanut butter) and **Chadèque** (grapefruit jam), however, children play a very influential role in the decision to purchase the product and the brand. The ultimate decision, however, rests with the mother, who exercises the "power of attorney" over her children.

Grenadia (passion fruit jam), on the other hand, is a relatively new product in Haiti, so most children have not yet been exposed to it and consequently have not developed a taste for it. Taste for and use of this savory, zesty jam rest predominantly with adults, who prefer jam products that are less sweet than Chadèque. Men in particular are motivated to buy Grenadia, or strongly suggest its purchase to the female head of household, because they believe it to be an aphrodisiac.

Karapinia, another new product, is a sugar- and spice-coated peanut snack, and at present men largely consume it. They buy Karapinia directly from convenience stores, or female heads of household buy it when they shop for their families. A potential market for Karapinia is street vendors because it can be packaged in small, individual satchels. Children's tastes for sweets also make them possible future consumers of Karapinia.

UNDERSTAND THE CUSTOMER

Perceptions of a Target Market

The well-known anecdote of the two shoe business owners who went to the country of Naboo to do market research for potential business expansion paints a vivid illustration of perceptions of target markets. When the two owners arrived, they found that most Nabooans did not wear shoes. In the presentation to the board of directors, the first owner said, “Forget it, there is no market; no one there wears shoes,” whereas the second owner said, “There is an enormous market opportunity there; no one is wearing shoes!”

The point of the story is that without an understanding of the full picture, you may inaccurately perceive either that there is an absolute market or that no market at all exists for your products and services. A market is defined by the presence of people who have a specific unsatisfied need or want and are willing and able to purchase a product or service to satisfy that need. Our friends in the shoe business clearly need to do more research before attempting to expand their business to Naboo.

Before deciding that there is or is not a market for their shoe business in Naboo, they must first explore the reasons no one there wears shoes. Do Nabooans have no need or desire to wear shoes? Maybe they feel that shoes are too encumbering or uncomfortable and are not necessary for their soft terrain. On the other hand, maybe they would like shoes but have no money to buy them. Are shoes even available in Naboo? Perhaps there are no shoe manufacturers there and the only people who have shoes are those able to afford expensive imports or to travel abroad. *In short, determining if there is a market requires thoroughly understanding the needs, wants, and purchasing power of your potential customers.*

CUSTOMER PROFILE

Rationale:

Your customers are the bread and butter of your enterprise. In order to sell your products or services to them you must understand their characteristics, needs, wants, and likes and dislikes, as well as what motivates them to make a purchase. The three exercises in this section are intended to obtain this information, which will then be used as the basis of your marketing plan—or the strategy for getting your goods and services to your customer. For example, the market segmentation exercise will uncover the markets with the highest concentration of customers and provide important data for reaching them through promotional efforts.

Explanation of Customer Traits and Characteristics
Customers are examined by characteristics of demography, geography, psychology, and behavior to determine the customer traits most critical to your enterprise. Note that this exhaustive guide is intended solely as a reference; use it as such, and try not to get bogged down in examples that don't fit the specifics of your context or target market.

Demographic: any tangible traits that describe your target market.

▲ **Individual customers.** What is the age, gender, occupation, income level, and marital status of your target customer? What is the size of his or her family? Where is the customer in the family cycle (children/no children; young children, teenage children, or adult dependents)? What is the customer's level of education, ethnic group, religion, etc.?

▲ **Business customers.** In what sector are your target business customers? How long have they been in this business? How many branches or outlets do they have? Are they large or small businesses? How many employees do they have? Who owns the businesses? Are the owners active in the operations and in decisions regarding which products to carry? Are the businesses family run, or are they corporations?

Geographic: the physical characteristics that define where your customers are located. Geographic characteristics are often similar for *individual customers* (where do your customers live?) and *business customers* (what geographical areas are served by the business?).

▲ Does your social enterprise intend to sell its products or services internationally, nationally, regionally, or locally? Be as specific as possible. For example, if your social enterprise is focusing on local markets, what are the exact names of the cities, communities, or areas your enterprise intends to serve? What is the size of the potential market? What is the population density? What is the nature of the location (rural, urban, periurban, etc.)? Is climate a consideration? For example, if you are selling snowshoes or sunscreen, presumably your potential market is located in a cold or hot climate.

Market Segmentation and Decision to Purchase

It is tempting to describe your target market in the broadest terms, as the second shoe business owner did. For TARTINA Enterprise this would mean that anyone who ate peanut butter or jelly was the target market. That would not be an accurate portrayal, however. In Haiti many people make their own peanut butter and jelly and therefore have no reason to purchase them. On the other hand, affluent Haitians have a well-developed taste for imported products and when purchasing peanut butter are inclined to buy U.S. brands like Skippy or Jif. Thus, the minimum criteria for TARTINA customers are that they have the financial means (but are not too wealthy); that they have a taste for peanut butter (without a preference for imports); that they want the convenience of prepared peanut butter; and that they are willing to pay for that convenience.

MARKET FOR PEANUT BUTTER SEGMENTED BY INCOME

POOR	LOWER TO UPPER-MIDDLE INCOME	WEALTHY
Makes own peanut butter	Potential TARTINA Customer ?	Buy Imports

At this point we need to scrutinize the market more closely to better understand income characteristics of TARTINA customers and determine where they lie on the income spectrum.

Psychographics—psychological profiles of potential customers in a market (attitudes, interests, opinions).

Psychographic: psychological traits related to the social class, lifestyle, and personality of your customers. (Note that social class is different from income level and may be more a function of education or family heritage than actual wealth.)

- ▲ **Individual customers.** How people want to be perceived by others influences their habits in buying certain brands over others. Are your target customers upper, middle, or lower class or somewhere in between? Are they blue-collar workers or white-collar professionals? Do traits of their lifestyle influence their decision to buy your products? For example, working couples may buy premade meals or patronize restaurants frequently because they do not have time to cook. Do their personalities have any bearing on whether or not they purchase your product? Frugal individuals may focus on good value for the money or economical products. Socially conscious consumers will go out of their way to purchase a product that contributes to a favored cause.
- ▲ **Business customers.** They can also be described by psychological traits. Are your business customers socially responsible? Do they like to carry products that have a positive social impact on communities? Are they conservative—do they prefer to take new or high-risk products on consignment? Are they financially prudent, expecting credit to be provided by their suppliers? Are they innovative or environmentally conscious? Do they cater to an elite clientele or customers that may have brand preferences other than your own? Are they industry leaders or small players?

Behavioral: traits that relate to individual customers' responses to product use, or brand. (No behavioral characteristics need to be identified for business customers.)

- ▲ **Use.** On what occasions do your target customers use your product or service—is it for regular use or for special occasions only? How frequently do your customers use your product or service? Are you selling a commodity that can be used daily or something people tend to use infrequently? Are your customers first-time users or regular users? Are you introducing a new product that you want people to try (in which case your target customer would be a potential user)?
- ▲ **Brand.** How aware are your customers of your brand? Do they buy the brand of your product or service intentionally or haphazardly? How loyal is the customer to your brand or social enterprise? What is your customer's attitude toward your product or service—enthusiastic, positive, indifferent, negative?

Describing Customers' Characteristics

- ▲ Complete the **Customer Profile Worksheet** found in *The Workbook* or create your own. An example of the completed worksheet for TARTINA Enterprise follows (exhibit 3D).
- ▲ Use the descriptive questions under each category as a guide, discarding or appending parts as appropriate for your enterprise.
- ▲ If you discovered in the previous exercise that you have several levels of customers, we recommend you simplify the process by detailing the characteristics of your actual customers and whichever other customer plays the most influential role in purchasing the product. For TARTINA, the primary decision-maker and the purchaser are often the same, the mother, so our example focuses on her.
- ▲ If you have a different customer base for each of your products and services, you will have to complete a customer profile for each product or service.
- ▲ Focus on *common characteristics* of your potential customers that relate to their *decision to purchase* your product or service.

EXHIBIT 3D: CUSTOMER PROFILE FOR MAMBA

TRAIT	ACTUAL CUSTOMER: GROCERY STORES	ACTUAL CUSTOMER: CONVENIENCE STORES	PURCHASERS; DECISION-MAKERS
DEMOGRAPHIC	Retail—many products	Retail—high-volume products and commodities	Female heads of household Work both in and outside the home
	Several employees	Usually owner operated	Married, with children ages 2 to 12
	> 1 branch	1 outlet	Income to purchase
	Large	Small	
GEOGRAPHIC	Port-au-Prince	Port-au-Prince	Port-au-Prince Colline community (direct purchase from ADE)
PSYCHO-GRAPHIC	Socially responsible	Conservative—little shelf space for products that don't move	Upper-lower to upper-middle class
	Fiscally prudent— new products supplied on credit by seller	Frugal—little working capital to prepay for products	Moderately socially conscious Family-oriented Moderately concerned with health and nutritional value
	Innovative—will try new sales and marketing approaches	Risk averse—high ***demand*** products that turn over quickly	Economical
	Savvy operator— will try products but will not continue to carry them if they don't turn over		Limited time— will choose saving time by purchasing peanut butter over making it

(continued on next page)

Demand—the willingness and ability of buyers to purchase different quantities of a good at different prices during a specific time period.

BEHAVIORAL	N/A	N/A	Regular to heavy user of Mamba Positive about product in general Interested in benefits of quality, flavor, price, convenience Little brand awareness of or loyalty to TARTINA

PURCHASING HABITS

Rationale:
Analyzing customer buying habits is an important marketing strategy, particularly as it pertains to product/service strategy development and promotion.

▲ Complete the **Customer Purchasing Habits Worksheet** found in *The Workbook* or create your own. An example for TARTINA's peanut butter (Mamba) follows (exhibit 3E).

EXHIBIT 3E: CUSTOMER PURCHASING HABITS FOR MAMBA

PURCHASING HABITS	GROCERY STORES	PURCHASER (MOTHER)
Reason for purchase	Customer demands for product wants and nutritional needs	In response to children's
Number of times will try	Once, maybe twice, if product does not sell	Once
Frequency of purchase	Purchase based on quantity in stock Will buy continuously as long as product moves	Will purchase product as long as children consume
Quantities purchased	Small quantities to test product Large quantities after successful test period—to meet demand	Single containers
Motivation for use	Pleases customers; socially responsible	Pleases children
How/where product is purchased	TARTINA sales agents; TARTINA distributors	Grocery stores
Payment method	Credit payment/consignment	Cash
Time to make purchase decision	Decision to purchase can be slow	Immediate

Buying Sensitivities

Rationale:

Understanding customers' buying sensitivities helps you prioritize and emphasize certain aspects in the ***marketing mix*** when you prepare your marketing plan (chapter 5). This information is also useful in product/service design or retooling and in deciding how to distribute and promote products.

▲ Complete the **Buying Sensitivities Worksheet** found in *The Workbook* or create your own. An example of the completed worksheet for TARTINA Enterprise follows (exhibit 3F).

Marketing mix—the components of marketing described as the "four P's": product, the products and services that an enterprise furnishes; price, the amount charged to customers for a product or service; promotion, the awareness created for a product or service in the marketplace; and place (distribution), how products and services are brought together with customers.

Exhibit 3F: Buying Sensitivities for TARTINA Mamba

Level of Influence	Actual Customer				Decision Maker; Purchaser				Final User			
Key: H = high M = medium L = low 0 = no influence												
Sensitivity traits	H	M	L	0	H	M	L	0	H	M	L	0
Price	•				•							•
Quality		•			•							•
Brand		•				•				•		
Product features			•		•				•			
Sales staff	•							•		N/A		
Promotions/special offers	•							•				•
Advertising	•					•				•		
Ease of use			•		•							•
Convenience of purchase	•				•							•
Location				•	•							•
Shopping ambiance				•		•				•		
Customer service	•					•				N/A		
Refunds/returns	•						•			N/A		
Credit availability	•						•			N/A		
Peer recommendations		•				•			•			

Summary and Strategic Implications of Activities

Synthesize the results of the previous exercises by answering the following questions:

- ▲ Which market segments have the highest concentrations of your customers?
- ▲ Which are the most important factors motivating a customer to buy your product or service?
- ▲ What impact do customer buying habits have on your products/services or on how your social enterprise does business?
- ▲ What are the most important purchasing considerations for customers buying your products?

Customer information is included in the Business Plan

Market Size and Trends

Rationale:
Once you have defined the characteristics of your target market, you must then assess the size of this market and evaluate the trends likely to influence both the market size and customer behavior in the near future.

Determining Market Size and Trends

- ▲ **Market Size.** It is essential to have a customer base large enough to sustain your social enterprise as it grows. Obviously, if the market is too small, you will not have enough customers to make your enterprise profitable. By the same token, a large market invites well-financed competitors. Trying to take on large competitors in promotional efforts alone could be enough to sink your social enterprise. This is particularly true in industries with low barriers to entry, a characteristic of most social enterprises.

  In many of the developing countries where you work, you will not have the luxury of public statistical and demographic information. Therefore, determining whether the market for your social enterprise is sufficiently sizable will be largely a matter of intuition and observation. But don't despair: Although available, public information can augment analysis, most small businesses in the West don't avail themselves of it, and use the same method described here. You may also want to supplement intuition and observation by conducting some additional market research.
- ▲ **Market Trends.** Equally important is assessing trends that could influence the market in the future. Doing so will give you an indication of the long-term viability of your social enterprise, the strategic opportunities these changes present, and how your social enterprise will respond to the changing needs or behavior of its customers. Trends such as upturns or downturns in the economy, out- or in-migration, increased health consciousness, changes in attitudes about domestically produced or imported products, environmental or labor concerns, etc. can all influence your target market and affect how you do business.

Evaluating trends is not so much forecasting the future as it is analyzing the past. Many trends can be determined by reflecting on observable changes in demographics, economics, and customer behavior in the recent past. For example, we identified the main purchasers of TARTINA-brand products as women, so which trends might indicate changes in the market or behavior of these customers? Have changes in the economic or social climate caused more women to work outside the home, leaving them less time to make labor-intensive food products such as peanut butter and jelly? Have disposable incomes risen with more women working? Are households purchasing more prepared foods or buying more imports? Has there been an increase in domestically produced products? Are shopping trends changing? Are more women shopping in supermarkets, and is this to save time or because it is considered fashionable?

Describing the Market

▲ Describe the size of your market and trends likely to affect customer behavior in the next few years.

▲ Use the **Market Size and Trends Questionnaire** below as a guide; an example for TARTINA is given in exhibit 3G.

Market information is included in the Business Plan.

Market Size and Trends Questionnaire

1. What is the approximate size of your target market?
2. How quickly is the market expanding; what is the growth rate of your target market?
3. What changes do you predict in the demographics or profile of your target market?
4. Will some of these changes impact your customers' ability to afford your product or service?
5. Will market trends change how or when customers use your product or service?
6. How will changes in social awareness and values affect your product or service?

Exhibit 3G: Market Size and Trends for TARTINA

1. ***What is the approximate size of your target market?***
   - 8 million inhabitants in Port-au-Prince (PAP). Estimated 10 to 15 percent shop at supermarkets and therefore fall into our target market.
2. ***How quickly is the market expanding; what is the growth rate of your target market?***
   - Was not able to get specific statistics on this. We know that the urban population is increasing; so is the number (although not necessarily the percentage) of supermarket/convenience store shoppers. The latter is evidenced by the increase in the number of new supermarkets in PAP. I would estimate conservatively and say that the target market is growing at 5 percent annually using the base of 180,000.
3. ***What changes do you predict in the demographics or profile of your target market?***
   - Increasing number of women in the work force, leaving less time for preparation of products at home.
   - Increased focus on convenience goods and convenience shopping.
   - Convenience stores built into gas stations are on the rise.
   - Increased purchasing power as indicated by the increase in the number of supermarkets in PAP.
   - Growing health consciousness, which impacts, for example, peanut butter.
   - "All-natural" is an advantage. Likewise, the more fruit in the jam, the more natural this product is and the less sugar (fewer calories) it has, making it more appealing to the target market.
   - Increasingly educated consumer market. Nutritional information on TARTINA labels is a ***competitive advantage***. TARTINA brand is the only one of the local brands bearing this information.
   - The TARTINA target market continues to desire imported goods. While it cannot afford the additional 40 percent in price for imported brands, the target market is attracted to local brands that resemble the imported brands in image and presentation.
4. ***Will some of these changes impact your customers' ability to afford your product or service?***
   - The political insecurity in the country has the potential to affect product purchases at two levels. It might affect the safe operation of retail outlets, perhaps forcing some to keep shorter hours or to close down. In addition, political insecurity could lead to reduced employment and a decrease in disposable income. Peanut butter and jam products are not considered staple goods, as are rice and beans, in Haiti.

Comparative advantage— factors within an enterprise that give it an edge over its competitors. These factors can include a business' internal strengths or potential opportunities it has in the marketplace with respect to its competition. In the private sector, firms use the term "competitive advantage" to describe the same phenomenon.

5. ***Will market trends change how or when customers use your product or service?***
   - The importance of peanut butter and jam as healthful snacks has grown. Peanut butter and jam are consumed not only at breakfast but also during the day as a snack.
   - Men, in particular, view the new passion fruit flavor as an aphrodisiac.
6. ***How will changes in social awareness and values are affect your product or service?***
   - We're hoping that the target market will value more the social benefit that the products bring to rural self-employed women. This could be a comparative advantage. The challenge is balancing this advantage with the desire to purchase imported brands and not local products. The new TARTINA labels at least partially resolve this dilemma by their similarity to imported brands.

A satisfied TARTINA customer

Strategic Frameworks

Chapter 4

Chapter 4

"The reason a lot of people do not recognize opportunity is because it usually goes around wearing overalls looking like hard work."

— *Thomas Edison*
Inventor

Overview: Strategic frameworks help you analyze your social enterprise relative to your operating environment, industry, and competition. The information gathered in this section will enable you to ascertain its comparative advantages and subsequently craft your business strategies.

The first strategic framework presented in this chapter is called a **SWOT analysis**, SWOT being an acronym for strengths, weaknesses, opportunities, and threats. It is an analytical tool that helps managers build strategies that emphasize the strengths of a social enterprise and the opportunities available in the operating environment and diminish the weaknesses of the enterprise and the risks of potential threats. The second, an **industry analysis**, examines factors and trends in the industry that may impede the viability of a social enterprise. The final framework is a **competitive analysis**, which evaluates the intentions, actions, products or services, and market position of competitors.

Strategic frameworks analyze both the firm and the environment. These analyses should be conducted as part of market research prior to selecting an industry or deciding on a social enterprise and as part of ongoing strategic planning once you have launched your enterprise. There may be some overlap among the frameworks depending on the characteristics of your chosen industry, environment, or enterprise.

Exhibit 4A: Strategic Frameworks Presented in Manual

The Firm	Chapter	Frequency	The Environment	Chapter	Frequency
Strengths & Weaknesses	4	Annually	Opportunities & Threats	4	Annually
Cost Structure	5,6,7,8	Continually	Five Forces (Porter)	4	Once thoroughly during market research (prior to program); as needed thereafter
Customers	3	Continually			
Industry	4	Annually			
Competitors	4	Annually			

Analyze the Social Enterprise

Business Assessment: Strengths and Weaknesses

Rationale:
In this section you will analyze the strengths and weaknesses of your social enterprise as they relate to the ability to carry out enterprise objectives. Understanding your enterprise is an invaluable exercise that also has strategic implications for how you will build and operate your business. For example, if you discover that your product is recognized for its high quality but your operating efficiencies are low, you might either focus on a strategy for improving your production and delivery methods to lower your costs or employ a marketing strategy to strengthen your brand and sell high-quality products at a premium price.

A Weakness Can Also Be a Strength and Vice Versa

The TARTINA plant and administrative offices are located in Colline, a rural community on a steep incline about two hours from TARTINA's primary market in Port-au-Prince. This location is a weakness in terms of the distance employees must travel to distribute or service their products and the poor roads and communications. On the other hand, Colline is home to the microentrepreneurs who produce TARTINA products, and the land, plant, and office facilities were provided free by Save the Children's implementing partner, ADE. Operating and production costs are also cheaper in Colline than in Port-au-Prince. Therefore, the advantages of TARTINA's location to some extent offset the cost and inconvenience resulting from poor infrastructure and the distance from the primary market.

You must weigh strengths against weaknesses to determine their relative benefit or detriment.

Definition of Strengths and Weaknesses

Strengths are internal conditions—skills, aptitudes, and aspects—that enable your social enterprise to effectively deliver products or services based on your customers' needs. Strengths enable your social enterprise to distinguish itself from its competitors as well as block their attempts to imitate your products or services. Examples of strengths include skilled staff, a good reputation, and ample resources.

Weaknesses are internal conditions that can lead to poor performance. Examples of weaknesses are obsolete technology or equipment, poor quality control, and weak managerial skills.

Guide to Analyzing Strengths and Weaknesses

Social enterprise strengths and weaknesses are evaluated according to two different perspectives: (1) customer perceptions of products/services, brand, and reputation and (2) stakeholders' and management's view of internal operations.

Product features—the characteristics that describe a good or service. Marketers use product features to attract customers. They must be careful, however, when developing the marketing campaign to create a fit between the product's features and the stated needs of the customer.

Customer Perceptions

- ***Product/service features.*** Do the features of your product or service meet your clients' stated needs? Features are both tangible and intangible attributes of your product or service that yield a benefit (see chapter 5, Marketing). They encompass customer tastes, like "creamy" or "crunchy" for peanut butter, and preferences, like "short terms," "easy application procedure," or "small working capital loans" for financial services.

- **Value.** Does your product or service provide good value to the client for the price (meet customers' stated needs)? Be sure to consider value-added aspects of the product such as proximity, availability, and purchase terms and factor them into the ***perceived value*** of your products.

Perceived value—the customers' perception of a product's or service's worth to them; it is a function of the product's or service's benefits to customers.

- **Quality.** What is the quality of your product or service relative to similar products or services on the market? Is your product or service perceived as having exceptional quality, or does it have another advantage, such as a low price, that attracts customers?

- **Reputation/name recognition.** What kind of reputation does your product or service have? How well known is your brand or enterprise? When people hear the name of your brand (or enterprise), do they recognize it? Do they identify the name with your product or service?

- **Social image.** What image does your social enterprise have with customers? Is your enterprise seen as making a contribution to the community by, for example, employing local labor, selling products produced by the poor, or sourcing raw materials from local producers and suppliers? How is your social enterprise viewed with regard to its attention to the environment, fair trade, and just management practices?

Stakeholders' and Management's View of Internal Operations

- **Mission statement.** Does your social enterprise have a clear mission statement that articulates its central purpose, spells out its chief objectives and the main strategy it will pursue, and embodies the spirit and values of the enterprise? Do all key stakeholders in the enterprise agree with the mission statement?

- **Resources.** Does your social enterprise have adequate resources to dependably meet your clients' and customers' needs and expectations? Does your social enterprise have ample working capital to weather the ebbs and flows of your business cycle? Is financing sufficient to cover capital investment purchases and asset maintenance and to pay operating costs and overhead, such as salaries, rent, utilities, and raw material supplies? Are resources available for research and development, contract expertise, and staff training? If your enterprise does not at present have adequate resources, can it readily mobilize them?

- **Strategic alliances.** Does your social enterprise have strong partnerships with the implementing partner, suppliers, buyers, and other producers? Do synergies exist between partners and your enterprise? Do you have formal partnership agreements that spell out the terms and expectations of the alliance?

- **Infrastructure and capacity.** Do your accommodations and infrastructure facilitate your operations? Is there adequate office space, systems (administrative and information systems, policies, etc.), and equipment (computer, fax, telephone, etc.) to support your staff? Do you have the necessary physical space to support your services, like a conference or training room? If you have a manufacturing enterprise, what is the capacity of your plant or production facilities? What kind of equipment and machinery do you have? Are the transportation needs of your enterprise being met with your existing vehicles?

Complementary products—products that can or must be used together, such as cameras and film. Neither product can be substituted for the other, and the sale of one increases the sale of the other.

Economies of scale—lowering costs through the production of higher volume. Economies of scale occur by spreading fixed costs—costs that remain constant despite increases or decreases in sales over a greater number of products. Fixed costs typically include rent, equipment, administration, and salaries. Therefore, if the rent on your factory is the same regardless of how much you produce, by making and selling more you spread the costs of your rent.

- **Product/service mix.** Does your social enterprise carry ***complementary products***/services in its product line? Is there market overlap between your products or services, i.e., do your products target the same customer? If customers are familiar with one of your products or services, will they be inclined to try another product? Are there synergies within your product line—for example, can you use the same resources or raw materials in your different products or services?

- **Operating efficiencies/*economies of scale*.** Do production and delivery methods keep costs low and reduce time? What is the ability of your social enterprise to reduce per-unit costs of its products or services? Are you able to produce your goods or provide your services in volume? Are your operations running at full capacity, or could your social enterprise manufacture more products or offer additional services without adding overhead?

- **Location.** Is the location of your social enterprise close or far from your target market? If your enterprise is far away, are there comparative advantages that offset the distance, for instance, lower operating costs or proximity to suppliers or clients? Is physical access between your enterprise and the market barred at any time during the year because of inclement weather or other problems?

- **Client relationships.** Do social enterprise management, leadership, and staff have strong relationships with clients? Do they value client input regarding the product/service or business process improvements? Do your clients feel that your social enterprise responds to their business or economic needs?

- **Human resources.** Do you have competent staff and management with the necessary skills, background, and experience to efficiently operate and manage your social enterprise? Are any functional skill areas, for example, financial or production management, lacking in your enterprise?

- **Leadership.** Is there full endorsement of the mission and objectives at the levels of (1) the social enterprise's stakeholders and senior management; (2) staff of the parent organization; and (3) senior management and the board of the implementing partner? Do all the key leaders champion the venture and support the accomplishment of the social enterprise's mission? Or is there dissent or tension among certain leaders regarding introduction of a business culture or interventions into development practices? Have leaders expressed other reasons as to why they are not wholly on board with the social enterprise? Is there a strong leadership capable of leading the enterprise in times of controversy?

Structure. To what extent does the enterprise run autonomously? How much crossover exists between the social enterprise and other implementing partner or parent organization programs in staff, premises, systems, resources, etc.? Is the social enterprise structured as a program or a business?Is the income generated by the enterprise's activities being directly applied to its expenses? Are ownership and legal issues well defined? Is there a plan for enterprise formalization? Or is there a clear exit strategy for intervening organizations (parent organizations, partners, etc.)?

PO business advisor, marketing and operations managers, business manager, partner, program manager, clients, sales and production staff

Analyzing the Social Enterprise

- Fill out the **Business Assessment Worksheet** found in *The Workbook* or create your own.
- Use the preceding questions as a guide to help you determine whether your social enterprise is strong or weak in the given areas.
- Feel free to add any categories that pertain to your enterprise, or omit those not relevant, to portray an accurate profile of the business.
- Indicate strengths under the heading "S" in the second column, and weaknesses in the third column marked "W."
- Write descriptive comments specific to each category. Detailed observations in your business analysis will help you develop successful strategies for your social enterprise.
- Strengths and weaknesses should be evaluated based on stakeholders' and management's perception of the internal operations of the social enterprise as well as on the perceptions of current and potential customers about your enterprise. Refer to the TARTINA example (exhibit 4B).
- It is important to recognize that some strengths can also be weaknesses and vice versa.

Exhibit 4B: Business Assessment: Tartina

I. Customer Perceptions	S	W	Comments
Product/service features	S	W	S—new products, grapefruit jam stable; W—peanut butter oil separates
Value	S		TARTINA is positioned as the economical choice
Quality		W	Products are inconsistent; poor quality control
Reputation/ name recognition		W	TARTINA brand largely unknown
Social image	S		Socially conscious, though this is a low priority among Haitians
II. Internal Operations			**Comments**
Mission statement		W	Difficulty balancing social and commercial objectives
Resources	S		Grant funding for start-up; operations; free technical assistance
Infrastructure/capacity	S	W	S—have production center; W—communications difficult (radios only); production capacity limited by size of facility
Operating efficiencies/ economies of scale		W	Poor distribution system Variable-cost business, so difficult to achieve economies of scale
Strategic alliances	S		SC, looking for business linkage opportunities
Location	S	W	S—close to target clients; W—far from target market
Structure	S	W	S—structured as a business, not a program; W—ownership unclear; disengagement from parent/partner organization difficult
Client relationships	S		Positive impact/relationship with clients
Product/service mix	S		Peanut butter and jelly are complementary products
Human resources		W	W—lack key marketing manager; lack technical expertise in-house
Leadership	S		Charismatic leadership

KEY
S = Strengths
W = Weaknesses

Analyze the Operating Environment: Opportunities and Threats

Rationale:

Opportunities and threats are external forces outside the social enterprise and beyond its control. These factors comprise the ***operating environment*** and can enhance your program by providing new opportunities or threaten its success; sometimes they do both. Determining potential opportunities helps direct planning to both prioritize and maximize new opportunities that are compatible with the mission and objectives of your social enterprise and that leverage your strengths and the strengths of your partners. Identifying potential threats can help you avoid pitfalls, minimizing the negative impact of external factors. You will use the information gleaned in the following exercise to formulate your business strategy and operational plan in the body of your business plan.

Operating environment— external forces outside a business and beyond its control that constitute the landscape in which it must function. Also called the strategic environment.

Definition of Opportunities and Threats

Opportunities are current or future conditions in an environment that a social enterprise might be able to turn to its advantage. An example of an opportunity is an increase in consumer awareness of cause-related businesses that might offer a marketing opportunity. Or a change in laws in the U.S. or another country that reduced import tariffs from developing countries might be an opportunity for a social enterprise to expand its market and export its product. The corollary, an increase in import duties, could present an opportunity for domestic production of similar or substitute products by driving up import prices or fueling preferences for local products.

Threats are current or future conditions that might harm a social enterprise. A drought or a season of heavy rain could pose a threat to products in an agricultural subsector. A change in health and safety regulations that required protective packaging or seals on food products or pharmaceuticals might threaten production methods, packaging technology, and invariably cost.

Guide to Analyzing Opportunities and Threats

- **Legal and regulatory policies.** Do government policies in your subsector prohibit or restrict your operations in any way? Are there existing laws, or new ones on the horizon, that govern production processes for, or handling or disposing of, certain materials you use in your business; employment taxes; or duties on imports? Less often in developing countries than in the United States and Europe, there are health and safety regulations that may require changes to your product or facilities that are outside your financial reach, such as wheelchair access or hazardous-waste disposal requirements.

- **Economic environment.** Is inflation a major factor in the economy, and is it predictable or does it fluctuate? During inflationary periods does demand go down for your product or service? Are economic conditions improving or declining? What bearing does the economy have on your enterprise? For example, if wages decrease, will customers buy more or less of your product? Will they decide to make the product themselves, or even forgo it, instead of purchasing it? Are there trade barriers or embargoes that hinder or benefit your enterprise?

- **Political instability or insecurity.** Could the political environment in the country jeopardize business operations in any way? Does political insecurity affect customers' spending habits? Does a possibility of violence or theft threaten distribution, sales, or operations or limit raw materials acquisition or other necessary production inputs?

- **Transportation and communications.** What are the conditions of the roads and public transportation? Are there plans to resurface old roads or build new ones or to open or close a rail line? Are communications reliable and adequate to meet your business needs? Do you have a variety of communications options—are new communications technologies, such as cellular phones, available and affordable?

- **Physical climate.** What is the topography of the social enterprise's location? Is access difficult as a result of natural barriers such as rivers and mountains? Are there certain times of the year when access is restricted because of snow or floods? Is access to the market a problem during such conditions? If your social enterprise operates in an agricultural sector or uses agricultural inputs, how does the weather affect your business?

- **Market.** Is there demand for your products or services? Are the features of your products or services shaped by the stated needs of your customers? Are your target customers willing to pay for these products or services? What is the size of your target market? What is the growth trend in your target market? What is any growth based on—adding new products or services, differentiating the features, or marketing, i.e., getting the word out about your products or services to potential customers?

- **Technology.** Are there technological innovations that could render your equipment or processes obsolete and cause your social enterprise to lose its competitive edge? Are technologies available that could help improve the quality of your product/service or decrease your production costs? Is technology available that would improve your communications or augment your access to information (Internet access, cell phones, e-mail, fax)? Are the technological inputs you need—knowledge or innovations—available to you?

- **Raw materials.** Are sufficient raw material supplies available? Can you purchase raw materials from several suppliers or only a few? Is your source of raw materials local or international? Do many other producers buy the same raw materials? Are your suppliers reliable? Are there substitute raw materials for your product? What factors could change to impact your raw material supply or acquisition?

- **Demographics.** Is there a high incidence of illiteracy among your staff or the target population you work with? Does illiteracy impede the ability of your social enterprise to perform? What about language—does a diversity of languages in target communities or markets and the resulting need for translation or interpretation hamper your business? Are there gender issues that constrain or heighten men's or women's participation in the social enterprise?

Same as previous exercise

Analyzing the Operating Environment

▲ Fill out the **Operating Environment Analysis Worksheet** found in *The Workbook* or create your own.

▲ The list of opportunities and threats is intended only as a guide; add or omit items as needed for your social enterprise.

▲ Remember that opportunities can also be threats and vice versa.

▲ When considering opportunities and threats, it is important to look beyond the present and ask, "How will this impact the social enterprise in the future?"

▲ After completing the Operating Environment Analysis synthesize the information by answering the following questions:

- Which are real opportunities, as opposed to distractions (poor strategic choices)?
- How can you take advantage of these opportunities? When?
- What measures can you take to mitigate pending threats?
- What are the implications of these threats for the operations of your enterprise?

▲ Refer to the TARTINA example in exhibit 4C.

Exhibit 4C: Opportunities (O) and Threats (T) for TARTINA Enterprise

T ***High-quality standardized products demanded:*** The best way to achieve a high volume of sales in a cost-effective manner is to serve urban markets, the closest of which is Port-au-Prince. This places TARTINA products in the competitive, formal market with its high standards for product quality and consistency. The demand for product standardization and quality control cannot be met through a home-based production model.

O ***Growing demand for processed food products:*** This is particularly true in urban areas such as Port-au-Prince, where population and income levels continue to rise. Also, more women in the professional work force translates to less time available at home for home-based production of peanut butter and jam products.

O/T ***Low barriers to entry:*** It is relatively simple for new companies to start up their own small-scale food-processing operations. There is a minimal degree of bureaucratic red tape, little capital investment is required, the recipes are simple, and labor is available. Consequently, there is lots of competition in the production of peanut butter and jam.

T ***Infrastructure and security:*** Distribution to urban markets from rural areas remains a constraint given the poor roads and lack of security, especially after nightfall.

O/T ***Microentrepreneurs' knowledge of food transformation:*** They do have some traditional knowledge of peanut butter and jam production, although this alone is not sufficient to satisfy the high standards of the urban markets. The traditional home-based production provides a good foundation for training in standardization of transformed products.

O/T ***Locally available raw materials:*** Locally grown citrus fruits are plentiful. Peanut shortages will be a constraint on higher production levels in the near future.

T ***Lack of published industry information:*** What little industry information exists is either outdated or extremely difficult to access.

O ***Increased consciousness of social responsibility:*** Although still a low priority for consumers, awareness of local products and businesses that support the poor is gaining attention from retailers.

SWOT Analysis

Rationale:

The SWOT analysis helps managers identify social enterprise comparative advantages and build strategies that emphasize these and maximize opportunities while minimizing its weaknesses and the risks of potential threats.

Enterprise business manager, accountants and finance professionals, PO Business Advisor

Once you have identified the strengths and weaknesses of your social enterprise, and determined the opportunities and threats it faces, you will organize this information in a matrix. Doing so gives you a visual picture from which to develop corresponding strategies evidenced in the body of your business plan.

- ▲ Use the **SWOT Analysis** from *The Workbook* or create your own.
- ▲ Fill in the Strengths and Weaknesses sections from information gathered in the Business Assessment exercise. Also fill in **Opportunities and Threats** from the **Operating Environment** exercise.
- ▲ List only the Strengths, Weaknesses, Opportunities and Threats that have a significant impact on your social enterprise.
- ▲ Focus on the left-hand side of the matrix to develop strategies that maximize both strengths and opportunities.
- ▲ Focus on the right-hand side of the matrix to develop recommendations that mitigate weaknesses and threats.
- ▲ Strategies in both these sections will be evaluated for cost, fit with other strategies and feasibility in each section of the business plan to which they pertain. For example, the SWOT Analysis of TARTINA (exhibit 4D) identifies several marketing strategies to exploit opportunities and employ its strengths. Human resource and product development strategies contribute to reducing TARTINA's weaknesses and the threats it faces.

<u>The SWOT Analysis is included in the Business Plan.</u>

EXHIBIT 4D: SWOT ANALYSIS FOR TARTINA

STRENGTHS	WEAKNESSES
Products perceived as the economical choice	Oil separates from peanut butter
Strong image as socially responsible	Quality is inconsistent
Significant resources through grants	Brand largely unknown
Complementary product mix	Lack key management and technical expertise
Good client relationships	Difficult to achieve economies of scale
OPPORTUNITIES	**THREATS**
Growing demand for processed foods	High-quality standard products demanded
Locally available raw materials	Infrastructure and security is poor in Haiti
Most similar products are imported	Lack of published industry information
Rising consciousness of social responsibility at retailer level	

Strategies for maximizing strengths and opportunities: Leverage TARTINA's social contribution to secure contracts with socially conscious retailers who are familiar with TARTINA products and get other retailers to try carrying products on this premise. Plow resources into marketing efforts to get consumers to switch to TARTINA brand and increase its brand recognition across markets. TARTINA will position itself as the economic choice and compete on price against other brands. Secure contracts with producers guaranteeing their market and increasing raw materials supply.

Strategies for mitigating weaknesses and threats: Hire needed staff in production and marketing from private industry. Invest in product development to improve product quality and meet market demand. Examine possibilities to increase economies of scale by investing in equipment or electrifying production center and adding evening shifts. Contract technical assistance from specialists to alleviate technical knowledge gaps; specifically to deal with problem of oil separating. Hire guard to improve security situation.

Industry Attractiveness

Rationale:

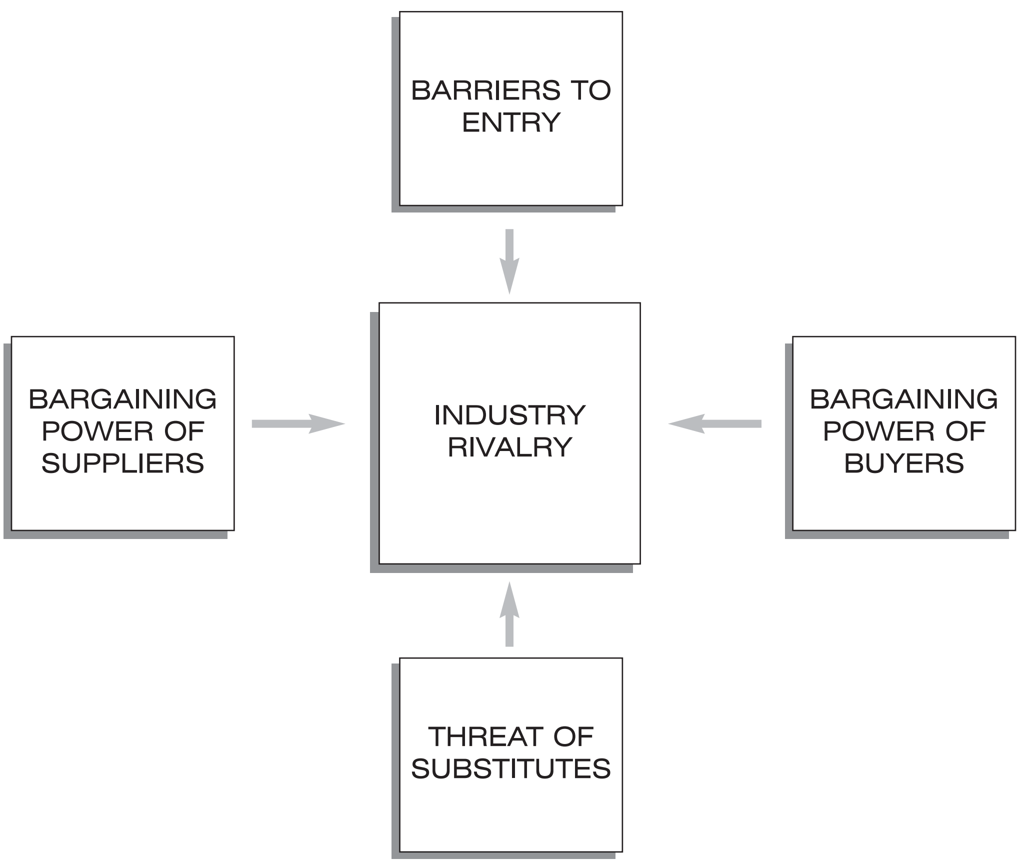
Attractiveness of an *industry* is a critical piece of the market research puzzle when planning your social enterprise. An ***industry*** is attractive if it offers above-average potential for healthy long-term profitability and sustainable *comparative advantage*. Determining industry attractiveness requires analyzing trends in the business environment and the likely behavior of competitors.

Structural characteristics of the industry define the business environment in which social enterprises and companies compete and to which each competitor must adapt. The most influential and widely used structural analysis method is Michael Porter's "five forces" model.[1] According to Porter, a Harvard Business School professor, five forces shape industry structure: barriers to entry, buyer power, supplier power, the threat of substitutes, and industry rivalry. These forces set limits on prices, costs, and investment requirements—the basic factors determining the profitability and hence the viability of your social enterprise. Thus, if you understand the forces that constrain these basic factors, you can determine whether the business environment will be hospitable or hostile to your social enterprise. Also important is to understand the ***strategic implications*** of these forces for the design of your enterprise.

Industry—a group of firms offering the same products and services, or ones that are close substitutes of one another, and the supply and distribution systems supporting such companies.

Strategic implication—how certain information impacts or influences a strategy or plan to meet specific goals or objectives.

EXHIBIT 4E: FIVE FORCES MODEL



[1] For more information refer to Porter, Michael E. 1980. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press.

Demand Is Not the Only Measure of Viability: An Example From Haiti

A study of potential subsectors in Haiti established that a strong demand for peanut butter existed and that a large concentration of women microentrepreneurs was engaged in making peanut butter for local sale. This demand analysis also indicated interest by several larger retailers and wholesalers in the capital city of Port-au-Prince in carrying locally made peanut butter, thus potentially providing poor women entrepreneurs with new economic opportunities. Sounds like a great subsector, right?

Wrong. The information not established in the demand study was market conditions for peanut butter. First, natural peanut butter separates (oil from ground nut paste) after a period of time. This was not a problem for local consumers, who bought the fresh peanut butter and consumed it right away. There was a longer lag time, however, from production to consumer when selling through commercial distribution channels. Consumer preference in Haiti is for peanut butter that does not separate. The result was that commercially distributed products were returned, or left unsold, causing revenues to decline. In addition, consumers thought that the microentrepreneurs were adding oil to the peanut butter, and the microentrepreneurs thereby earned a reputation for cheating their customers.

Second, raw materials for peanut butter are seasonal. The successful firms competing in this subsector purchased grain silos to store peanuts so they could produce year-round. Silos and advanced technology to emulsify and store peanut butter were too costly for poor entrepreneurs. And without year-round production and storage capabilities, entrepreneurs could not secure contracts with commercial retail and wholesale outlets, which rely on product availability to attract and retain customers.

An assessment of the market conditions—i.e., the strategic environment—would have made apparent the major constraints on the viability of this subsector. Had they made such an assessment, program designers would probably have selected a different subsector to concentrate on in Haiti, or designed their enterprise model to circumvent or mitigate these constraints.

The lesson learned: Do not use demand as the sole indicator of sector viability.

Case Study for Porter's Five-Forces Model[2]

In 1993, Save the Children began a social enterprise program in the Philippines in the remnant subsector of the garment industry. In this ***subsector***, poor women use fabric scrap ("retaso") from garment factories as the raw material for weaving or sewing floor mats, children's clothes, cleaning rags, hair ribbons, and other products. The primary objectives of SC's initiative were to reach large numbers of these poor retaso workers and increase their incomes, build coalitions (linkages with the government, the private sector, and other nonprofits), exert influence on the policy environment, and create a self-sustaining enterprise.[3]

Save the Children used ***subsector analysis*** to examine 14 different subsectors in which poor Filipino women work, then chose the fabric remnant subsector in part because it employs approximately 50,000 women in metropolitan Manila with annual earnings below the poverty line. SC also noted that this subsector was growing; demand for retaso products had been increasing by approximately 7 percent per year. Additionally, opportunities existed to secure contracts for retaso products with large corporations in the Philippines' fastest-growing industries. Finally, SC believed it could mitigate unfavorable government policies toward the retaso workers by integrating an advocacy component into the program.

Subsector analysis has largely served well to identify characteristics compatible with SC program objectives. The method falls short, however, in distinguishing favorable industry factors for long-term viability. Thus, although subsector analysis may be

Subsector—A subsector is delineated by a particular final product and includes all firms engaged in raw material supply, production, and distribution of that product. In some cases, however, the defining characteristic is a key raw material, with the subsector describing the alternative transformations and distribution systems emanating from it. (Haggblade, Gamser, 1991)

[2]The examples from the retaso industry were prepared retrospectively, and to accommodate the exercises in this manual, so some inaccuracies may exist. The intention is to illustrate the five-forces model and to assist practitioners with its application, not to provide a case study of SC's program in the Philippines.

[3]Business Development Services for SMEs: Preliminary Guidelines for Donor Funded Interventions, October 1997.

an important tool for some social enterprise programs, *it is not a sufficient determinant of viability independent of a larger market study*. For example, SC designers of programs in both Haiti and the Philippines used subsector demand as one of the chief indicators of viability in isolation from the larger market context, including ***market conditions*** and other industry forces (see example on the previous page for Haiti). To date, the social enterprise program in the Philippines has been unable to generate enough income to cover operations. One reason is that certain forces in the retaso industry constitute a hostile environment for a social enterprise. The five-forces model to determine industry attractiveness, i.e., the potential for social enterprise viability, should have been completed in addition to a subsector analysis.

In this section we use Save the Children's social enterprise program in the Philippines to illustrate Porter's model as an analytic framework for social enterprise programming. The Haiti example in the box below underscores the importance of augmenting subsector analysis with additional methods of environment analysis for social enterprise ventures.

Subsector Analysis—Subsector Analysis offers a framework for rapidly evaluating Micro and Small Enterprise (MSE) dynamics and the prospects for cost-effective intervention. It does not prejudge the nature of intervention. Subsector analysis can lead to projects involving technology development, input supply, marketing, management assistance, or credit. (Haggblade, Gamser, 1991)

Market conditions—factors in the marketplace—taste and preferences, income, prices of related or similar goods, number of buyers, scarcity of similar items in demand, and future expectations of market price—that cause consumers to re-evaluate the amount they are willing to pay for a product.

THREAT OF NEW ENTRANTS: "BARRIERS TO ENTRY"

Rationale:

The threat of new entrants in the market depends largely on what ***barriers to entry*** exist in the industry. Conducting an analysis of these barriers is one criterion that can help you determine the potential attractiveness of the industry. Discovering whether these obstacles are insurmountable or navigable will assist your decision about whether to enter the industry.

Additionally, recognizing which barriers may hinder you from entering the market will help you later in defining the marketing, product/service development, and operational strategies of your social enterprise. Understanding market barriers also gives you important information in planning your budget and managing your ***cash flow***, indicating, for example, whether additional cash reserves are needed to fund high start-up costs or long lag times are anticipated before you will reaize revenue from your business.

Barriers to Entry as a Force in Social Enterprise Design

If your target clients are self-employed poor people they are typically engaged in activities in industries where barriers to entry are low. Lack of capital for start-up costs, low technology, and lack of expertise are the predominant reasons they enter industries where the barriers are low. As a result, markets in which microentrepreneurs operate tend to be saturated and highly competitive. In crafting your social enterprise in such a business environment, consider value-added components that will enhance products and marketing techniques to help poor entrepreneurs access new markets where purchasing power is higher and competition is lower.

Market Barriers Might Include …

- **High investment costs for start-up.** It is often prohibitive for small players who lack adequate cash for investment to enter the market.
- **Time to establish the enterprise.** The ability to defer returns on investments if set-up time is long requires substantial financial resources.
- **Substantial expertise required.** It can be difficult to enter a given market if one does not have the specific product or process expertise that is required.

Barrier to entry—any factor, tangible or intangible, that prevents or deters a social enterprise from entering a market or industry.

Cash flow—the actual movement of cash; used to measure cash inflow minus cash outflow.

- **Lack of suppliers or distributors.** A deficit in one or both of these areas hinders the ability to operate a business competitively.

- ***Market saturation*.** The existence of many competitors reduces the ability of new businesses to penetrate the market.

Market Saturation—Supplying a market with as much of a product or service as it can absorb. At the point of market saturation, there is no room for new players to enter without competing directly with other suppliers for customers.

- **Changing technology.** The introduction of new technology can render equipment obsolete and prevent an enterprise from competing effectively or entering a new market.

- **Restrictive regulations.** Tough laws or regulations can have cost implications or bureaucratic ones, for example, if government permits required to operate the business are difficult to obtain.

- **Lack of high-quality personnel.** The inability to recruit and retain high-quality staff can be a deterrent to entering an industry.

- **Customer resistance.** Customers who have long-standing relationships with an existing company or strong brand loyalty can be difficult to win over by a new market entrant.

- **Existing patents and trademarks.** These are not usually a constraint in developing countries, but an industry that is patent or trademark driven restricts new businesses from entering.

Enterprise managers, operations, marketing/sales staff, PO advisor, external consultant (if desired) for all parts of five forces exercise

Determining Barriers to Entry

▲ Analyze the barriers to entry in the industry in which your social enterprise operates or in industries you are exploring for a new intervention.

▲ Fill out the **Barriers to Entry Worksheet**, including the attractiveness-rating columns, found in *The Workbook* or create your own. An example for retaso is in exhibit 4F.

▲ Determine how this information translates into "overall attractiveness" for the industry. You may use a rating system or weighted averages to quantify your results. (Instructions for calculating weighted averages are given in appendix A.)

▲ Note the strategic implications of barriers to entry for your social enterprise.

Exhibit 4F: Example of Barriers to Entry for Retaso Industry

Measure of Barriers to Entry	Rating	Highly Unattractive	Unattractive	Neutral	Attractive
High investment costs	Low				•
The time to establish your enterprise	Medium		•		
Substantial expertise required	Low				•
Lack of suppliers or distributors	High	•			
Market saturation	High	•			
Changing technology	Low				•
Restrictive regulations	High	•			
Lack of high-quality personnel	Low		•		
Customer resistance	Low				•
Existing patents and trademarks	None				•
Attractiveness rating			•		

Strategic implications: Despite other factors contributing to attractiveness, the lack of suppliers and restrictive government policies present potentially formidable barriers to entry for a formalized social enterprise in this industry where the market is highly saturated by informal players. To ease supply and legal constraints, the social enterprise could include an advocacy component to encourage Filipino lawmakers to lift restrictions and tax disincentives on garment industry disposal of fabric remnants. In this situation, the enterprise should not try to compete head-on with informal players but, rather, bypass them by targeting a different market (if one exists).

Buyer power—the ability of customers to pressure a firm to reduce its prices for products or services.

Buyer Power

Rationale:

If buyers have considerable power over the selling price of the products or services your social enterprise offers, this can seriously restrict profitability, thus reducing overall industry attractiveness. If you choose to enter an industry in which buyer power exists, you must be conscious of your cost structure—what is the lowest price you can charge for your product or service and still earn a profit?—and consider strategies you can employ to reduce the effects of ***buyer power*** on the viability of your social enterprise.

Buyer Power Is Usually High When …

- **There are few customers.** For example, the industry may rely mainly on government contracts or sell to only one or two large customers.
- **Buyers are well informed about competitors' products or services and these are readily available.** This is typical in industries where there are many producers and little product differentiation to bind customers.
- **The costs of switching from one product to another are low.** Consumers of

Switching Costs—The financial cost to change from one product to another. Switching costs are typically high for technology products. For example, switching costs from an IBM-compatible computer to an Apple computer are high because costs extend beyond the price of the the computer to the systems that support it. The cost for changing peanut butter brands, on the other hand, is limited to the price of the product; hence, switching costs are low. (See following page.)

Backward integration—a strategy in which a company takes over control of the supply of its raw materials or parts, or the suppliers themselves. See also vertical integration.

TARTINA peanut butter, for example, need only select another brand on the supermarket shelf.

- **Firms in the industry can pursue a strategy of *backward integration*** and manufacture the product or offer the service themselves. For example when a wholesaler begins to manufacture its products, rather than buy them from the producer.

Implications of Buyer Power for Social Enterprise Design:
An Example From Retaso

In the case of the retaso industry, middlemen represented an ominous buyer power force against self-employed retaso workers. Although private companies purchased retaso products, the women entrepreneurs who made them were unable to access this market because they lacked contacts and marketing savvy and could not meet the quantity demands or the preferred terms of companies (which often bought on credit). Therefore, the primary market for self-employed retaso workers was middlemen, who bought their products at low prices and then sold them to companies at a substantial markup. If women refused to yield to the extortionist practices of middlemen, they ended up being cut off from the market and replaced with another retaso worker who accepted the middlemen's prices.

Designers of the social enterprise program in the Philippines sought to override middlemen's buyer power through by targeting women retaso workers and providing them with services to increase their competitive ability. The enterprise (at that time called an association) organized hundreds of retaso workers, enabling them to meet the quantity requirements of private companies. Enterprise management staff handled marketing efforts to secure corporate contracts and offered credit sales to large customers.

- **The seller competes on a cost basis.** A business that establishes itself as a low-price competitor is prone to consumer pressure to remain "low cost at all costs." Therefore, if a new competitor enters the market using a low-price ***market penetration*** strategy, the low-price seller must lower its prices to maintain its position.

- **The seller is not profitable.** An unprofitable business is vulnerable to reactive strategies like "any sale is better than no sale at all" to diminish losses and is thus highly susceptible to buyer price pressure.

Strategic Options for Operating in a Buyer Power Industry

Bundling, or grouping several products together, is one mechanism for reducing buyer power. For example, an enterprise selling spare auto parts might include a service or installment agreement in the sale of the parts. Or an enterprise might team up with another company to offer product groupings rather than develop an additional competence itself. Bundling makes it difficult for a customer to determine the cost of each component in the package when comparing prices across companies. Bundling has a psychological advantage, too: Even when customers pay more, they have the sense that they are getting more for their money.

Market penetration—using marketing tactics, such as lower prices or special offers, to get new customers to try a product or service. Market penetration is a strategy companies may use to enter a market in which they do not yet have a presence; it can be an important element in building brand awareness and loyalty. A penetrated market consists of customers who have already purchased a product. Knowing the penetrated market allows marketing managers to gauge their position against competitors.

Differentiation is another strategy. Social enterprises can reduce buyer power by strongly differentiating their products from the competition's, by adding unique product benefits that respond to customers' wants and needs. Augmenting customer service is an important means of differentiating products and services. Examples of customer service include providing favorable financing terms, servicing products, and giving refunds on returns (chapter 5, Marketing, for more information).

Same as previous exercise

Determining Buyer Power

▲ Follow the same directions as for barriers to entry. Fill out the **Buyer Power Worksheet** in *The Workbook* or create your own. An example for retaso is in exhibit 4G. You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (appendix A).

▲ Note the strategic implications of buyer power for your social enterprise.

Exhibit 4G: Example of Buyer Power in Retaso Industry

Measures of Buyer Power	Rating	Highly Unattractive	Unattractive	Neutral	Attractive
Number of customers*	Some		•		
Availablity of competitors' like product or services	Many	•			
Switching costs	Low	•			
Threat of backward integration	Low				•
Price competitor	Many	•			
Unprofitable business	N/A				
Attractiveness rating			•		

Strategic implications: Emphasizing marketing strategy is important to succeed in an industry with relatively high buyer power. The social enterprise can focus on securing commercial contracts directly from large companies in growth industries, thus circumventing powerful middlemen. This is a more cost-effective approach than selling to individuals, who exercise more buyer power than companies. The enterprise can also leverage its social position to market its products, differentiating them as "socially responsible" or "community development oriented." Large companies have relatively low sensitivity to marginal price differences between retaso and substitute products. Additionally, they may consider buying from a social enterprise as a means to improve their image or strengthen their relations within a community.

* Number of Customers—Be careful not to confuse "number of customers" with "demand." There may be high demand for a product or service yet few customers to whom you would be selling. This might be the case if you were selling intermediary products or wholesaling.

Supplier Power

Rationale:

Supplier power is the flip side of buyer power. Powerful suppliers in an industry can substantially reduce the profitability of an enterprise by raising prices or restricting the quantity of their goods. For many social enterprises, constraints on raw material supply have been a recurring theme, largely because of powerful suppliers who dominate the market. Social enterprises are susceptible to supplier control because they often produce in low volume and lack formal market connections.

Supplier Power Exists When …

- **The industry is controlled by a small number of companies.** By the economic theory of supply and demand, buyers have few options and little leverage to purchase from other suppliers.
- **Suppliers are able to pursue a strategy of *forward integration*.** If a supplier can easily develop capacity to manufacture a product or offer a service, this substantially increases its power.
- **A supplier does not face a threat of substitute products.** Until substitutes exist, the purchaser is bound to use the particular raw material or product.
- **Suppliers' products are differentiated or carry high *switching costs*.** It may

***Differentiation*—**an emphasis a company puts on the specific benefits of its products or services, thus creating value for the customer and setting the company apart from competitors. A company might emphasize service, innovation, donation of a percentage of the sale price to a social cause, etc., as part of a differentiation strategy.

***Supplier power*—**the ability of a supplier to control or influence buyers.

***Forward integration*—**a strategy of downstream expansion into new areas of a company's **value chain**, such as distribution, wholesaling, retailing, etc. It is a form of **vertical integration**.

***Value chain*—**a network of facilities that procure raw materials, transform them into intermediate products and then finished goods, and transport them through the distribution system. It spans procurement, manufacturing, and distribution. A value chain is sometimes referred to as a supply chain.

be difficult to find substitutes or other suppliers for specialized products. And buying new processing technology or equipment to incorporate a different supplier's product may not be an option because of high switching costs.

- **The purchaser is not a valued customer to the supplier.** If the purchaser does not buy a significant amount or percentage of a supplier's goods, the supplier has greater power in the relationship.

Same as previous exercise

Determining Supplier Power

▲ Follow the same directions as for buyer power. Fill out the **Supplier Power Worksheet** in *The Workbook* or create your own. An example for retaso is in exhibit 4H.

▲ You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (appendix A).

▲ Note the strategic implications of supplier power for your social enterprise.

Supplier Power: An Example for Retaso

Raw materials in the retaso industry—fabric remnants—are byproducts of the garment industry. In metropolitan Manila approximately 700 garment makers import textiles and manufacture clothing for export. By Filipino law, fabric remnants are considered waste and must be burned. If remnants are sold, companies are subject to taxation. Nevertheless, a retaso industry thrives informally in the sector. Raw materials for the retaso industry are acquired by a few traders who have connections in garment factories. The extralegal nature of the retaso industry represents an extreme case of supplier power.

EXHIBIT 4H: EXAMPLE OF SUPPLIER POWER IN RETASO INDUSTRY

Measures of Supplier Power	Rating	Highly Unattractive	Unattractive	Neutral	Attractive
Number of suppliers	Few		•		
Availablity of substitutes	Low		•		
Switching costs	N/A				
Threat of forward integration	Low				•
Differentiated products	Low				•
Customer value	Low		•		
Attractiveness rating			•		

Strategic implications: A social enterprise could serve to augment customer value by consolidating purchasing raw materials for individual retaso customers. The enterprise would buy retaso in bulk quantity, thereby considerably increasing customer value to retaso workers. Moreover, the enterprise would constitute a united voice for retaso workers, raising their bargaining power with suppliers. Additional market research could be conducted on substitutes for retaso such as bulk used clothing imported from abroad. An effort to legalize raw materials sales through advocacy is another way to decrease supplier power.

SUBSTITUTES

Rationale:

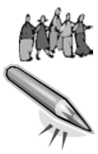
Substitutes take the place or function of another product or service, such as margarine for butter or a bus for a taxi. In industries where the threat of substitutes is high, sustained profitability is often difficult to achieve. Availability of substitutes increases customer buying power and gives them more purchasing options. Companies producing substitute products and services heighten the competitive environment in which an enterprise operates. Some products are more vulnerable to the threat of substitutes than others, such as poorly differentiated products or those in market segments where extreme price sensitivity exists (this is usually the case when selling to poor people). For example, in Haiti, if the price of peanut butter increases, people may use jam or butter as a substitute. Scanning an industry for availability of substitutes is another component of assessing industry attractiveness for your proposed social enterprise.

Substitutes Pose a Threat to Industry Attractiveness When …

- **Many similar or substitute products or services exist.** Businesses with poorly differentiated products and services are at greater risk of losing customers if lower-cost substitutes exist. In the retaso cleaning rag business, substitutes can be purchased in many stores. Additionally, potential customers may use old clothes or linens as cleaning rags, for which they pay nothing.

- **User switching costs are low.** Switching costs are low if buying a substitute product, rather than the actual product, bears no price or other burden.

- **The perceived value of the product does not justify its price when a lower-priced substitute exists.** Customer purchasing decisions constantly weigh value against price. This is especially true in price-sensitive markets, where customers will readily buy a low-cost substitute if they perceive it as a good value that satisfies their needs.



Same as previous exercise

Determining Availability of Substitutes

▲ Follow the same directions as for supplier power. Fill out the **Substitutes Worksheet** in *The Workbook* or create your own. An example for retaso is in exhibit 4I.

▲ You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (appendix A).

▲ Note the strategic implications of substitutes for your social enterprise.

EXHIBIT 4I: EXAMPLE OF THREAT OF SUBSTITUTES IN RETASO INDUSTRY

Measures of Substitutes	Rating	Highly Unattractive	Unattractive	Neutral	Attractive
Availability of close substitutions	Many	•			
Perceived value	Low		•		
User's switching costs	Low		•		
Attractiveness rating			•		

Strategic implications: The marketing campaign to diminish "buyer power" through differentiation can also serve to increase product value and subsequently reduce the threat of substitutes. In the long term the retaso social enterprise could pursue a strategy of diversifying with new products, since there are many substitutes for cleaning rags and door mats.

Industry Rivalry

Appraising the intensity of competition helps social enterprise designers or managers determine the potential attractiveness of the chosen industry. Unless you have substantial financial resources, it is usually very difficult to launch a successful social enterprise in industries where competition is already intense. Running head-to-head with competition is not a recommended strategy. Your enterprise will have a greater chance of survival in a competitive situation if you identify an underserved ***niche market*** to begin in and then grow beyond that. On the other hand, establishing your enterprise in an industry with few competitors gives you time to position it and develop comparative advantages before new players enter the market. Developing technical competence, differentiated products and services, and customer loyalty by selling to a well-defined target market are some of the strategies you can use to position your enterprise against new competitors.

Niche Market—a small segment of the market. Marketing strategies may specialize in serving a niche market that is of little interest to competitors.

In the following exercise you will assess "attractiveness" by conducting a brief examination of competitive intensity in the industries you are either currently working in or exploring for your social enterprise. While doing so, bear in mind that additional factors of low barriers to entry, the threat of forward integration by suppliers or backward integration by buyers, and readily available substitutes may further aggravate competition in the near term.

Rivalry Is Intense When …

- **There are many competitors.**
- **Industry growth is slow.** In industries where growth is sluggish, companies are fighting for the same pool of customers.
- **Product features are poorly differentiated.** Companies that sell commodities, such as coffee or sugar, often suffer from intense competition because the products' features do not lend themselves to being distinguished from one another.
- **Excess capacity exists.** This occurs when companies have a surplus of resources (human resources, plant facilities, physical space, equipment, etc.) that enables them to offer more services or manufacture more products at little or no additional cost.
- **The diversity of competitors is high.** Different types of companies are selling the same goods and services.

Determining Industry Rivalry

▲ Follow the same directions as for substitutes. Fill out the **Industry Rivalry Worksheet** in *The Workbook* of create your own. An example for retaso is in exhibit 4J.

▲ You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (appendix A).

▲ Note the strategic implications of industry rivalry for your social enterprise.

Exhibit 4J: Example of Rivalry in Retaso Industry

Measures of Rivalry	Rating	Highly Unattractive	Unattractive	Neutral	Attractive
Number of competitors	Many	•			
Industry growth	High				•
Product features	Low	•			
Excess capacity	High	•			
Diversity among competitors	Low				•
Attractiveness rating			•		

Strategic implications: Intense competition in the retaso industry by well-entrenched small and medium enterprises and informal sector players (traders) means that the enterprise will have to either find ways to cooperate or collaborate with competitors or fill a vacant niche. Because retaso traders are extremely well established and connected, a strategy of head-on competition by a new entrant, the social enterprise, is probably not wise. Providing linkages between traders and retaso workers, buying supplies from traders, and farming out distribution or another function are possible strategies. Another option is to fill an untapped niche through a product diversification strategy targeting new or underserved markets.

Synthesis of Industry Attractiveness

Rationale:

To ascertain if an industry is attractive—*whether it offers above-average potential for healthy long-term profitability and sustainable comparative advantage*—you will synthesize the results of your analysis of each of the five forces to form your conclusions. In addition to the attractiveness ratings, you must consider the feasibility of possible strategies you detailed to reduce or undermine the constraints of these forces. In almost every industry one or more of the forces will impose constraints on the viability of an enterprise so the task at hand is to weigh attractiveness (or unattractiveness) against potential strategic options that will enable you to create a solid, viable social enterprise in the industry.

Unfortunately, there is no neat, easy formula for doing this. Your conclusions will rest on your ability to think strategically and realistically about how you will position and maneuver your enterprise among the five forces. As a measure of the "feasibility" of your strategies, reflect on potential financial and human resource needs and the time needed to establish an enterprise in the industry. If you determine that the industry is too "unattractive" or risky, move on.

Same as previous exercise

Determining Overall Attrractiveness of Your Industry

▲ Place the "attractiveness ratings" for each of the forces in the **Five-Forces Model** in *The Workbook* or create your own. An example for retaso is provided in exhibit 4K.

▲ Synthesize the conclusions; this may give you enough information to decide whether this is the right industry for your social enterprise.

▲ If your enterprise is currently operating in this industry, do the strategies you articulated for each component in the Porter model fit logically together, or will you need to develop new strategies to operate successfully in this industry?

An overview of industry attractiveness is included in the Business Plan.

Exhibit 4K: Example of Five Forces for the Retaso Industry

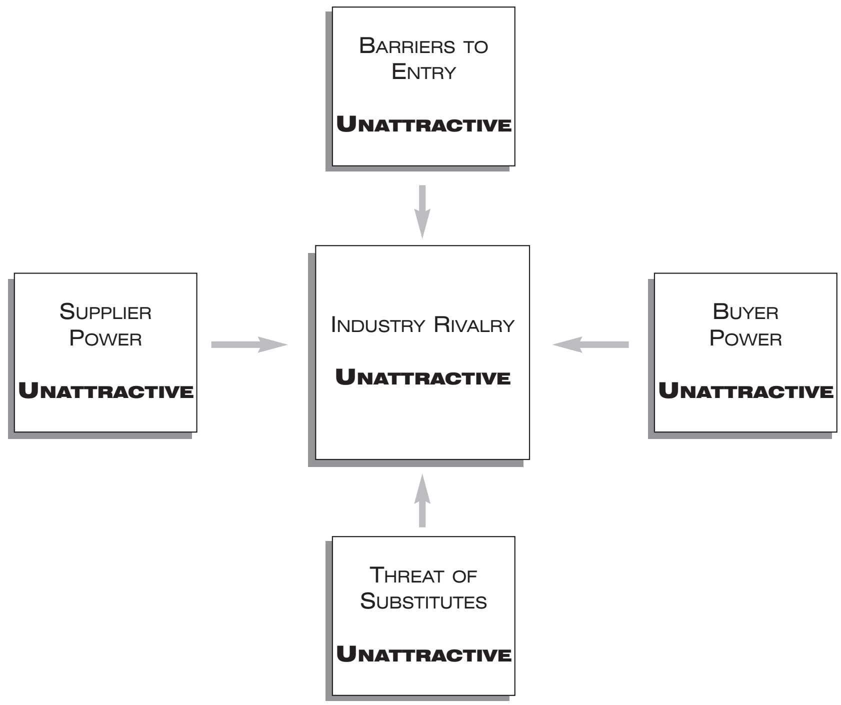


Exhibit 4L: Synthesis Worksheet: Example From Retaso

Measures of the Five Forces	RAting	Highly Unattractive	Unattractive	Neutral	Attractive
Barriers to entry	Many		•		
Supplier power	High		•		
Buyer power	High		•		
Threat of substitutions	High		•		
Industry rivalry	High		•		
Attractiveness rating			•		

Strategic implications: High barriers to entry and extreme buyer and supplier power, particularly concerning the extralegal nature of selling fabric remnants, make the initial enterprise design of the retaso program untenable. Because a centralized association proved too costly, squeezing already narrow profit margins, suggested adjustments included changing from a centralized association to a decentralized structure linking traders to established retaso workers. This would mitigate the need to compete with the current power structure. Additionally, the program could cease to aspire to be a viable enterprise and concentrate on macro-level policy intervention focused on creating a more enabling legal environment for poor self-employed women who work in the retaso industry.

Industry Analysis

In addition to the five-forces model, there are a few other aspects of an industry that merit attention. Understanding a social enterprise's vulnerabilities to industry factors will help you anticipate and plan for difficult times and prosperous times.

Seasonality—changes in business, employment, or buying patterns that occur predictably at given times of the year.

Seasonal Factors

Many industries have seasonal highs and lows that affect revenue inflows or outlays of cash. Agricultural businesses are required to finance operations for several months before realizing any income from sales. Seasonal businesses are associated with holidays, weather changes, harvest times, etc. Business for sweater producers most likely slows in summer and increases in winter, whereas for ice-cream sales the reverse is true. Seasons often dictate customers' spending habits and preferences, even when they have plenty of money. Weddings and holidays come during certain times of the year and with them requisite purchases related to the occasion.

When preparing your financial statements, particularly cash-flow projections, it is imperative that you understand and account for seasonal factors that impact enterprise income and expenses. You might be selling your products in December but have to buy raw materials for production in May.

Business manager, production/operations manager, marketing manager, sales and production staff, PO business advisor, clients, external market researcher, or industry expert (if desired) for all Industry Sections

Use the following questions as a guide to determine the impact of seasonality on your enterprise.

▲ How do changing seasons impact the economic health of your enterprise?

Holidays:

- Which ones?
- Time of year?
- In what way?

Seasons (winter, summer, rainy, dry, etc.):

- Which ones?
- In what way?

Seasonal factors are included in the Business Plan

Sensitivity to Economic Cycles

Economic upswings and downturns impact industries differently. Some industries are dependent on a strong economy, such as tourism, restaurants, those selling luxury products, and construction. Others thrive in times of recession, like discount stores, low-cost substitutes, and businesses that promote cost-saving products. Finally, others are relatively immune to economic cycles—for instance, personal care products, basic health inputs, staple foods, and public transportation continue to be purchased despite economic hardship. It is important to understand how vulnerable your social enterprise may be to changes in the economy. For example, if your social enterprise provides financial services to clients, a large part of your market depends on your customers' ability to repay their loans, and an economic downturn could slow jeopardize their business activities and erode your revenues.

How do these economic variables influence your industry?

- ▲ Low business expansion?
- ▲ War or civil strife?
- ▲ Growing unemployment/ under-employment?
- ▲ High interest rates?
- ▲ High inflation?
- ▲ Weak local currency?
- ▲ High rate of migration/immigration/ refugees?
- ▲ Underdeveloped banking sector?
- ▲ Low tax base?
- ▲ Disproportionally high informal sector growth?
- ▲ Decrease in real wages/household income?

Economic variables are included in the Business Plan.

Sensitivity to Government Regulation

The regulatory and policy environment can affect your social enterprise's ability to conduct business profitably. Some of the effects of the regulatory environment on your enterprise may have come out during the Porter or "threats" section of the SWOT analysis. Take a second look at the possible effects of government regulation on your selected industry, particularly if you are considering launching your social enterprise in the "gray" areas of regulation.

Many advocacy programs focus on changing the policy environment to "level the playing field" for social enterprises. Running a business whose success is dependent on policy reform is a dangerous proposition. Based on SC's lessons from the retaso industry, undertaking advocacy and business programs simultaneously is a tall order.

How does government regulation affect your industry?

- ▲ Environmental policy?
- ▲ Taxation?
- ▲ Health and safety standards?
- ▲ Regulation/deregulation?
- ▲ Performance standards?
- ▲ Registration?
- ▲ Licensing/certification?
- ▲ International trade?

Government regulations are included in the Business Plan.

Technological Change

Technology-driven enterprises—those that depend heavily on technology in their processes or that sell technology products—tend to be highly vulnerable to change. Sales can fall off dramatically if competitors introduce technology innovations that result in a better product, faster production time, or lower costs. If technology changes rapidly in your industry, then you will need to be prepared to respond, in terms of both R&D and investment in new or replacement equipment. Also consider how technological innovations might provide new business opportunities for your social enterprise. Assessing technology changes in your industry over the past five years is a good indication of future trends.

Technology: To Do or Not to Do?

Technological industries can offer excellent opportunities to social enterprise programs, but beware that they tend to "boom" or "bust." Management must be quick to respond to changes to capitalize on opportunities they present. Equipment is often expensive; cash must be on hand, or financing readily available, to purchase start-up and replacement technology. Research and development costs in technology businesses can also be substantial.

For example, if your social enterprise is a telephone and fax bureau targeting small businesses, changes in the telecommunications industry such as the introduction of e-mail and Internet access offer new business possibilities. The social enterprise management, however, must be forward thinking enough to exploit the opportunity, as well as have the resources available to do so.

Same as previous exercise

- ▲ Indicate the degree of technological change that has occurred in your industry over the past five years. An example is given for TARTINA in exhibit 4M, Sensitivity to Technological Change.
- ▲ A blank copy of the **Sensitivity to Technological Change Worksheet** can be found in *The Workbook*.
- ▲ State to what degree does your industry relies on technology.

Notations on technological change are included in the Business Plan.

EXHIBIT 4M: TARTINA'S SENSITIVITY TO TECHNOLOGICAL CHANGE

Business Areas	Dependence on Technology (High, Moderate, Low, None)	Changes in Past Five Years (High, Moderate, Low, None)
Product/service features	Low	Low
Manufacturing/production	Low	Low
Administration	Moderate	High
Marketing/communications	Low	Moderate
Information retrieval	Low	Moderate
Delivery time/method	Low	High

Financial Characteristics

Understanding the financial characteristics of your industry helps shape pricing decisions and cash-flow projections.

PO business advisor, business manager, finance and accounting staff, marketing manager

What are the Financial Characteristics of Your Industry?

- ▲ Do customers typically buy products or services in this industry on credit? If so, what are standard credit terms: more than 30 days, less than 30 days, or what?
- ▲ Average percentage of returned sales?
- ▲ Do buyers pay in advance? This is standard for conference registration and training.
- ▲ What is the usual retail markup on products?
- ▲ Distribution markup?
- ▲ What is the general price breakdown of the product or service (mostly cost of labor, materials, technical expertise, distribution/delivery, advertising, etc.)?
- ▲ Are there other distinct financial patterns in this industry that may influence the pricing of your product or service or how you will manage your cash flow?

Description of financial characteristics is included in the Business Plan.

Competitive Analysis

Rationale:
Competition is an integral element of your operating environment, so it deserves special attention. Our experience has shown that social entrepreneurs often do not conduct a thorough competitive analysis before embarking on a social enterprise program. Underestimating the magnitude of your competition or failing to properly assess its impact on your social enterprise can be its undoing. Although your social enterprise may have superior products or services compared to those of your competition, this element alone is not sufficient to ensure its success. Other market factors, such as the competition's reputation or the extent of its market penetration, are also important to consider. A thorough understanding of competitors' operations, products and services, and market segment is an essential aspect of your market study.

The competitive analysis framework has several components: (1) evaluating your competitors' strengths and weaknesses; (2) estimating approximately how much of the market your competitors control; and (3) identifying any new competitors that might enter the market.

> **Competition: Threat or Opportunity?**
>
> Competitors can either pose a threat or invite opportunity. An institution or private company that offers similar products or services in your area can either "steal" your customers or bar you from entering the market, therefore jeopardizing your social enterprise's financial viability. This is particularly true if the competitor offers products or services at lower prices or is better equipped to meet the stated needs of the customer. As well, a competitor can offer an opportunity for collaboration, especially if its product/service or market segments are slightly different from your own. In the case of TARTINA, a competitor producing similar processed foods, such as compote, might provide an opportunity to jointly purchase common materials used in manufacturing in bulk, such as jars or sugar, thus lowering per-unit costs. When analyzing your competitors it is important to identify potential synergies that exist between your enterprise and competitors as well as any potential for head-on conflict.

Evaluating Competitors' Strengths and Weaknesses

Competitors' strengths are comparative advantages that your social enterprise, too, could potentially provide. The combination of the completed competitive analysis and business assessment will enable you to develop a strategy that maximizes the strengths of your social enterprise and positions it effectively against competitors.

If you identify weaknesses in your competition, try to find out why it is having problems so you can avoid the same mistakes it has made. If your target market is not important to your competition and your idea is a good one, then you will most likely have an open field to run in—at least for a while. If the competition is keen for your target market, however, be prepared to compete vigorously to protect and gain market share.

PO business advisor, business manager, marketing manager, marketing and sales staff, external market researcher (if desired) for all Competitor Sections

Analyzing Competitors

- ▲ Fill out the **Competitor Assessment Worksheet** you completed in the beginning of this chapter for each major competitor, found in *The Workbook* or create your own. An example is given for TARTINA's competitor Pidy in exhibit 4N.
- ▲ Begin by identifying your competition by product line or service as well as by internal operations; then assess its strengths and weaknesses much in the same way you analyzed your social enterprise.
- ▲ Your competitors' strengths and weakness present both opportunities and threats

(Continued on page 108.)

EXHIBIT 4N: COMPETITOR ASSESSMENT: PIDY

I. Customer Perceptions	S	W	Comments
Product/service features	S	W	S—Good color (light shade favored by consumers), smooth texture and palatable taste. W—Oil subject to separation if on shelf too long.
Value	S	W	Pidy is good value, one of the less expensive main brands on market.
Quality	S		Fair quality, excellent consistency.
Reputation/ name recognition	S		Well-known and well-respected brand.
Social image	S		Not perceived as socially conscious.
II. Internal Operations			**Comments**
Mission statement	S		Unambiguous and focused mission.
Resources	S		Fairly large family company, they appear to have ample resources.
Infrastructure/capacity	S		Excellently equipped, modern facility.
Operating efficiencies/ economies of scale	S		Strong distribution system; use high-technology processing equipment.
Strategic alliances	S		SC, looking for business linkage opportunities
Location	S		Corporate headquarters in PAP and manufacturing facilities in three rural locations, all less than three hours from PAP.
Structure	S	W	S—Structured as a business; W—Family-owned, which presents conflict of interest/tension issues.
Client relationships	S		Positive impact/relationship with clients.
Product/service mix	S		Solid line of peanut butter flavors.
Human resources	S	W	S—In-house technical expertise. W—Family members in key management positions.
Leadership		W	Owner just died.

KEY
S = Strengths
W = Weaknesses

for your enterprise. Reflect on the strategic implications for your enterprise as you complete the exercise.

▲ Be sure to include key competitors for each of your products or services; do not limit your assessment to organizations that are similarly structured, such as nonprofits or community development organizations. Competitors are determined solely by the products and services they provide—whether they are manufactured or delivered by individuals, private companies, or nonprofits.

TARTINA Enterprise Direct and Indirect Competition

Processed food products in Haiti are sold in both artisan and formal markets. Local brands of peanut butter, jams, and jellies have a significant presence in both markets. Imports are not considered direct competition for the local TARTINA brand as the consumers of imports and local brands are different. This segmentation of markets between local and imported brands is partially a result of the significant price difference between them. The imported labels cost 40 percent more than the local labels. Thus, the competition for the TARTINA products is local producers for each of the products in the product line. A competitive analysis of the largest players in the local peanut butter and jam markets revealed the following characteristics:

- Well-recognized companies
- Many years' experience in food transformation
- Most are private companies or family operations (no other enterprise programs!)
- Diversity of promotional activities
- One company has experience in the export market

Perhaps the most important finding of the analysis of the competition was the realization of how little TARTINA Enterprise staff knows about the competition. To address this issue, ways of collecting information on the competition were identified. The plan during the next year is to incorporate gathering "competitive intelligence" into the responsibilities of sales agents.

Same as previous exercise

Analyze Indirect Competitors

▲ Identify indirect or secondary competitors that may have an impact on the success of your social enterprise. Indirect competitors can be organizations, companies, or individuals who offer similar or substitute products or services or who serve a different market segment that may infringe on your target customer.

▲ An **Indirect Competitor Worksheet** is available in *The Workbook*; an example for TARTINA is given in exhibit 4P.

Competitor information is included in the Business Plan.

Exhibit 4P: TARTINA's Indirect Competitors

Indirect competitor	Impact on your business	Future direct competitor? (high/low)	Counterstrategy
#1 Creolé	Produces and sells chocolate nut spread. Creolé is a substitute for peanut butter and is preferred by kids. Threatens sales, requires stepping up marketing to deter customer switching.	High. Nut-based production makes diversification into peanut butter easy.	Marketing targets Mom and focuses on nutrition. TARTINA is investigating adding chocolate spread to its product line.
#2 Lacky	Breakfast cereal producer. Cereal is replacing bread and PB/jam as a staple breakfast food in some middle income families; impacts sales volume and target market.	Low. Completely different product, production and marketing costs very high to enter PB market.	Market nutritional benefits of TARTINA products over cereal and other breakfast food choices. Emphasize versatility benefit of PB and Jam as snack food/lunch.
#3 Jif	US made peanut butter. TARTINA loses higher income customer market to Jif and other importers. Puts pressure on TARTINA for higher quality products, more professional "import" look in marketing.	Low. Different target market. Wealthy Haitians prefer imports.	Continue to target middle and lower income customers; "good value" market position. Improve product quality and consistency. Consider "import imitator" packaging.

Calculating Market Share

Market share is reached by dividing the sales of a company, either in volume (total units) or their dollar value, by the total for all competitors in the industry.

Example: About 15.1 million new cars and light trucks were sold in the United States in 1997. General Motors Corporation, which sold approximately 4.7 million of those, garnered a 31 percent market share—4,700,000/15,100,000 = 0.31 or 31 percent. (Kerwin and Vlasic)

Guesstimation Approach to Deriving Market Share

In a meeting or workshop setting, have sales and marketing people estimate the percentage of their competitors' market share for each product. Ask them which competitors are selling the most and at what percentage of the market volume. Unit sales volume is easier to work with than dollar value when using this approach. Carving a circle up into a pie provides a good visual representation for this exercise. Arriving at a group consensus is a justifiable means of educated estimation or "guesstimation" and will serve as a quick comparison of competitors. In this case, TARTINA is a relatively small player with Mamba peanut butter, lumped in the 20 percent "others" category.

Market Share

In this section, the competitive analysis framework helps you determine the ***market share*** of your competition—what percentage of the target market it is selling to—relative to that of the social enterprise.

Assembling accurate information on market share may pose a challenge. In many developing countries, firms and governments do not make sales statistics public. Moreover, privately held and nonprofit social enterprises are not required to publish their sales statistics in any country. Therefore, if you cannot get concrete numbers on overall industry revenue and companies' sales volume or revenue, you will have to use a "guesstimation" technique. (Instructions for actual market share calculations and "guesstimation" are given in box.) Although the latter is a less than scientific method, it is more likely you will derive market share for your social enterprise with this method than by compiling sales data. Even a rough estimate is a helpful indicator of your competitive standing because it allows you to directly compare your social enterprise and competitors in the same industry. Other important aspects of this exercise are to distinguish any trends among your competitors—e.g., have they been selling more or less over time?—and to note the most important characteristics of market leaders in your industry. These characteristics may be comparative advantages your social enterprise can emulate.

Market share—the ratio of one company's sales to total sales by all competitors in a given market.

Business manager, marketing manager, sales staff, PO business advisor, external market researcher (if desired)

Determining Market Share for Products

- ▲ Estimate market share for your enterprise and competitors by following the example for TARTINA in exhibit 4Q and 4R.
- ▲ Use methods for deriving market share given in shaded box.
- ▲ Market share must be calculated for each product.

Market share information is included in the Business Plan.

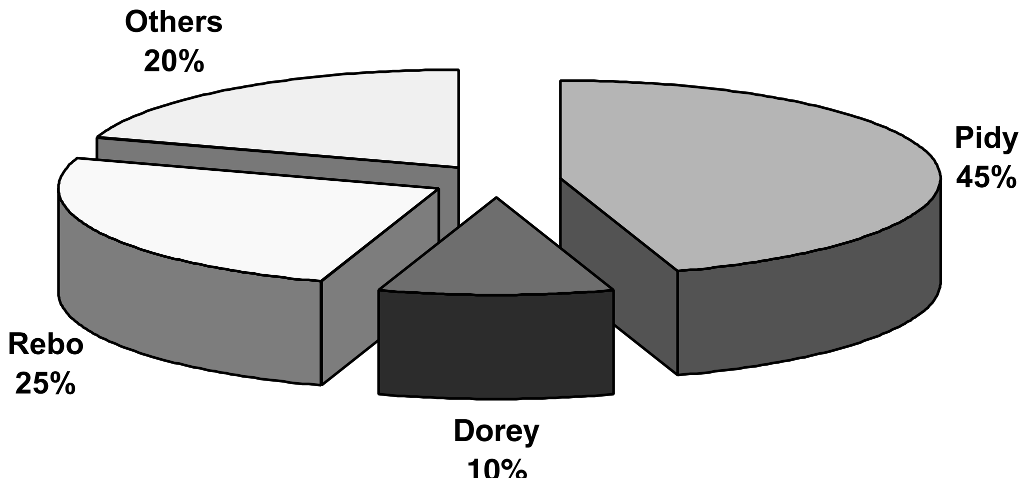
Exhibit 4q: Market Share Trends for Producers of Peanut Butter

Competitor	Percent of market[4]	Market share trend:	Most important characteristics of market leaders
#1 Pidy	45%	â	Local, family-owned company; consistent quality, strong brand/image; good value option; several flavors; no frills; possibly losing market share to "import imitators"
#2 Rebo	25%	á	Import imitator via fancy packaging; premium price, yet cheaper than imports; colorful label also reaches children; supplier to hotels; not the best-tasting peanut butter, but marketing is slick
#3 Dorey	10%	â	High quality, good taste, smooth consistency, and attractive color; a favorite among connoisseurs of domestic peanut butter; packaging is humble at best; has the look of Grandma's kitchen in market that favors fancy imports
#4 Others	20%	á	New players gaining market share

[4]Using the traditional calculation for market share, this figure would be percentage of total revenues or percentage of total units sold.

(Zoul, Tacha,
TARTINA, imports)

via various strategies



TARTINA
jam production

EXHIBIT 4R: MARKET SHARE FOR MAMBA

FUTURE COMPETITORS

Rationale:

New competitors can enter the market at any time; this is especially true if you have identified a lucrative or underserved market with few barriers to entry. In this section of your competitive analysis you will look into your crystal ball and make some predictions of what your competition will look like in the future. Analyzing future competition gives you a better idea of the long-term viability of your social enterprise.

PO business advisor, business manager, marketing manager, marketing and sales staff, external market researcher (if desired)

Projecting the Future

- ▲ Forecast your potential new competitors by first reviewing the analysis of your indirect competitors and the likelihood that they will enter the market.
- ▲ Second, look at the product lines of other companies and organizations and consider whether expansion into your market is a logical strategy for these competitors.
- ▲ Next, based on product/service and current business criteria, contemplate which competitors might leave the market.
- ▲ Finally, refer to the "barriers to entry" section of the five-forces model you completed in this chapter. Think about which potential competitors might expand their businesses into your market. This last step will help you determine if expansion is actually a plausible or probable strategy for them.

- ▲ Use the **Competitor Forecast Worksheet** found in *The Workbook* or create your own. An example for TARTINA is given in exhibit 4S.

EXHIBIT 4S: TARTINA FUTURE COMPETITORS

POTENTIAL FUTURE COMPETITORS	PRODUCT/SERVICE
Creolé	Chocolate-nut spread
Zitzon	Spicy soy snack food
CURRENT COMPETITORS LIKELY TO EXPAND	**PRODUCT/SERVICE**
Rebo	Peanut butter (all flavors) 10 jams
Dorey	PB (sweet & spicy), Chadeque
CURRENT COMPETITORS POTENTIALLY LEAVING MARKET	**PRODUCT/SERVICE**
Zoul	Spicy and sweet peanut butter
Adventist	Peanut buttter/Chadeque jam

Competitive Strategy

The competitive strategy is based on a synthesis of all the information you have gathered in your competitive analysis. After you have completed all the analysis worksheets, respond to the following questions; this should give you adequate information from which to develop your competitive strategy.

Same as previous exercise

Formulating Your Competitive Strategy

- ▲ How do your competitors' strengths and weaknesses compare with yours?
- ▲ What have you learned from their operations?
- ▲ How do their products/services differ from yours?
- ▲ What are the comparative advantages of your social enterprise? Of your competitors?
- ▲ Can your social enterprise emulate these comparative advantages?
- ▲ What do predictions about the future tell you about emerging competitors?
- ▲ Is there any possibility for collaboration with any of your competitors? If so, how?
- ▲ **What strategy will your social enterprise pursue with respect to the competition? Will you compete with it head-on? Identify a niche or market where it does not operate? Pursue a strategy of *horizontal integration* and cannibalize your competitor? Etc.?**

***Horizontal integration*—**a growth strategy in which a company buys, acquires, or takes over a competitor that performs a similar value-added activity.

Competitive strategy is included in the Business Plan.

How Do You Gather Competitive Intelligence?

In most Western countries it is relatively easy to get information on publicly held companies. Most information is in the public domain, such as annual reports, sales reports, and company profiles from commerce departments or brokerage houses. In developing countries and in informal-sector enterprises, competitor intelligence—information on competitors, their products, and how they do business—is not easy to come by. In Haiti TARTINA Enterprise competes directly with several private-sector companies, but printed information is scare because there is no stock exchange, nor are companies legally bound to publish their statistics. Be prepared to engage in a little espionage to gather competitor intelligence. Here's how:

- Check with government agencies such as commerce or trade to see if any printed information is available.
- Ask those who have contact with your customers, like the sales force; they are the eyes and ears of your social enterprise. They interface directly with customers and often have contact with competitors' salespeople.
- Survey competitors' customers; find out what their perceptions and preferences are about the products/services and the company they are purchasing from.
- Talk directly to the competitors' senior management or owners. As a small social enterprise you might be surprised that you can gain access simply by asking. A competitor may not see your enterprise as a threat and give you information (and maybe some free advice, too).
- Contact low-level employees working for competitors, like support staff, guards, or chauffeurs. They are usually happy to be asked to share their opinions and observations and often do so readily. Chauffeurs and secretaries, especially, may be privy to conversations with important decision-makers.
- Competitors' former employees are a good source of information; the more disgruntled they were at the time they left, the better for you.
- Ask your staff members whether any of them have worked for the competition. You might be surprised at how often this is the case and how often they are overlooked as internal resources.
- Ask people in your industry what they know about your competitors. For instance, your raw material suppliers might also sell to your competitors. Maybe they have seen a competitor's site and facilities during a previous delivery.
- Network with friends and family members; if you ask enough people you are bound to find someone who knows something. For example, in a hotel restaurant, a Save the Children employee met a personal friend of the Pidy family, owners and operators of one of TARTINA's major competitors. The conversation yielded a lot of information on the family's business philosophy and strategy. One tidbit disclosed was that the company's matriarch and president had died the prior week—was this an opportunity or a threat?

A note on ethics: Gather competitive intelligence in an ethical manner. Don't misrepresent who you are or your intentions. For example, don't call a competitor posing as a job applicant, market researcher, or supplier. Companies are good about protecting domains that are proprietary, but you will be surprised at how much information is forthcoming when you merely ask. Besides, the bulk of the information you will need for your competitive analysis is not industry trade secrets.

The Marketing Plan

Chapter 5

Chapter 5

"Emerson said that if you build a better mousetrap the world will beat a path to your door, and that may have been true then ... but it's not true now. No one will come. You have to package and promote that mousetrap. Then they will come."

— King C. Gillette
Gillette Razors

Overview: Marketing is the process of planning and executing a strategy to get goods and services to customers. The components of marketing can be described as the "four P's" or the marketing mix. **Product** consists of the products and services that your social enterprise furnishes; it is characterized by quality, assortment, packaging, and guarantees. **Price** is the amount you will charge customers for the products or services. **Promotion** is how you will create awareness of your products or services in the marketplace; advertising, publicity, and sales are aspects of promotion. **Place** (distribution) is how you will bring your products or services to your customers; distribution comprises wholesalers, retailers, multilevel marketers, and sales representatives. The **marketing mix** is a set of tools and techniques social enterprises use to achieve their **marketing objectives** in their **target market**. Your marketing plan will emphasize certain "P's" in its mix more than others.

Marketing is important because it embraces nearly every facet of your social enterprise. Production responds to what market research discovers about customer preferences for quality and packaging, which in turn are factors determining price. Market research also lends itself to new-product development based on what consumers want and identifies promotion techniques to reach new customers. Helpful or friendly marketing staff may inspire customers to buy products or services. Finally, management makes strategic decisions impacting operations based on marketing information about competitors' prices and positions.

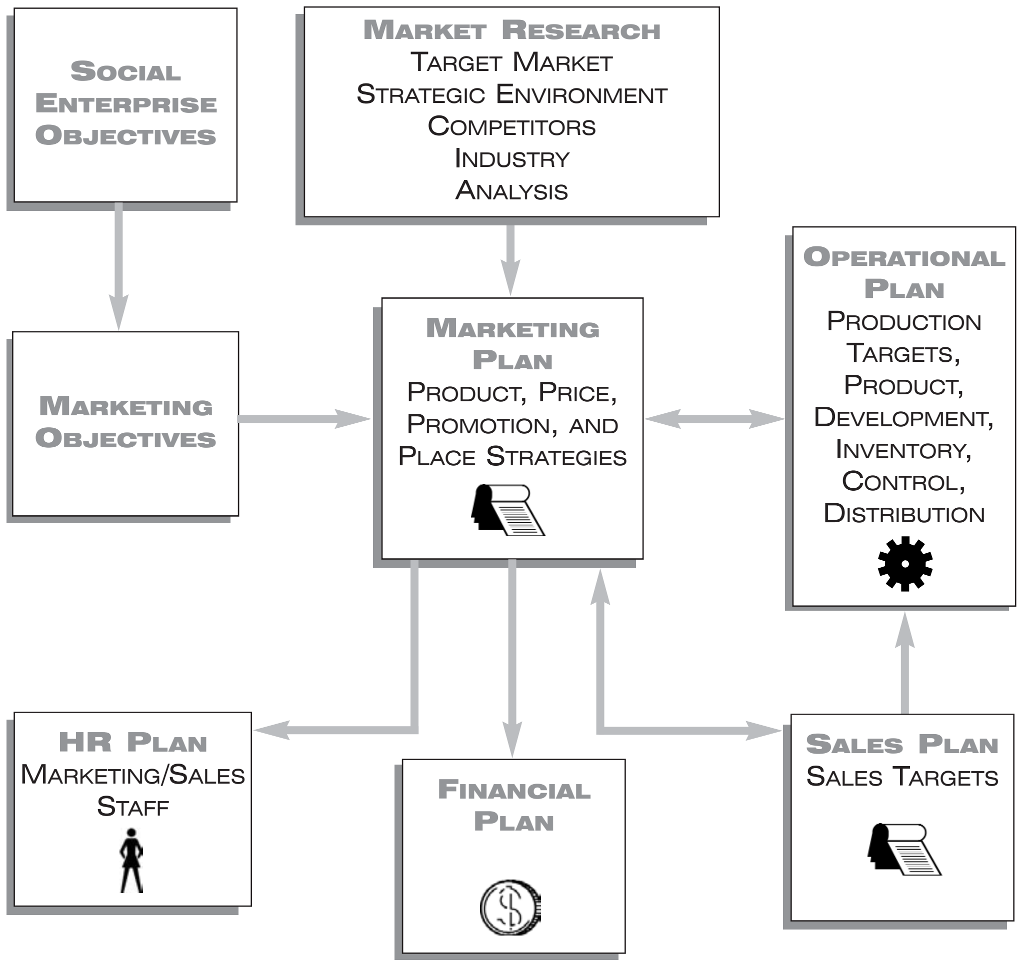
Marketing Synergies

"The most effective and efficient marketing plans are those that maximize the synergy between products, distribution channels, price, and promotion. A unified promotional strategy across an entire product line saves money and presents a consistent image of the enterprise in the consumer's mind. From a selection of complementary products, significant economies of scale in raw materials and packaging can be realized. Products with similar production processes allow for development of specialization and attainment of high-quality standards."

— Heather Shapter, SC/Haiti Business Advisor

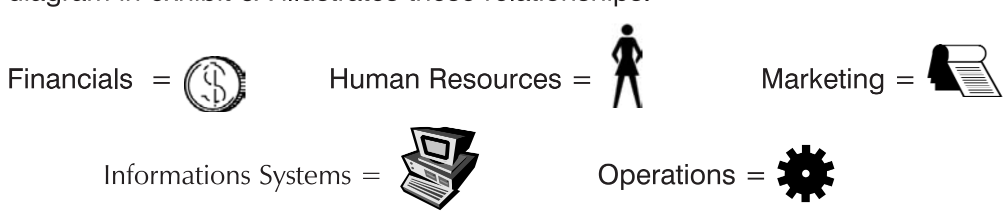
This chapter will help you understand the tools and techniques of marketing and apply them to your social enterprise. It guides you through steps to develop your marketing plan by setting objectives and deciding on a strategy for each marketing component.

EXHIBIT 5A: INFORMATION FLOWS FOR THE MARKETING PLAN



Guide to Icons

This chapter periodically uses icons (below) next to certain questions or sections to alert the reader to the fact that decisions made in the operations plan have implications for other segments of the business plan. The information flow diagram in exhibit 6A illustrates these relationships.



Marketing Objectives

DETERMINING MARKETING OBJECTIVES

Rationale: Once you have laid out the objectives for your social enterprise, you can develop strategies for your marketing mix. Stating marketing objectives directs the development of your marketing plan. Marketing objectives should contribute toward achievement of the overall business objectives (chapter 2)—i.e. how much do you need to sell to achieve X% cost recovery or profit/loss—and should be based on the information gleaned in market research (chapters 3 and 4).

Marketing objectives must:

- Be clear.
- Be measurable.
- Be achievable.
- Have a stated time frame.
- Include a sales forecast (at least one marketing objective).

Examples of Marketing Objectives

- Increase product awareness of new product X within the target market by 25 percent in one year.
- Inform the target population about service Y's leading features and benefits compared with the competition's, increasing sales by 10 percent over the next six months.
- Reduce price of product Z or service Z by 10 percent and increase market share by 5 percent in the first quarter in target market W.
- Improve brand awareness so that a minimum of 50 percent of target customers will recognize your brand over the next fiscal year.
- Change formula for product V and reintroduce it in a new target market by 2001.
- Enhance service W to include A, B, and C features demanded by the target population to increase sales by 30 percent over the next year.
- Increase average ***gross profit margin*** 3 percent per product or service.

Gross profit—expressed as a percentage; shows the percentage of return an enterprise earns over the cost of the merchandise sold (costs of goods sold).

Gross profit margin—is calculated by dividing gross profit by sales.

EXHIBIT 5B: OBJECTIVES LINKED TO STRATEGIES

Objective	Marketing Strategy	Mix
Increase target market W share by 5 percent in first quarter	Reduce price of product Z by 10 percent	Price
Launch improved service Y market in 2001	Redesign declining service Y according to new customer specifications/wants	Product
Introduce product X in new target market	Expand distribution to sports concessions to reach more youth and men	Place
Increase product awareness of new product Z in target market by 25 percent in one year	Aggressive sampling campaign using point of purchase and coupons to encourage trying new product	Promotion

Marketing manager, business manager, PO business advisor, partner program manager, sales staff

Developing Marketing Objectives for the Social Enterprise

▲ Determine the marketing objectives for your social enterprise.

▲ Refer to the examples (exhibits 5B and 5C) for assistance or inspiration.

Marketing objectives are included in the Business Plan.

EXHIBIT 5C: TARTINA MARKETING OBJECTIVES APRIL 1999 – APRIL 2000

- Raise awareness of TARTINA brand by 50 percent
- Reach sales target of U.S. $58,976
- Sell 62,500 units (all products)
- Secure average gross profit margin of 16 percent per product

Product Strategy

Product/Service Features and Benefits

Rationale:
The products and services that succeed are those that offer benefits to customers that are greater than their costs. *Customers are interested in products for their benefits, not their features.*

Understanding the features and benefits of your products and services will help you develop your marketing campaign by highlighting the aspects that are the most important to your customers. It will also assist you in differentiating your products from your competitors' and affect a variety of pricing and positioning strategies.

Definition of Product Features and Benefits

Features are characteristics of a product or service that deliver a benefit. Features are usually easily describable attributes such as size, model, design, color, hours of businesses, functionality, brand, packaging, quality, shelf life, etc. For instance, if your social enterprise provides marketing services to its target population, features of that service might include branding, professional sales and marketing staff, training in promotion methods, employment opportunity, and technical assistance on product development.

Benefits are advantages a product offers the customer. Benefits are more difficult to detect because they are often intangible. The most compelling benefits of a product or service are those that render emotional or financial rewards. Emotional rewards make customers feel better about themselves, such as feeling socially or environmentally conscious, more attractive, or more self-confident. Financial rewards, like saving money or increasing income, are other benefits a social enterprise might offer customers.

Using the above example of the marketing service, benefits for your customer (i.e., self-employed women) are access to markets, or a guaranteed market for its products; cost savings on—and access to—professional services; skills enhancement; and increased self-esteem, income, and economic opportunity.

PO business advisor, marketing manager, business manager, sales staff

Clarifying Product/Service Features and Benefits

- ▲ Create a Product/Service Features and Benefits Table (exhibit 5D).
- ▲ Fill in the table identifying the features of each of your products or services and their corresponding benefits.
- ▲ Be sure to complete this exercise from the customer's point of view, not your own.
- ▲ Then, in a paragraph or two, briefly describe the service or product of your social enterprise, *emphasizing the benefits* to the customer. Focus on the areas in which your product or service has a distinct advantage over the competition's. Refer to any problem in the target market for which your service or product provides a solution. Make a convincing argument that people are, or will be, willing to pay for your solution.

Know Your Competitors' Products

Be sure that your staff is intimately familiar with your competitors' products or services. When conducting this exercise with TARTINA staff, we were surprised to find out that this was not the case, so we conducted a product comparison during the business plan development workshop. This was not the ideal approach because it limited us to comparing physical features and considering only the opinions of the participants. Obviously, comparative analyses such as this one are easier for social enterprises selling products than for those selling services. At any rate, educating staff about features and benefits of competitors' products and services is an obligatory part of staff training and continuing development.

Exhibit 5D: Product/Service Features and Benefits Table

TARTINA Peanut Butter		Financial Services	
Features	**Benefits**	**Features**	**Benefits**
High in protein	Good nutrition	Small working capital loan	A vehicle to grow the business
Slightly sweet flavor	Kids love it; therefore easy for mothers	Weekly repayment	Ease of repayment
"100% natural"	A clear conscience; no worries about unsafe chemical additives	Collateral free	Access to credit
Expiration date	Freshness guaranteed	Easy application progress	Convenient; low stress
Economical	Saving money	Savings	Economic security
20-oz. plastic container	Convenient, reusable	Solidarity group	Emotional support, technical assistance, and networks
Produced by local economically disadvantaged Haitians	Peace of mind; pleasure from "helping to make a difference"	Short loan cycles	Fits business cycle/ other activities; lowers risk

Features and Benefits of Competitors' Products or Services

Rationale:
Analyzing the features and benefits of your strongest competitors' products and services may give you ideas about how to improve, refine, or change your products and services when you develop your product strategy to increase your market share or sales volume.

Marketing manager, business manager, PO business advisor, sales staff

- ▲ Complete the Product/Service Features and Benefits Table for your competitors' products and services that are the same as yours.
- ▲ If you completed this product study in your competitive analysis (chapter 4), skip this section.

PRODUCT LIFE CYCLE

Rationale:

The product's life cycle is the process through which a product enters, grows, saturates, and leaves the market. During the life span of your product or service, you will reformulate your marketing strategy several times—not only as a result of changes in market conditions or new competitors but also in response to changes in customers' interest and requirements for the product. The four stages of a product's life cycle are introduction, growth, maturity, and decline. Each stage is marked by specific characteristics.

Stages of a Product Life Cycle

- ***Introduction***—when new-product sales are slow, and profits are nonexistent, because of heavy costs of production and promotion. Often during this stage there are few competitors, promotion is heavy, and the focus is on getting potential customers to try the product rather than on the developing the brand.

- ***Growth***—a period of rapid market acceptance of the product and dramatic increase in sales and profit. After a product takes off, copycat competitors enter the market. During the growth stage marketing shifts to creating brand preferences, and promotion lessens.

Product Life Cycles

- Products have a distinct beginning and an end.
- Profits increase, level off, and then decline, depending on the stage in the product's life.
- There are marketing and sales challenges at each stage in the product's life.
- Managers must make strategic decisions based on where a product is in its life cycle.

- ***Maturity***—marked by flattening sales and stabilizing, then decreasing, profits. The market becomes saturated and price competition can be fierce. Marketing efforts at this stage concentrate on targeting a new market of buyers and taking market share from competitors by price cutting or relaunching the product. When you see a product advertised as having a "new" or "improved formula" or as "now recyclable," that is usually a good indication of a mature product after a face-lift.

- ***Decline***—indicated by falling sales and often rapid and eroding profits. At this stage an enterprise must decide whether it wants to try to rejuvenate the product by investing in development and aggressive marketing or to quietly admit defeat and exit the market. For example, in the advent of electricity, gas lamp producers either integrated the new technology into their products or went out of business.

EXHIBIT 5E: STRATEGIC IMPLICATIONS OF PRODUCT LIFE CYCLES
Example From TARTINA Enterprise

Mamba peanut butter is in the mature stage of the life cycle. Sales increase during this stage, but at a declining rate. As Mamba sales level off, TARTINA profit margins narrow. Price competition is severe. The best way to extend the life of this product and keep profits healthy is to modify it (alter the taste, color, labeling, packaging), design new promotion, or develop new product uses. TARTINA has entered into the stage of the product life cycle where it is one brand among many others already well known in the marketplace. It has to figure out its comparative advantages and implement a promotion program that shouts them from the hilltops!

Two strategic issues emerge from the recognition that peanut butter is in the maturity stage:

- TARTINA needs to find ways to develop the Mamba brand name to increase sales within its market.
- TARTINA must find ways to postpone peanut butter's entrance into the decline stage of the product life cycle. One of the best ways to do this is to introduce product modifications—new packaging, new flavors, etc. This approach serves to differentiate the product from its competitors and temporarily escape the heat from the direct competition. TARTINA has identified a market niche for sweetened peanut butter, a flavor that is not offered by the competition and will serve to more directly target the tastes of children.

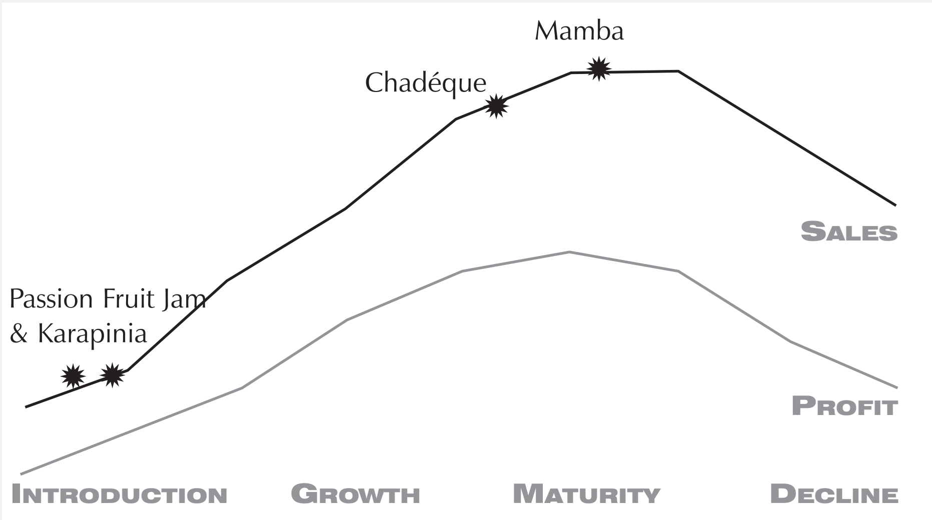
Karapinia is in the introduction stage of the product life cycle; it is a new product in the Port-au-Prince retail outlet. This means that sales volume will be low, costs high, and distribution limited; losses are likely. It is the riskiest stage of the life cycle. The positive side is that there is little direct competition in this stage. Knowing this will help TARTINA make decisions regarding whether Karapinia should even be pursued at this time. Perhaps the business cannot afford any losses and should wait until profits from other products are healthier. On the other hand, the market research and ***test market*** results conducted prior to the preparation of the business plan pointed to the great potential of this product.

Test marketing—conducting a small-scale promotion or introduction of a good to gather information useful in full-scale product introduction or promotion.

One strategic issue emerges from the recognition that Karapinia is in the introduction stage:

- The potential success of this product makes the risk of introducing it into the market a worthwhile one. In addition, the expected revenues to be realized from large sales of peanut butter and grapefruit jam will be used to finance development of Karapinia. As sales for Karapinia increase, these revenues will in turn finance TARTINA's future growth when peanut butter enters the decline stage of the product life cycle.

EXHIBIT 5F: PRODUCT LIFE CYCLE FOR TARTINA



Same as previous exercise

Mapping The Life Cycle of Products/Services

▲ Plot your products or services on the Product Life Cycle Chart (exhibit 5F).

▲ Write in narrative form the strategic implications that emerge from the stage of your products in their respective life cycles (exhibit 5E).

PRODUCT POSITIONING

Rationale:
Positioning defines your products and services *relative to your competition's*. Reviewing the features and benefits of your products or services against those of your competition helps you see where you may or may not have a comparative advantage. Completing a positioning exercise is part of the analytical process of determining your product strategy. The information obtained may lead you to make specific changes to your product features, distribution, or price to gain a comparative advantage against a certain competitor. Conversely, if a competitor is particularly daunting, you might use this positioning information to move out of a given market.

Same as previous exercise

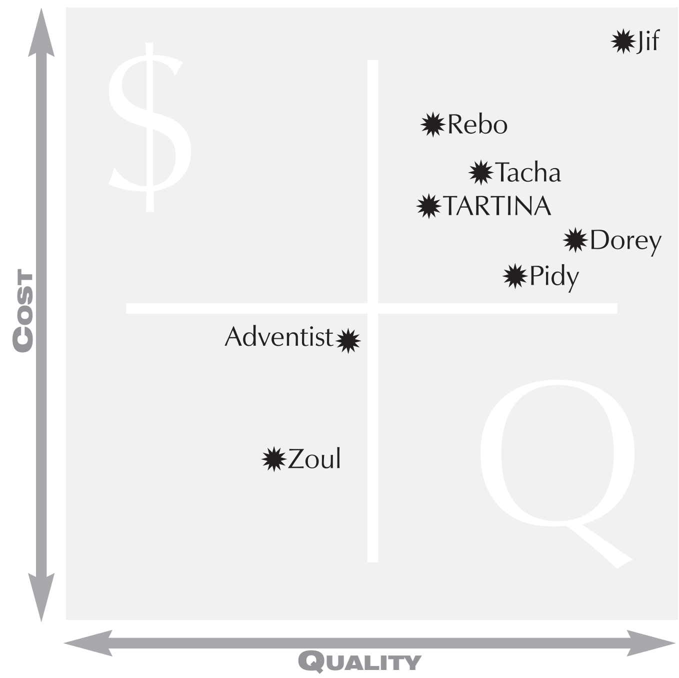
Positioning Products/Services

▲ Positioning is a matrix exercise. Price is always used as measure down one side of the matrix. On the other side, use product features that provide the most important benefits to your customers, such as quality, taste, packaging, etc.

▲ Prepare a matrix for each product (exhibit 5G).

▲ Draw on information obtained in your competitive analysis and market research, including customer surveys, and from your sales force, vendors, and outlet managers to get an indication of your position relative to your competition's.

Exhibit 5G: Mamba Peanut Butter Price/Quality Positioning



TARTINA's Position for Mamba vis-à-vis its Competitors
On the right hand side of the matrix we see 5 brands closely positioned according to their price and quality. Jif, the American import, is the most expensive and the best quality peanut butter on the market. Zoul and Adventist are cheap, but lag way behind in quality. TARTINA's main contenders are Pidy and Dorey for its position as the "economic" and "good value" peanut butter choice.

Developing a product strategy requires synthesizing the information obtained from your research on target markets and customers, comparison of product features and benefits, competitor analysis and positioning analysis, and review of stages of the product life cycle. This information paints a complete picture of the market and your place in it, enabling you to develop a strategy for your product or service.

To ensure that new-product developments are feasible, it is important that both production and marketing/sales staff participate in developing product strategy.

Rationale:
The product strategy is one part of your marketing plan aimed at achieving your overall marketing objectives. (Remember that each "P"—product, price, place, and promotion—in the marketing mix has its own strategic plan, with all four making up the marketing plan in its entirety.) A product strategy consists of any changes you make to the features of your product or service, information on in-process or future activities relate d to the development of new products/services, consolidation of the product line, etc. The strategy informs how these changes help achieve marketing objectives for the product.

"Product" Challenges and Strategies for Service Businesses

Nonmaterial Product

When you sell a service, you are selling intangibles—a technique, advice, a process, or a result. Customers may have difficulty discerning what specific benefits they are buying.

Strategy: Define your services and package them so that their benefits are more tangible to customers. Accompany services with complementary manuals, tools, and templates to make the services more "material." Link services to a "product output" so that customers feel they are clearly getting something concrete for their money. For example, rather than sell generic business training, sell a "business plan" and ensure that customers walk away with one in hand. Bundling services with products can make services more discernible; management information (MIS) technical assistance can be sold as a complete system with software or manual records.

Quality Is Subjective

There are few standards for measuring quality in service businesses. When customers pay for accounting or legal services, they are not usually qualified to assess the quality of the service itself. In this case, quality is based on trust or amiable relationships with the service providers. For example, if your business sells counseling services, your customers' patronage of your social enterprise is grounded in their relationship with a staff member they like. This leaves your enterprise vulnerable to losing customers if the staff member quits.

Strategy: Develop your reputation and image as a high-quality service business by using customer references and testimonials. Document your methodology and emphasize training of your staff. Build customer identification with the enterprise through branding—"X Enterprise Marketing Methods"—and emblazon materials with your logo and name. When possible, encourage customer contact with different staff members.

Limited Use

Most small and micro businesses operate with narrow margins and limited cash and therefore carefully weigh the benefits of each investment. Paying for professional services is fairly low on such customers' list of priorities, and they may prefer to invest their money in technology, equipment, or employees. Additionally, the nature of many service businesses does not invite frequent, repeated use; for example, training, accounting, or legal services may be sought only a few times a year.

Strategy: Stay close to the customers, understand their needs and wants, and tailor your services accordingly. Use customer satisfaction surveys or evaluations as a standard procedure after providing a service. They are ideal instruments for fine-tuning services to fit the changing needs of customers. You may find that you need to diversify your service portfolio or seek greater market coverage.

Marketing manager, business manager, sales staff, PO business advisor, production manager, production agents

Developing a Product Strategy

This exercise has two parts. Retrieve information from chapter 3 for background.

▲ **Market description:** In a few lines, describe your current target market and future trends germane to each product. Give an indication of the demand tendency for your product relative to its life cycle stage. Describe customer demand as it pertains to particular product features.

▲ **Product strategy:** State the sales target for the product or service. Indicate who the primary consumer is, and specify whether the consumer is different from the purchaser/decision-maker. Detail which changes will be made to enhance each product's features and how this will (1) help your products gain comparative advantages in the marketplace and (2) meet your marketing objectives.

Product strategy is included in the Business Plan.

The example in exhibit 5H illustrates how the product strategy for Mamba peanut butter aims to meet overall marketing objectives in unit sales and dollar value as well as to develop TARTINA brand awareness.

EXHIBIT 5H: PRODUCT STRATEGY FOR MAMBA PEANUT BUTTER

Market Description

The overall demand for spicy and regular peanut butter appears to be experiencing positive growth, although at a declining rate, according to supermarket management. (Industry statistical information on demand trends is not available.) Factors explaining this growth trend include the rural to urban migration; increasing numbers of women joining the professional work force, leaving them less time to make homemade peanut butter; and the homemade peanut butter maker's lack of access to peanuts. The spicy and regular flavors of peanut butter have consistently been the biggest sellers in the TARTINA product line, making up 50 percent of all sales. In fact, the social enterprise has not been able to keep pace with the demand for its peanut butter, particularly for the spicy flavor.

Product Strategy

Sales target: 18,300 units (U.S. $27,727)

The social enterprise will continue to emphasize the sale of spicy peanut butter as the "star" of its product line. The spicy flavor will be complemented by the regular flavor to meet customer demand. The regular flavor will be produced at a ratio of 1:4 to that of spicy peanut butter.

The social enterprise proposes to introduce a new flavor, sweetened peanut butter, in supermarkets in Port-au-Prince. This flavor is offered by international brands such as Jif and Skippy but is not produced by any local food processors. With international peanut brands costing 40 to 50 percent more than local brands, this flavor remains out of reach of most urban Haitians. By offering a more affordable sweetened peanut butter brand, TARTINA can access a previously untapped market.

Comparative Advantages

There are four primary comparative advantages to introduction of this new flavor:

- It will serve to differentiate TARTINA from other brands. Even with planned promotional efforts, it will be difficult for TARTINA to make a name for itself in the spicy and regular peanut butter markets, where other brands are well established and have developed loyalty.
- It will offer a market niche that currently is not served by local peanut producers.
- The lower competition for this flavor should alleviate some of the pressure on profit margins.
- Offering new varieties of a product is one of the most effective ways to prolong the product's mature phase before it goes into decline.

Thus, the TARTINA peanut butter product line will be as follows:

Peanut Butter Flavors	Primary Consumer	Purchaser/Decision-Maker
Regular	Adults and children	Mothers/Wives
Spicy (principal flavor)	Adults	Mothers/Wives
Sweetened	Children	Mothers

PRODUCT LINE STRATEGY

Rationale:

If your social enterprise offers more than one product, you will need to develop a strategy for your entire ***product line***.

Clarification of a Product Line Strategy

A product line strategy should maximize synergies in your marketing mix, production process, or raw materials acquisition. Examples of product line synergies are ***cross-selling*** several products to a single market, economies of scale that spread fixed costs over a larger number of products, ***economies of bulk purchase*** of raw materials for products that have shared ingredients, and promotional vehicles to build brand awareness for all products in the line under the same brand name.

A product line strategy capitalizes on wider benefits of product changes (or additions and deletions). Examples include narrowing a product line by discontinuing certain products or services because their costs of production, management, distribution, etc., are too high and they fail to offer synergic values. Product/service specialization, or "niche" development, is one approach to narrowing product line. Another option is to widen a product line by rendering additional services or producing new goods that add value to the product mix. TARTINA's introduction of new flavors of Mamba peanut butter was a low-cost, high-value strategy to differentiate a mature product and leverage economies of bulk purchase and scale throughout its product line.

Product line—an enterprise's group of products or services that are recognized as having a certain functional coherence and are sold to the same market or marketed through the same outlets.

Cross-selling—a marketing strategy for selling several products across a product line or brand by placing them together in display or using other tactics to encourage purchasers to buy more than one item in the line or brand.

Economies of bulk purchase—realizing cost savings by purchasing in volume.

Same as previous exercise minus production agents

Preparing the Product Line Strategy

▲ Write a product line strategy for the products and services in your social enterprise. Focus on synergies created across the line and on how changes to specific product features or number of products will benefit your overall business.

Product line strategy is included in the Business Plan.

EXHIBIT 51: TARTINA PRODUCT LINE STRATEGY

The product line strategy has been formulated to balance the need for focus with that for offering a sufficient variety of products to decrease fixed costs per product. The focus required refers to the need to build expertise, especially in the areas of food transformation and marketing of a limited range of products. Prior to the preparation of the business plan, 23 different products made up the TARTINA product line. With such a long list, product specialization was very difficult to achieve, creating problems of standardization and quality control. Similarly, preparing a cohesive marketing strategy for such a sprawling line of products within the framework of a small enterprise was not possible. Potential economies of bulk purchase for containers were also being lost with the addition of every new product size. A wide-ranging product line significantly complicated enterprise management of inventory control, accounting, sales, and production reporting.

In terms of specialization, the ideal TARTINA product line would consist of one product. However, "*cross-selling*" of products is also required to reduce the fixed cost of sales per product. The fixed costs of each sales visit, product delivery, and payment collection need to be spread out over as many products as possible.

Seven highly complementary products have been retained in the TARTINA product line. Simply put, peanut butter and jam belong together. Peanut butter and jam or jelly spread on bread is a common Haitian breakfast. This combination is also sometimes packed in children's lunch boxes or eaten as a snack during the day. Karapinia (sugar- and spice-coated peanut snack) stands apart from the jam, jelly, and peanut butter products. But one of its synergistic values comes from the fact that, like peanut butter, its basic ingredient is the peanut.

Distribution Strategy

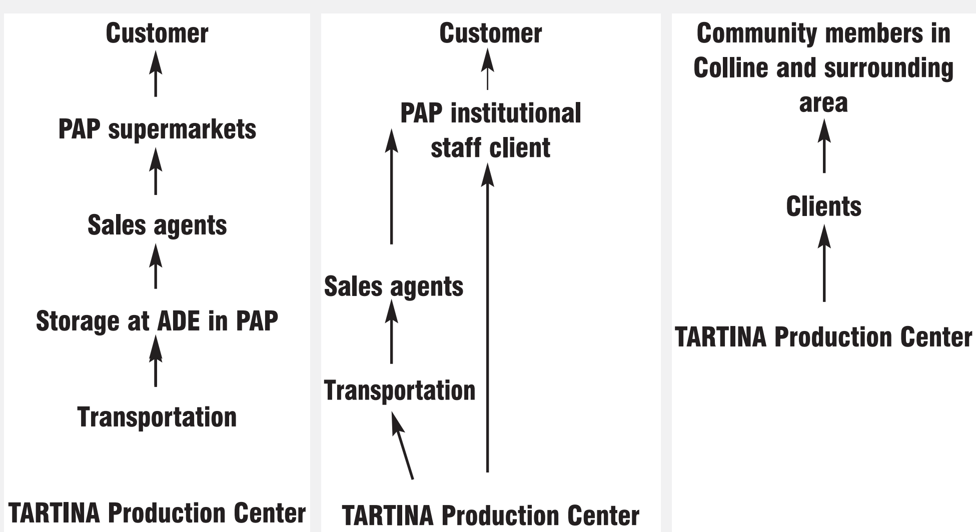
The distribution (place) strategy articulates how you will get your products or services to your customers. If your clients are business owners, distribution is a key component of alleviating a common constraint the self-employed poor face—gaining access to markets. Both the TARTINA and the retaso social enterprises (see chapters 4 & 9) focused heavily on distribution strategy as a major aspect of their interventions linking the self-employed poor to markets. For service industries, distribution strategy may rest on the hours of operation and location of your services and on whether they are convenient and easily accessible for your customer. For manufacturing businesses, distribution of products to markets entails placing them in commercial or artisan outlets and often involves intermediaries such as sales agents, transportation services, storage, etc. A good distribution strategy should give attention to efficacy, efficiency, cost, and customer service.

Vocabulary

Avoid confusion between *"markets"* and *"distribution channels;"* often they are one and the same. If you are not selling directly to your final customer, then your actual customer will be part of the ***distribution channel*** for your product or service. As well, the method for distributing your products or services to the market is included in the distribution channel.

Distribution channels— the various routes that products and services take as they travel from the manufacturer or producer to the consumer. Distribution channels include all intermediaries, such as transportation, storage, sales representatives, wholesalers, retailers, etc. Each member of the channel seeks to maximize profits, and these costs are passed on to the consumer.

Exhibit 5J: Example of Distribution Channel for TARTINA Products



PO business advisor, marketing manager, program management (parent & partner), sales staff, finance manager, logistics/operations manager

Identifying Markets and Methods of Distribution

- ▲ Review the list of current and potential actual customers you identified in chapter 3. Add any customers you may have overlooked.
- ▲ Put your actual customer markets in a table and rank them in order of importance (in terms of potential volume of sales or revenue) for each product. In the example in exhibit 5K, 1 is high, or very important, and 5 is low, or less important.
- ▲ Next, identify the best methods for reaching these distribution channels using the Distribution Matrix (exhibit 5L).

Exhibit 5K: TARTINA Ranking of Actual Customer Markets

Product	Supermarkets	Minimarts	Institutions	Vendors	Center	Individuals
Mamba	1	2	3		4	
Karapinia			2	3		1

Markets for TARTINA Products

Retailers—supermarkets, convenience stores, artisan markets, specialty stores, informal market vendors

Institutional customers—restaurants, hotels, organizations, agencies, trade groups, schools, etc.

Production center—selling wholesale from production site

Individuals—clients/employees of TARTINA sell to individual friends, family and community members

Exhibit 5L: TARTINA Distribution Matrix

METHOD	Supermarkets	Minimarts	Institutions	Individuals	Vendors	Center
Sales agents	•	•	•		•	
Direct sales			•	•		
Clients/employees				•	•	
Distributors	N/A	N/A	N/A	N/A	N/A	N/A
Staff				•		•

Methods for Distributing TARTINA Products

Sales force—sales representatives who sell products to retail or institutional markets.

Direct sales (also called multilevel)—similar to sales techniques used by private companies like Amway and Shaklee, TARTINA uses individuals as distributors to sell products to colleagues. In return, individuals receive a percentage of profit margin on per-unit sales.

Social enterprise or implementing partner staff—selling directly to individuals, institutions, retail outlets.

Clients—selling products in their communities.

Advantages and Disadvantages of the Distribution Channels

Rationale:
Prior to deciding which channels you will use to distribute products to your customers, you will need to assess the "return on investment" from distribution options available by delineating the costs of each option. The return on investment is measured by the benefits realized from making the investment, which is expressed in actual sales and the potential for future sales through, for example, building brand awareness.

Same as previous exercise

Analyzing Distribution Options

Step 1

- ▲ List the advantages and disadvantages for each potential market in the distribution channel. An example is given in exhibit 5M, **Comparison of Distribution Channel Options for TARTINA (Markets)**.
- ▲ Synthesize your analysis of the advantages and disadvantages of your markets and methods for reaching them.
- ▲ Based on this analysis, summarize in one or two sentences the implications of your analysis for your distribution strategy for both markets and methods of reaching them.

Step 2

- ▲ Repeat the steps above for potential methods for reaching your market in each distribution channel. An example is given in exhibit 5N, **Comparison of Distribution Channel Options for TARTINA (Methods).**

EXHIBIT 5M: COMPARISON OF DISTRIBUTION CHANNEL OPTIONS FOR TARTINA

(MARKETS)

	Supermarkets/Minimarts	Institutions	Individual Vendors
ADVANTAGES	• Largest market. Offers potential to achieve significant sales volume, which is not possible in other markets • More economical to use sales agents for this market than for sales to institutions. One sales agent is able to realize a greater volume of sales • Market demand for Mamba is expected to continue to increase • Good visibility for building brand awareness • Opportunities to cross-sell products	• Profit per unit is higher than for supermarkets, but lower than for sales to individuals • Little or no direct competition at the point of sales • Competitive advantage of convenience of availability at the work site sells the product • Quality requirements are lower than for supermarkets • Opportunities for contracts with hotels, schools, etc.	• Most profitable per unit • Purchase is in cash • Simplest sales approach: no sales follow-up necessary and accounting procedures simplified • Informal vendors offer potential for distributing small satchels of Karapinia • Quality requirements are lower than for supermarkets
DISADVANTAGES	• Stiff competition • Gross profit margin is the lowest of the three options. When peanuts are purchased for more than 12 gourdes, money is lost with every unit sale of Mamba • Follow-up/customer service necessary • Product quality requirements are high	• Limited sales volume potential.	Currently only one individual purchasing from production site. Poor market potential to realize significant sales volume

STRATEGIC ANALYSIS

The two ingredients necessary to achieve the program's cost recovery goal are significant sales volume and a healthy unit profit margin. Supermarkets offer the greatest potential for reaching significant sales volume, but the unit profit margin in this market is unhealthy. The enterprise is currently losing money when it sells in supermarkets. To pursue crucial supermarket distribution, TARTINA will increase production and sales force efficiency to lower unit costs on mature products. Institutions and individuals offer healthier profit margins as the expense of the intermediary (sales staff) is cut out and because institutional employees are willing to pay more for the convenience of having the product come to them. Significant sales volume will be very difficult to achieve in these markets, however, unless TARTINA can interest a large percentage of staff in large institutions to purchase TARTINA Mamba on a regular basis or pursue contracts to sell to schools, hotels, etc.

Implication for distribution strategy: *Since the retail market is the only market that offers the potential sales volume to make the enterprise self-sufficient, this will be considered the primary market; other channels will be considered complementary to supermarket distribution.*

EXHIBIT 5N: COMPARISON OF DISTRIBUTION CHANNEL OPTIONS FOR TARTINA

(METHODS)

	Sales Agents	Direct Sales	Clients	TARTINA Staff
ADVANTAGES	• Can secure large commercial contracts • Connections with merchants • Professional image • Focused only on selling TARTINA • Best method for achieving target sales volume	• Low-cost alternative to hiring sales staff • Able to sell to organizations that are not reached through center, clients or sales agents	• Direct sales to individuals • No sales costs incurred • Cash sales only • No follow-up • Income impact on clients • Higher per-unit revenue on sales	• No/low sales cost • Can sell products on credit to customers; attracts larger customers • Access to organizational transportation
DISADVANTAGES	• Substantially increases costs and reduces per-unit profit margins • Transportation, storage, inventory, and management complexities • Under the current structure staff agents are delivering products, which is not a cost-efficient use of their time • Requires strong inventory management systems	• Difficult to control quality of representation • Low volume • Potential for hidden cost of inventory stagnation, follow-up due to disinterested salespeople • Usually cannot reach commercial markets • Successful direct sales require training, which cancels out cost advantage	• No/low market formal access • No transportation to sell outside immediate area • Low-volume sales	• Not trained in sales techniques • Difficult to access commercial markets because of limited time, connections, sales skills • Time divided between other responsibilities • Adds complexities about roles and responsibilities

STRATEGIC ANALYSIS

A formal sales force is the best vehicle to secure a large volume of sales. Salary structures, work schedules, and number of sales agents will be thoroughly analyzed to ensure maximum benefit. Management of sales personnel and staff development are key. Experienced sales force translates into healthy sales levels and a consistent, professional presentation of TARTINA products. Direct sales reduce costs and help build brand awareness as institution employees tend to have more time to listen to the TARTINA story than they would have when picking up their weekly groceries. There is also no competition from local producers in this arena. However, there are hidden costs of follow-up and inventory stagnation, and there is little possibility for reaching sales targets. Client offer little value in the distribution strategy toward achieving marketing objectives, although there is direct financial benefit for clients to sell their own products. TARTINA staff members selling TARTINA products is a conflict of interest, so they will be limited to distributing products on site to community residences.

Implication for distribution strategy: *Focus on professional sales staff as the main method for reaching retail distribution channels. Sales staff will also take over a portion of institutional channels; other methods will complement the sales force.*

Prioritize Location of Markets for Distribution Channels

Rationale:

Before deciding which channels you will use to distribute products to your customers, you will have to decide where you will distribute them. Location plays a large role in determining return on distribution investment. You want to find the most lucrative markets and the most cost-effective means of reaching them. In chapter 3, you located your target market and studied market trends. This should give you useful information in deciding where to distribute products.

Determining Market Locations

Criteria such as density of target customers, concentration of prospective distribution outlets, and distance to and range of locations are important variables in weighing cost advantages or disadvantages of a particular distribution channel. Consider savings like distributing several products through the same channels; also analyze less obvious expenses, for example, managing inventory, accounting procedures, and servicing products. Although it is tempting to place your products in every location with a viable target market, distributing to many different locations exacts a heavy cost burden. Therefore, the most effective strategy, especially for a new social enterprise, is to distribute to a few select markets.

Same as previous exercise

Prioritizing Markets

- ▲ Identify the location of markets for each product.
- ▲ Prioritize them according to cost advantages and potential returns.
- ▲ Compile the information into a table (exhibit 5P).
- ▲ Write out a justification based on cost advantage for selecting market locations as related to product or service distribution (exhibit 5Q).

Exhibit 5P: TARTINA Product Line and Primary Market Locations

Product Line	Primary		Secondary	
Regular peanut butter	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Sweetened peanut butter	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Grapefruit jam	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Passion fruit jam	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Karapinia	Colline and surrounding area	Individuals	PG and PAP	Individuals/ vendors

Colline—small town where production center is located

Petit Goave—provincial capital, largest city in the region of Colline

Formulate a Distribution Strategy

Rationale:

Your distribution strategy should be a synthesis of the exercises you did on types of markets, market locations, and methods of distribution. Essentially, putting together a distribution strategy requires answering the "where, when, who, how, and what" of distribution.

Same as previous exercise

Formulating the Distribution Strategy

▲ Prepare a Distribution Channels Map illustrating exactly how you intend to move your product or service from the point of origin to your customer. (An example for TARTINA is given in exhibit 5R.)

▲ Use the following questions as a guide in formulating your distribution strategy. (An example of the distribution strategy for TARTINA is given in exhibit 5S.)

- Where? Detailed plan for number and location of target markets.
- When? Plan for time period (should correspond to business plan).
- Who? Staff/contractors required to carry out distribution strategy.
- How? Method that will be used to distribute product at every level of the distribution chain.
- What are the budgetary implications? Cost to distribute product/service according to proposed strategy.
- What synergies does your distribution strategy capture?
- How does your distribution strategy contribute to achieving the overall marketing objectives?

<u>Distribution strategy is included in the Business Plan.</u>

Exhibit 5R: Distribution Channels Map for TARTINA Products

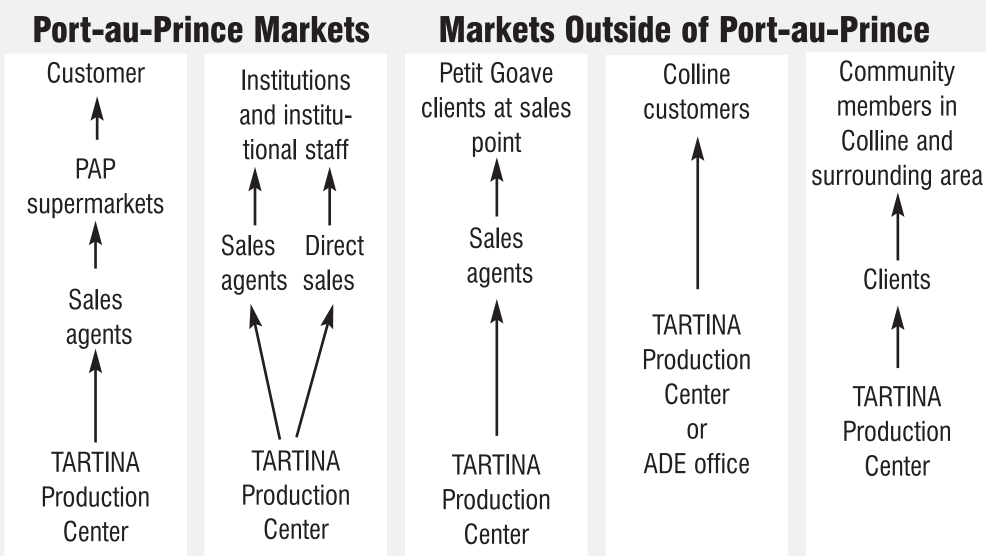


Exhibit 5Q: Distribution Strategy for TARTINA

I. Markets and Locations

The social enterprise business plan focuses on markets where both significant sales volume and healthy profit margins can be realized. In order of priority, they are Port-au-Prince (PAP), the localities—Petit and Grand Goave—surrounding the production site, and PAP institutions. *The combination of these three markets is required to maximize marketing objectives.*

Synergies: In each market, cross-selling of products is the focus. Cross-selling not only increases sales but also increases sales capacity. Also, with cross-selling significant economies of scale can be achieved by being able to sell more products to the same customer.

Port-au-Prince—Supermarkets: Port-au-Prince and the surrounding area have the highest concentration of TARTINA customers. The PAP retail market is the only market that offers the potential of a sufficient sales volume to make the enterprise financially viable. Distribution expenses, including transportation, inventory management and tracking, and accounting, will have to be carefully managed to ensure cost-effectiveness of distribution. Competition for local peanut butter and grapefruit jam is stiff, however, and will limit profit margins for these more mature products.

Port-au-Prince—Institutions: PAP institutions will be considered complementary to the supermarket distribution channel. Customers who purchase TARTINA products one month at their place of work will be directed to make a repeat purchase at the supermarket. Sales agents will prospect institutions for large contracts.

1. **Petit and Grand Goave**—artisan markets, vendors, and individuals in the two towns located close to the TARTINA production site and ADE offices.
2. **Production Center**—direct sales to individuals in the community and surrounding areas from the center itself.

Serving these markets is cheaper than serving the more distant PAP supermarkets because of lower transportation costs and elimination of at least one link in the distribution chain. Sales from the social enterprise production site and to nearby community members constitute artisan markets.

Quality standards are much lower in Petit and Grand Goave's artisan markets than in the sophisticated commercial markets of PAP. The artisan markets, however, do not offer the large sales volume potential of PAP. Clients in these markets have less disposable income and are far more price sensitive than their PAP counterparts.

Product sales in the vicinity of the ADE office in Colline are also an excellent promotional vehicle for ADE's community work done outside of the social enterprise.

Any other channel through which this market is served is complementary to the supermarket distribution channel in PAP.

II. Method of Distribution

Sales force: Professional sales staff will be the main method for reaching large retail markets in PAP. The experience of sales agents will translate into healthy sales levels and a consistent, professional presentation of TARTINA products.

Direct sales: These are sales by sales staff or clients to employees within an institution or organization. This is an appealing market for TARTINA products as institutional employees are willing to pay slighter higher prices than at the supermarket because of the convenience of having the products come to them. It is also a good way to build awareness for the TARTINA brand. There is no competition from local producers in this arena, and employees tend to have a little more time to listen to the TARTINA story than they would have when picking up their weekly groceries. On their own, institutional sales do not offer the potential to achieve the sales volume required to meet the enterprise's commercial objectives.

Clients: Worthy of special note is the recent introduction of clients as sales agents for the Karapinia product in their communities. This is an exciting development at many levels. In the strict commercial sense, sales have been impressive. Additionally, this opportunity has given the clients, those who transform the peanuts and other ingredients into Karapinia, a new understanding of the consumer's perspective. This is already having positive effects on production processes. Clients are also learning new sales skills and other entrepreneurial abilities.

Price Strategy

Pricing your product or service is the linchpin of viability and, thus, one of the most important business decisions you will make. The key is setting a price your target market is willing to pay for your product or service that at a minimum recovers your costs and preferably generates a profit for your social enterprise. No section in the business plan can be completed in total isolation, and this is especially true for price. Pricing decisions are based on your costs, the effect of competition, and the customer's perception of your product's or service's value and the amount they are willing to pay for it. This section provides a framework for developing a price strategy for your enterprise. The decisions you make later in your human resources and operations plans will also have a bearing on price, which may necessitate returning to this section when you prepare your final business plan.

Price Floors and Ceilings

The term ***price floor*** is used to indicate your cost—the lowest price you can offer and still break even. If you decide to set the price below cost, it should be for a temporary, specific strategic purpose such as to introduce a new product to the market.

The ***price ceiling*** is sometimes characterized by "what the market will bear" and hinges on two important variables. The first is customers' "perceived value," or the maximum price customers will pay, based on what the product is worth to them. The second is competitors' prices for the same or similar product or service.

Price Versus Cost

- Cost is the total of the fixed and variable expenses (costs to you) to manufacture or offer your product or service.
- Price is the amount per unit that customers pay for your product or service.

Once you understand the price floor and ceiling, you can make an informed decision about how to price your product or service.

Most social enterprises use cost-based pricing. While it is important to be mindful of costs when setting your prices, also think about your business from the customer's perspective. If the customer doesn't perceive value worth paying for at a price that enables you to cover costs, you may have to diversify your product portfolio or even change the business you plan to enter.

Price floor—the lowest price you can offer your customers and still break even.

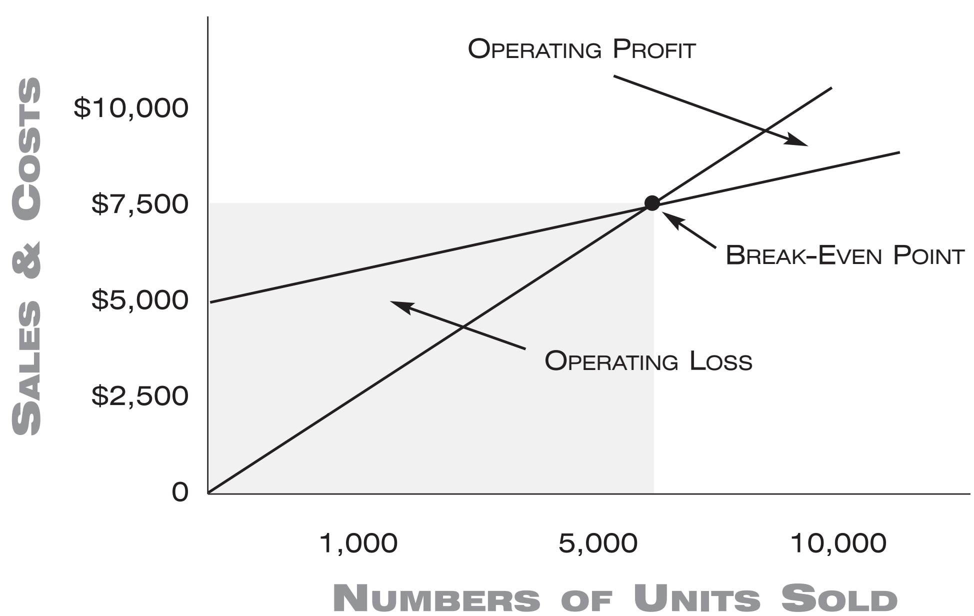
Price ceiling—the maximum price customers will pay based upon what the product is worth to them.

Break-even point—the point at which revenues from sales equal costs.

Break-Even Analysis

A break-even analysis determines at which point your revenues from sales equal your costs. Called the ***break-even point*** or, aptly, in French, *point mort* or "death point," it also establishes your price floor. Exhibit 5S is an illustration of a break-even in a business. The following exercises will help you determine the amount of revenue your enterprise needs to generate and the number of units it must sell to break even.

Exhibit 5S: Break-Even



Determining Costs

Unit costs—the costs to produce one unit of output.

Rationale:
The first step is to determine the costs to manufacture your product or offer your service. Once you know your costs, you can calculate your break-even point.

Definition of Fixed and Variable Costs
Variable costs are the expenses that vary with the amount of services rendered or goods produced. They include costs such as raw materials, transportation costs for distributing products, inputs or materials used, and wage or piece-rate labor. For example, the number of trainers you hire to teach business development courses may be dependent on how many classes will be taught. For TARTINA, the quantity of peanuts needed is dependent on the amount of peanut butter made. Some variable costs, like technical consulting expenses, are not specifically related to units produced yet fall into this category.

EXHIBIT 5T: EXAMPLE OF UNIT VARIABLE COSTS FOR TARTINA

Plain Peanut Butter (16 oz.)	Price in Gourdes[1]
Peanuts	5.000
Transportation (1 sack of 16 marmites over 1 km at 1.50 gde/sack)	0.060
Storage (1 gde for 1 sack of 16 marmites of peanuts)	0.000
Wood for heating	1.000
Water (1 bucket/1 km)	0.060
Salt	0.200
Grinder (500 gdes/5,000 times)	0.100
Pot (100 gdes/1,000 times)	0.010
Wooden spoon (1 gde/1,000 times)	0.001
Metal spoon (5 gdes/1,000 times)	0.005
Straw winnowing tray (20 gdes/1,000 times)	0.020
Small bucket (3.5 gdes/1,000 times)	0.004
Small wooden table (100 gdes/10,000 times)	0.100
Apron (75 gdes/5,000 times)	0.015
Tablecloth (75 gdes/2,000 times)	0.004
Screen (75 gdes/5,000 times)	0.015
Gallon jug (3 gdes/500 times)	0.006
Labor (1/2 hour at 4 gdes per hour)	2.000
Transportation to PAP (1 bucket = 45 jars at 8 gdes/bucket)	0.180
Depot fee	0.050
Label	1.000
Jar	10.000
Total	**19.531**

[1]Gourdes are the local Haitian currency; there are 16.5 gourdes to $1 US.

Calculating Variable Costs

Calculating variable costs is trickier than calculating fixed costs because it requires breaking out costs of all inputs used in producing *one unit* of a good. Therefore, if you are offering a training service, you will need to calculate all costs related to providing that training. This might include a contracted trainer's fee, materials, space (if you plan to rent space outside your regular office), snacks you will provide, etc. Reusable supplies, such as pens, need to be costed by their ***estimated life span***, or their total cost divided by the number of times you can use them.

There are simpler methods to determine variable costs than ours, exhibit 5T; we recommend that you round-off to make this task more user friendly. Our example is presented this way for demonstrative purposes.

Explanation of TARTINA's Variable Costs

TARTINA's variable manufacturing cost per 16-ounce unit of peanut butter is 19.531 gourdes (rounded off to 19.5). Prices for peanuts, TARTINA's largest variable cost, fluctuate depending on the harvest, going as high as 16 gourdes per marmite (5.5 lbs.) and squeezing margins. The competition sells its peanut butter for between 30 and 35 gourdes in supermarkets. This gives TARTINA only 10.5 - 15.5 gourdes per unit margin ($0.63 - $0.93) when peanuts sell for the low price of 12 gourdes per marmite to cover its fixed costs and earn a net profit (profit after expenses). In addition, when distributing through supermarkets, TARTINA has to determine a wholesale price that includes room for retailers' 20% markup. Therefore, Mamba's selling price to supermarkets is 25 gourdes per unit, and the supermarket's selling price is 33 gourdes for TARTINA brand.

Fixed costs, or "overhead" (for development projects these costs are also referred to as direct costs), are the expenses that don't vary according to production volume or number of services rendered. They usually include rent for office and storage space; insurance and utilities; office equipment, such as telephones, fax machines, computers, radios, etc.; audits and evaluations; and salaries or a portion of salaries attributed to the project. Depreciation of assets is also a fixed cost.

Total fixed costs are found in the Profit and Loss Statement on line item "total operating costs" (Chapter 8 "Financial Plan").

Allocating Overhead: A "Quick and Dirty" Calculation

For social enterprise programs working through one or more partners, difficulties in assigning overhead can occur. This is particularly true if the partners engage in several activities unrelated to the social enterprise program and if any costs are shared between programs, such as office space, transportation, supplies, and staff.

One simplified method of assigning overhead is as follows:

1. Add the total costs of the organization for all programs, excluding salaries and fringe benefit.
2. Then divide by the total number of staff members. This will give you a dollar value of overhead per staff member, excluding salaries and fringe benefits.
3. Next, make a list of staff members involved in the social enterprise program and
4. In the next column the amount of time they dedicate to it.
5. Then note each staff member's salary plus fringe benefits in a dollar amount. In our example, the production manager spends 100 percent of his time working for the enterprise, and his full salary is $6,500 per year including fringe benefits. The director spends 10 percent of his time on enterprise activities, and his salary is $25,000 per year including fringe benefits.
6. In the next column, calculate a dollar value for overhead allocation based on the percentage of time worked on the project. For example, since the director is charged 10% to the program, his allocation to overhead is $10% of $1,200, or $120.
7. Total the columns for salaries and overhead allocation. Adding the totals for the two columns will give you a figure for overhead or fixed costs to allocate to your social enterprise. (See following example.)

Obviously, this method is not 100 percent accurate, but it is probably a close enough estimate.

Example (fictitious Organization):

(1) Total organizational overhead: $30,000 per year (excluding salaries and fringe benefits)

Total staff (all programs): 25

(2) **Formula:** $\frac{\$30{,}000}{25}$ = **$1,200** for annual overhead per staff member

(3) Personnel	(4) Time on Project	(5) Percent of Salary + Fringe in $	(6) Overhead Allocation	(7) Total
Business Manager	50%	$10,000 (.5 of $20,000)	$600 (.5 of $1,200)	$10,600
Production Manager	100%	$6,500	$1,200	$7,700
Trainer	30%	$4,545 (.3 of $15,000)	$363 (.3 of $1,200)	$4,908
Marketing Manager	100%	$18,000	$1,200	$19,200
Director	10%	$2,500 (.10 of $25,000)	$120 (.10 of 1,200)	$2,620
Secretary	25%	$1,000 (.25 of $4,000)	$300 (.25 of 1,200)	$1,300
Total		$42,545	$3,783	$46,328

Sensitivity analysis— a tool used to project expense and income levels by manipulating cost and revenue variables in a company, such as changes to production level, costs of inputs (fixed or variable), or prices.

Calculate Break-Even Points

The break-even analysis considers four variables: fixed costs, variable costs, quantity and price. The most commonly used break-even point determines the number of units that must be sold for an enterprise to cover its costs. Yet it can be also used as a ***sensitivity analysis*** to derive the break-even at different levels of output, prices and fixed and variable cost structures. The best approach is to isolate the variables over which you have the most control and focus on them when analyzing your break-even.

Quantity—What does your market research tell you about the size of your target? (chapter 3) What is your level of capacity; how much are you capable of producing? (chapter 6)

Price—How much are your customers willing to pay for your product? (chapter 3)

Variable costs—Are your variable costs well estimated and calculated for present time and near future? (chapter 5)

Fixed Costs—Are your fixed costs reasonable to support your operations? (chapter 6, 7, and 8)

For example, making peanut butter is a variable cost business, meaning that a large part of its cost depends on the price of the raw materials, peanuts, which range from as low as 10 gourdes per marmite to as much as 16 gourdes per marmite. When prices of peanuts go up, margins narrow, and TARTINA must produce and sell more to cover its costs. Therefore, TARTINA should calculate its break-even at different variable cost levels to determine how much the price of peanuts affects its bottom line.

Break-even is presented here, rather than in the chapter on finance to emphasize *the importance in formulating a price strategy based on real costs.*

Marketing manager, production manager, business manager, PO business advisor, accountant, partner program manager, sales staff

Calculating the Break-Even Point

To complete this section, you will need historic information on the variable and fixed costs of your enterprise. **If yours is a new venture, you may need to first work through the rest of the manual to have enough information to calculate your break-even point.** Full details of TARTINA's financial information can be found in chapter 8. Its production costs are presented in chapter 6.

▲ A lot of pricing is chicken and egg stuff. Arriving at the right price takes several iterations.

▲ Begin by calculating your variable costs for each product or service (19.5 for Mamba).

▲ Then, estimate annual production costs by product. Production costs are derived by multiplying variable costs per product by the number of products you plan to produce over a year; these figure are then added together. Therefore, 18,300 total units of Mamba are projected at a cost 356,850 gourdes or $21,627 (19.5 x 18,300).

▲ Total production costs for all products. TARTINA's total annual production costs are $45,974 of all four types of products.

▲ Now, what is the breakdown of production costs per product in percentage (some products have higher unit manufacturing costs than others)? For example, Mamba production costs are $21,627 out of a total cost of $45,974. Expressed as a percentage, that's 47%, whereas, Karapinia and Grenadia represent 14% each and Chadèque 25%.

▲ Next, you will have to allocate your total fixed costs based on the percentage of production costs for each product manufactured.
  - TARTINA's total fixed costs are $146,729; 47% of this figure is $70,372. Therefore, $70,372 of fixed costs are then allocated to Mamba.

▲ Input fixed and variable costs into the following break-even formulas.

▲ Calculate break-even points for each product.

▲ Perform a *sensitivity analysis* to test break-even by manipulating different cost, output and price variables.

Formula for Calculating Break-Even Units
To determine how many units must be produced and sold to break even, use the following formula:

$$\frac{\text{Fixed costs}}{\text{Price per unit} - \text{Variable cost per unit}} = \text{Number of units needed to break even}$$

*The denominator for this formula is also called ***unit contribution margin*** (selling price per unit – variable cost per unit).

Unit contribution margin—captures the profit margin plus the fixed costs per unit sold. Unit contribution margin is used in the break-even calculation to determine how many units of a product or service must be sold to equal the fixed and variable costs.

Example #1: Calculating Break-Even Number of Units For Mamba

Data Needed:

- Variable costs per unit for Mamba = 19.5 gourdes ($1.18)
- 47% fix cost allocation for Mamba is $70,372
- Selling price for Mamba is 25 gourdes to supermarkets ($1.52)
- Currency exchange: 16.5 gourdes = $1 US

Formula: $\frac{FC}{P\text{-}VC} = Q$ $\qquad \frac{\$70{,}372}{1.52 - 1.18} = 206{,}976$

TARTINA must sell 206,976 units of Mamba to break-even. *Ouch!*

Example #2: Calculating Break-Even Revenue For Mamba

For demonstrative purposes only.

Formula: $\frac{FC}{1\text{-}(VC/Price)P\text{-}VC} = Q$ $\qquad \frac{\$70{,}372}{1\text{-}(1.18/1.52)} = \$319{,}872$

Mamba has slim margins of just $0.34 per unit. Therefore, at the current selling price and production costs, **TARTINA needs revenues of $319,872 just to cover its costs of Mamba. *Ouch!***

This of course is not the full picture. TARTINA has not projected break-even until year seven, which could mean that they are right on target with planned sales of 18,300 units of Mamba for revenue of $27,727 in the first year.

Results
Results of the break-even analysis can tell you if your enterprise is potentially viable. They evoke questions like: Do we have the capacity to manufacture X amount of product or render X number of services? Is there a sufficient market for this quantity of services or products? Does our enterprise structure support the marketing functions necessary to sell this quantity at our break-even price or above it? If breakeven results appear daunting, how are they projected over time? Do they become more attainable as the enterprise operates with greater efficiency? *If not, are you in the wrong business?*

PRICE ELASTICITY AND SENSITIVITY

Rationale:
In analyzing the buying sensitivities of your target market, one variable was price. Understanding how sensitive your market is to changes in price helps you determine how much "wiggle room," or ***price elasticity***, you have to raise your prices. Factors that influence *price elasticity* are supply and demand: the availability of the product or service and of good substitutes, their respective prices, and the extent to which the product or service is desired. If ample supply exists through competitors and substitutes, that puts downward pressure on your price. On the other hand, if demand is high for a product or service, exceeding what can be supplied through competitors and substitutes, price elasticity is high, meaning that you will have room to increase prices. Customer purchasing power and staying power (ability to do without a given product or service) are other factors that contribute to price sensitivity.

Price elasticity—measures customers' responsiveness to changes in price via quantities purchased.

Unfortunately, most social enterprises have little flexibility when pricing their products and services. This is because they operate in industries characterized by low barriers to entry and high competition or because they render services to disadvantaged business owners that have little money to spend on services.

This manual gives no explicit exercise to establish price elasticity for the products or services in your industry. Merely reflect on the information you gathered during market research (which should be sufficient to denote price elasticity) and apply it when developing your price strategy.

PRICE STRATEGY
Once you have calculated your break-even points and studied price sensitivity, you are ready to set your price.

Using Subsidy in Price

If you are considering subsidizing your price with donor funds, you should be aware of (1) the amount of subsidy provided, (2) how it is being used (subsidizing what), (3) what its purpose is, (4) its duration, and (5) your plan for self-reliance. Using donor funds to artificially lower prices distorts the market and is not a sustainable strategy in the long term. We recommend that you use subsidy toward covering your fixed costs and that you reflect this in your financial plan (see chapter 8).

Strategies for Establishing Price

- Set a low price on one or more products to make quick sales that will support another product in development. (TARTINA could use this price strategy for plain Mamba to support the costs of developing sweet and spicy Mamba.) This strategy increases cash flow, even though it might mean a net loss for the period.
- Set the price to meet a desired profit or sales goal, indicated in the marketing objectives.
- Establish a high price to make high profits initially. This strategy is used to recover research and development costs or to maximize profits on an introductory product before competitors enter the market. (TARTINA entertained this strategy as an option for pricing Karapinia.)
- Set a price equal to the competitor's. This strategy is often used with commodities, when prices are relatively well established (e.g., peanut butter), or when there is no other basis for setting the price. When using your competitor's price as your "ceiling," the challenge is to lower your costs below that ceiling so you can generate more revenue.
- Establish a low price (compared with the competition's) to penetrate the market and capture a large number of customers. This strategy can also be used to achieve nonfinancial marketing objectives such as product or brand awareness. It works if you are able to maintain profitability at a low price through high sales volume and efficient service delivery/production. Most private companies that use this strategy subsidize prices in the short term to achieve penetration, then raise their prices.
- Base the price on the customer's perception of the value of your product or service. This price strategy is one of the most important in social enterprise programs that render services to the self-employed. Financial service programs do an excellent job at providing services at higher-than-market prices, based on value to their customers. To use a value-based price strategy, you will have to be thorough in your market research and fully aware of the benefits your customers want and the perceived value of those benefits (how much are they willing to pay for them).
- Charging "what customers are willing to pay" is usually a nonstarter. This passive approach to pricing is sometimes used by social entrepreneurs who want to be fair to their low-income clients. But price is a business tool. "Withstanding the test of the market" is both pricing your products appropriately and giving customers something they want.

Price Strategies Linked to Distribution and Promotion

- Your pricing strategy might include discounts for customers who offer you a business benefit; for example, giving cash discounts to customers who pay promptly or in advance of receipt. This rewards those who help your social enterprise maintain a steady, positive cash flow. Offering discounts for large orders often makes economic sense when the cost per unit to sell or deliver a product declines as the quantity increases.
- Seasonal discounts given to buyers who purchase during a product's slow season reward customers who assist the social enterprise in balancing its cash flow and in meeting production targets.

- Trade-in allowances for return of old products that you can either reuse or resell for a profit may benefit both the social enterprise and customers.
- Promotional allowances often make financial sense and should be linked with promotional strategies. For example, you might offer reduced-price coupons at point-of-purchase displays or outlets that sell your social enterprise's product. First-time "low-price" offers are a way to attract new customers.

Same as previous exercise

Formulating a Price Strategy

▲ Use break-even point analysis as a starting point for your price strategy.

▲ Reflect on the price strategies described above and consider which ones may be appropriate for your product or service.

▲ Use the list of questions in the Price Strategy Framework (below) as a guide to developing a basic price and beyond basic price strategy.

Price strategy is included in the Business Plan.

PRICE STRATEGY FRAMEWORK

(Also see example of how questions are used to formulate a price strategy for TARTINA, exhibit 5U).

Basic Price

- At what basic price should each product or service be set?
- Will the basic price be different for different customers? For example, when distributing through a middleman such as a retailer or trader, you must also consider the price he will charge the consumer and leave room for the middleman's markup.

The basic unit price of each product should be assessed with the following points in mind:

- Prices should help achieve the marketing objectives.
- Prices need to be set to cover variable costs and contribute to covering fixed costs with the sale of each product.
- Will prices be the same as, higher than, or lower than those of the competition?
- Can price be a competitive advantage for any of your social enterprise's products or services?
- Is price one of the most important criteria used by the consumer in selecting your product? How price sensitive is the target market for each product or service?
- With price comes a certain perception. A lower price is not always the best strategy. A higher price is often associated with higher quality. Is this the case for your enterprise's products or services?
- Is the pricing objective to "skim" the market—take a small piece of the market with a larger profit margin—or to "penetrate" the market—offer a lower price with the objective of wider sales?
- How will pricing impact accounting systems? Is your social enterprise's accounting system able to capture a complex pricing strategy?

Beyond Basic Unit Price

- Determine strategies for discounts and allowances, one price vs. flexible pricing, different prices for different geographical locations, freight absorption (transportation costs included in price)—***free on board destination*** pricing, vs. ***free on board shipping*** dictates whether the supplier or the buyer pays shipping costs in the price.

- What are competitors' strategies on these fronts? Is there an opportunity for your social enterprise to offer a competitive advantage?

Free on board destination (FOB)— when the supplier bears the shipping costs.

Free on board shipping point— buyer bears transportation costs from point of origin.

Exhibit 5U: Price Strategy for TARTINA Enterprise

1. Context

Market research into customer buying motives for the products in the TARTINA product line was conducted in January 1999. This research confirmed that price sensitivity runs high for every product in the product line. The degree of price elasticity depends on the distribution channel and the maturity of the product. In terms of distribution channels, direct sales offer the greatest room for flexibility given that purchasers are willing to pay extra for the convenience of having the product come to them. Supermarkets in PAP, however, offer little margin for price flexibility because stiff competition from other local brands on the shelves pushes prices down. There is an another element of the supermarket distribution channel that affects the ability of TARTINA Enterprise to raise its prices. In this market, TARTINA acts as a wholesaler; the supermarket is the intermediary that sells to the consumer. This additional link in the distribution chain limits TARTINA's ability to raise prices.

The fewer links that exist in the distribution chain outside of PAP offer an advantage in pricing flexibility. However, this advantage is offset by the lower disposable income of the customer target group in areas outside of PAP.

The "new" products of Karapinia, passion fruit jam and sweetened peanut butter, will translate into some room to increase prices. Such increases will not be significant, however, given the overall price sensitivity of clients purchasing foodstuffs and the unstable economic situation in the country.

2. Pricing Strategy

The pricing strategy for products in the TARTINA product line reflects the following considerations:

- It covers unit variable costs and a percentage markup to spread over fixed costs.

- Sales prices will remain competitive, but competing on price is not the most important basis of competition. The comparative advantages of TARTINA products lie in characteristics and benefits other than price, and these will be the most important factors in positioning the products vis-a-vis the competition's.

- The plan is not to undercut competition using donor funding because we want customers to switch to TARTINA from the competition (for peanut butter and grapefruit jam) for reasons other than price. We want to create brand loyalty. Likewise for new products, we are targeting customers who are open to trying to new products and new flavors—for whom price is not the No. 1 factor when deciding to purchase a new product.

- The seasonality of raw materials (fruit and peanuts) is not reflected on the supermarket shelves. For jams and jellies, shelf life is up to two years. This permits producers to process enough products during the harvest season to last the rest of the year. No price increase is evident during the year for jams and jellies. For peanut butter, there is a slight increase in supermarket prices toward the end of the two peanut harvest seasons. This increase is kept minimal, however, by the fierce competition between local brands.

3. Per-Unit Prices for Each Product (16 oz. size)

For Supermarket Customers:

Mamba: 25 gourdes	Karapinia: 5 gourdes (small satchel)
Chadèque: 26 gourdes	Grenadia: 26 gourdes

Prices will be modestly higher (2 to 3 gourdes) for individual and institutional customers.

Note: Prior to developing the business plan, TARTINA conducted a feasibility test that eliminated products that were not (and did not have the potential to be) financially viable.

Promotion Strategy

The overall objective of your promotion strategy is to contribute toward achieving the marketing objectives. It is the vehicle for informing your target market about your enterprise and the products or services it is offering in the marketplace. Although many social enterprises place significant emphasis on providing services or products appropriate for their target market, ironically, few focus on raising awareness of their existence once they are available in the market. Attracting customers through promotional efforts is a critical piece of the viability equation, and it requires money. The original TARTINA budget allocated substantial financial resources to training and supplies but included zero resources for promotion. It is a mistake to assume customers will automatically become conscious of your products, and of the benefits they offer, without an organized campaign to impart this information. Since money in social enterprise programs is always limited, your promotion strategy must be developed with care and creativity. Much of the information gathered in chapter 3 on the characteristics of your target market and how to reach customers will help you with developing your promotional strategy.

A promotion plan articulates:

- How you will raise customer awareness of your products or services.
- What message you will convey to your customers.
- Specific methods you will use to deliver and reinforce your message.
- How you will secure sales.

Logos

Rationale:
A logo is a visual picture that reminds people of who your enterprise is and what it does. Recognizable logos—for example, for the Olympics, Mercedes, Nike, or Microsoft—immediately remind people of the firm and the products or services it sells. Logos are especially important promotional tools for social enterprises that target illiterate customers.

Tips for Creating Logos

- A logo is a visual picture that reminds people of who your business is and what it does.
- Logos can be abstract.
- Don't try to tell a complicated story with a logo; keep it simple.
- Logos should use symbols that are easy to remember and recognize.
- Put the name of your social enterprise under your logo to reinforce identification.
- Employ a graphic designer or use a computer art program to help create a logo.

Marketing manager, sales staff, business manager, PO business advisor, partner program manager, external graphic artist (if desired)

Creating a Logo

▲ Create a logo for your social enterprise. Solicit assistance from a graphic designer if necessary.

▲ All key enterprise stakeholders should agree on the firm's logo.

The Promotional Message

Rationale:
Every enterprise sends a message in its marketing; this message should motivate customers to purchase your product or service and state your competitive position. The promotional message can emphasize particular benefits, such as "low-price leader," "convenient one-day service," or "always fresh." A message can also exploit a market niche, as in "Telecommunications Serving Kampala Small Businesses" or "Palm Oil Marketers." It can also be more subtle, triggering a customer's emotions or self-image, like this one from an alternative-jobs newspaper: "Change your job, change the world; work for social change." All Americans are familiar with the emotional appeal of McDonald's marketing message, "You deserve a break today."

Exhibit 5V: TARTINA Promotional Message

TARTINA Enterprise changed the message "100% natural," which focused on product benefits, because it seemed too limiting, since it applied only to spicy and regular peanut butter. The new message—"Tastes and feels sooooo good!"—draws attention to product quality and to the benefits TARTINA products provide to the community.

Same as previous exercise

Creating a Promotional Message

We have already noted that customers mainly buy the benefits that products and services provide, not their features. In other words, customers are more concerned about how a product or service will affect their lives than about how it achieves those results. In writing your promotional message, you must tell customers *what they will get when they purchase your product or service*, such as security, an enhanced self-image, a more profitable business, etc., rather than detailing what your product does.

▲ Begin by reflecting on three of the "four P's" of marketing discussed at the beginning of this chapter:

Product: What are the benefits your product or service offers that customers are seeking?

Price: Is there a cost advantage of your product or service for customers?

Place: Are there advantages of convenience or comfort associated with the locations where your products or services will be sold?

▲ Next, use the "five F's" (below) to further analyze how your product or service fills a range of benefits customers look for. Professional marketers, use this "five F's" formula as a way to remember advantages customers are seeking when they make a purchase.

Functions: How does your product or service meet specific needs of your customers?

Finances: How will the purchase of your product or service change your customers' financial situation? Does your product or service render long-term savings benefits, such as increased productivity or efficiency?

Freedom: Will customers gain time and have peace of mind in other areas of their lives if they purchase your product or service?

Feelings: How does your product or service make cus tomers feel about themselves? Will it improve their self-image?

Future: How will your product or service affect their lives over time? Will it be available in the future? Will support and service continue to be available? Will this increase your customers' sense of security?

Exhibit 5W: "Fs" Behind TARTINA Brand

"Tastes and feels sooooo good!"

FUNCTION—TARTINA's yummy tasting peanut butter in several savory flavors.

FINANCIAL—Less expensive than many other brands, saving money over time.

FREEDOM—Guilt free high protein food; contributing to social good by purchasing TARTINA brand; available in many convenient locations; expiration date ensures freshness.

FEELINGS—fosters "good parent," "concerned citizen taking action" self-image.

▲ Now you probably have a substantial list of benefits your product or service offers customers. Customers want as many benefits as possible, but you will have to prioritize which ones to emphasize in your promotional message. Bear in mind that there are other ways than your promotional message to communicate the benefits of your product or service, such as excellent service or a high-quality product that speaks for itself. Concentrate on the one or two benefits that will most effectively motivate customers to purchase your product or service and that most strongly define the competitive position of your enterprise.

▲ Write your promotional message. It should be very brief—no more than one line—and simple, so that it is easy to remember.

The Promotional Vehicle

Rationale:

Once you have decided on the message you want to convey, you must then figure out how that message will reach customers. There are many marketing mediums to consider. Advertising, trade shows, and public relations efforts are just some of the possibilities. Some promotional vehicles will be more suitable for your enterprise and product/service than others. This section is designed to help you focus on cost-effective promotional vehicles that will yield the best results—i.e., increase your sales.

Selection of Promotional Vehicles

Quantity, cost, mix, and fit are important considerations when selecting promotional vehicles for your enterprise. Be sure that the medium you choose will actually reach your target customers and that it is appropriate to your image. Most customers need to be exposed to marketing materials several times before they decide to purchase a product or service. Therefore, repetition and exposure from a variety of different sources are also important considerations. Finally, affordability can be a strong factor in selecting which promotional vehicle you will ultimately use.

> **The Wrong Promotional Vehicle**
>
> If your enterprise offers business services to poor entrepreneurs who cannot afford luxury items, or lack basic infrastructure like electricity, television is probably not the best way to reach them. Television is also a powerful medium that can easily intimidate or alienate poor people, possibly contradicting the image of a trustworthy business aimed at helping them. In addition, TV advertising is very expensive and a good way to blow your program's promotional budget in one fell swoop.

Types of Promotional Vehicles

- **Brochures**—leaflets, informational handouts, inserts. Brochures are an excellent low-cost promotional vehicle as long as your target customers are literate. Brochures are especially useful for service businesses because they enable you to describe your services in lieu of tangible products.
- **Print media**—advertising in newspapers, newsletters, magazines, and trade and specialty publications. Cost varies greatly for print ads: from little to nothing for ads in local newsletters to expensive ads in publications with national circulation. Before buying ad space in a publication, be certain that its readership matches your target market.
- **Posters/fliers**—a low-cost option. These can be posted locally or handed out in communities. Fliers and posters are a good means of advertising events or "act-now" opportunities to try your product or service.
- **Broadcast media**—radio and television. Although television is inappropriate for social enterprises in many markets, well-targeted radio advertising can reap surprising benefits.
- **Direct mail**—mass-mailed fliers, catalogs, brochures, and coupons. Direct mail is generally associated with high costs and low returns. Moreover, it is a highly impractical form of promotion in developing countries.
- **Public relations**—public service announcements (PSAs), celebrity spokespersons, newspaper feature or news articles. These are seemingly attractive promotional vehicles for social enterprises because they are free. Although public rela-

tions can yield positive benefits, relying on them as part of your promotional mix is unwise because of the hidden costs of time spent writing and sending out press releases or efforts to solicit journalists that go nowhere. And since it is difficult to control what a journalist will write, PR can distort your enterprise's public image. In the end, these articles often do not even reach your target customers. If you choose to use public relations as a promotional vehicle, be discriminating, realistic, and clear about your objectives. Select community publications or newsletters that are compatible with your reputation and image. Pursue "celebrities" you have access to who will draw the attention of your target customers. For example, a soccer player from a regional team may be more appropriate than a movie star.

- **Advertising gifts**—giveaway items emblazoned with your enterprise's logo, such as stickers, calendars, desk sets, T-shirts, and magnets. These items vary in cost but can be an effective means of developing brand recognition. Stickers are relatively inexpensive and are popular in many countries.
- **Sampling**—distribution of free product samples. This promotional vehicle is especially useful for introductory products, when you want to promote use or knowledge of a new product rather than a known product. There are costs of staff time to give out samples and the cost of the product itself.
- **Informal marketing**—activities such as speaking at public events or attending conferences. Like public relations, informal marketing offers a cost advantage but often does not reach a social enterprise's target customers. There may be other advantages to informal marketing, such as developing strategic alliances or raising public awareness for your firm. Be clear about your objectives before committing time to this promotional vehicle.
- **Telephone directory listings**—an often overlooked but cheap and appropriate means of promotion for many social enterprises.
- **Trade shows**—useful for two reasons. Participation in trade shows raises your profile and offers new business opportunities, such as strategic alliances with commercial partners or sharing information. Trade shows, however, can be costly in staff time and exhibition costs if not well targeted.
- **Merchandising displays**—on-site, point-of-purchase offers presented to customers at the time of sale to encourage impulse purchases. Merchandising displays are good promotional vehicles for cross-selling products because they allow an enterprise to display its full product line. They are also an effective branding mechanism. Note that some retail outlets may charge for displays that take up shelf space.
- **Billboards**—brightly colored signs with your logo and a strong visual image. These are an excellent choice in countries sensitive to brand image and with low literacy rates among target customers. The cost varies by country, depending on whether the billboard is a formal means of paid advertising controlled by the state or simply a sign erected on a public roadside by the enterprise itself.
- **Special offers**—discounts, two-for-one deals, free trials, etc. Such enticements enable your social enterprise to increase sales and build its market share. The costs of discounted prices or giveaways must be figured into your bottom line.
- **Information meetings**—an oral presentation introducing your enterprise and its services or products. This form of promotion, often used by microfinance institutions, is also a good way to attract potential customers to service businesses. Information meetings are particularly effective when you target market is not literate.

Business manager, marketing manager, PO business advisor, sales staff, accountant

Planning Your Promotional Vehicles

Locate the **Promotional Vehicle Worksheet** (exhibit 5X) in *The Workbook* or create your own. This exercise is a precursor to preparing your promotional strategy and budget.

▲ Reflect on the information gleaned about your target customers in chapter 3 as you look through the list of promotional vehicles and answer the following questions.

▲ **Reach**. Which promotional vehicles will best reach your target customers, in terms of both geographic location and your customers' access to the vehicles used?

▲ **Fit**. Which ones best fit your enterprise's image and the product you want to promote?

▲ **Frequency**. How often and when will you use the promotional vehicles? Are there seasonal upswings or downturns in your business cycle?

▲ **Cost**. What costs are associated with using the vehicles? Will you have to buy space or contract for professional assistance (in design, printing, production, advertising, or public relations)?

▲ What are the *annual costs* for your promotional vehicles? This information will be used as the basis of your marketing budget in the financial section of your business plan. Don't forget to calculate costs of staff time or product samples in your projected annual promotion costs.

Exhibit 5X: Promotional Vehicles for TARTINA

Vehicle	Reach	Fit	Frequency	Cost
	1 (low) - 5 high)			(per year)
Print	-	-	-	-
Broadcast	-	-	-	-
Direct Mail	-	-	-	-
Brochures	2	2	Annually/or as needed to update information	$550
Flier/poster	3	3	New product launches/ promotional campaigns	$360
Sampling	2	5	Monthly, each major retailer	Covered by sales salaries
Informal	1	1	When opportune; ADE Director	N/A
PR	4	2	Quarterly press releases	N/A
Trade shows	4	5	Biannual PAP Food Fair	$800
Gifts	-	-	-	-
Phone book	2	1	Annual space ad plus phone listing	$25
Displays	4	4	Two months per year, major retailers	$400
Billboards	4	3	Once, sign on main road to Colline	$30 to artist
Information meetings	1	3	When opportune for direct sales agents	N/A
Special offers	2	4	Quarterly to correspond to product launcher, academic year, summer and post X-Mas	$500 in redeemed coupons
TOTAL COSTS				**$2,665**

Chapter 5 **The Marketing Plan**

Licensing Can Help Serve the Double Bottom Line

Licensing offers certain advantages to social enterprises concerned with meeting the social objectives. A licensing agreement with a private, for-profit firm relieves a social enterprise from business management so it can stick to the social business of "doing good." Licensing also provides the enterprise with a guaranteed market and high-quality technical assistance, although revenues will be substantially less than if the social enterprise managed the business itself.

For example, the social objectives of your enterprise might be to supply jobs to and develop the technical competence of clients who produce leather goods. Your enterprise might choose to focus on core competencies like production techniques and community organizing rather than manage multiple business functions. In this case, the enterprise might license the entrepreneur-made products to a company that would handle marketing of the leather goods.

LOW-/NO-COST PROMOTIONAL OPTIONS

In addition to using the aforementioned conventional promotional vehicles, you can employ a number of creative options to promote your enterprise. Usually, little additional cost is involved, and these options can produce tremendous benefits. Consider the following when you prepare your promotional plan.

- **Cross-selling**—exhibiting several different products in one display. Cross-selling builds brand awareness across multiple products and entices customers to try your other products if they are already familiar with one.

- **Personal sales**—carried out by sales, marketing, or other staff at sales locations. Staff members can add a personal touch by offering customers samples to try, telling them about the products and the enterprise, and giving out coupons.

- **Strategic alliance**—a complementary company with which you share promotion, sales, or distribution functions. Several types of alliances can be formed:
  - *Joint advertising*—when two firms are mentioned in a single ad and share the costs. Special events are popular among nonprofits; firms underwrite the costs of an event and display their banners, T-shirts, and literature at the event.
  - *Licensing*—when one firm grants another permission to use its name, trademark, or product. For example, Save the Children licenses its name and logo to a clothing manufacturing company for a line of ties and scarves distributed in retail outlets. SC receives financial benefit for its programs and increases its name recognition without having to manage a clothing business.
  - *Professional or in-kind exchanges*—a creative way to broker promotional deals through nonfinancial exchanges with businesses that want services or products from your enterprise. In the Moscow Winter Olympic Games, a noncash deal worth more than $1 million, trading coffee and programming for advertising, was brokered between Columbia House Coffee, the games' sponsor, and Turner Productions.

- **Referrals and testimonials**—a satisfied customer is the most powerful means to promote your social enterprise. Your job is to "delight the customer" so the customer will refer your enterprise and services/products to others. You can capitalize on customer referrals by inviting satisfied customers to speak at information meetings or help with samplings, product demonstrations, or special promotions. Also, you can make their comments indelible by including them as testimonials in printed promotional material.

- **Cause-related marketing**—exploiting the social value of your enterprise for advertising purposes. Cause-related marketing can take the form of a strategic alliance (above) with another firm (usually a large corporation) that provides money, technical assistance, and/or promotion in exchange for using your social enterprise in its advertising. The corporation is usually motivated by the opportunity to improve its public image, smooth community relations to make way for business expansion or penetrate new markets. Some well-known examples include Benetton's sponsorship of AIDS awareness and American Express' raising consciousness for hunger relief with Washington, D.C.-based Share our Strength (SOS). Some social enterprise entrepreneurs find it demoralizing to join ranks with large corporations, believing that they are exploiting their target population, while others find that mutually beneficial relations are forged.

A more applicable form of cause-related marketing is to allude to social objectives in your promotional messages, literature, and advertising. Although this is a good way to get publicity, it can be a double-edged sword. A social enterprise bakery found that it lost customers when it advertised that its bread was made by internally displaced people and refugees because that conjured up images of unsanitary manufacturing conditions. TARTINA Enterprise discovered that social consciousness was generally low among its poorly educated consumers in Haiti, but many retail customers chose to carry TARTINA products because they wanted to support the cause.

Same as previous exercise

Planning Low/Cost Marketing Options

▲ Locate the Low-/No-Cost Promotional Options Worksheet in *The Workbook* or create your own. Exhibit 5Y provides an example for TARTINA

Exhibit 5Y: Low-/No-Cost Promotional Options for TARTINA

Vehicle	Reach	Fit	Frequency	Cost (per year)
Cross-selling	4	5		No additional costs
Personal sales	3	4		Covered by sales salaries
Strategic alliances ***Type:***				
Referrals	1	4		No additional costs
Cause-related marketing	2	3		Time to forge corporate relationships
Other				
TOTAL COSTS				**-0-**

1 = worst choice **5 = best choice**

Packaging

Packaging refers to a product's physical package (box, container, jar, wrapping, etc.) or labels, or a service's presentation. Although packaging does not fall directly under the auspices of promotion, good packaging can certainly help promote products and services. Moreover, it is an aspect of marketing that is sorely undervalued by social enterprises and, therefore, is worth mentioning here.

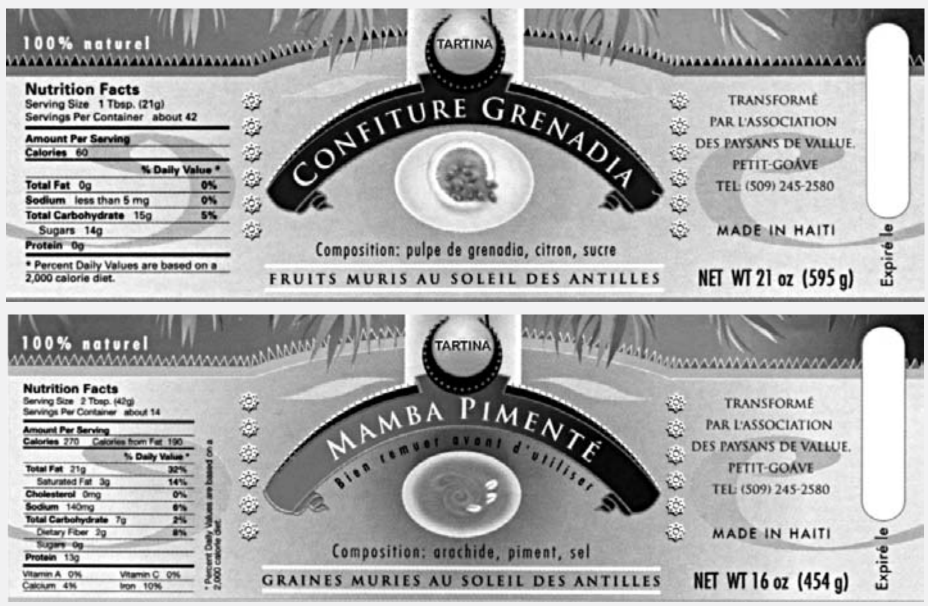
Packaging enhances your professional image and helps commercialize your social enterprise at little or no additional cost, and it doesn't require changing the product or service. TARTINA first used crude plastic containers for its peanut butter that were difficult to open and close and sometimes leaked, dripping grease down the sides and smearing the laser-printed label. Its new jars with screw-on tops are marginally more expensive but, with their new label, are much more attractive and commercial looking (exhibit 5Z).

Tips for Packaging

Packaging has many variables and is difficult to address generically, so we simply give you a few hints for packaging your product or service.

- Remember that because the package of your product or presentation of your service is the first contact a potential customer has with it, the package represents the product's entire identity and image.
- Use the five F's to tailor packaging to customer wants (see TARTINA example in exhibit 5Z below).
- Your packaging should attract—even call out to—your target customer.
- Your name and logo should be clearly visible.

Exhibit 5Z: New TARTINA Label



The new label, a significant improvement over the existing one, has the following benefits:

- It is fashioned after import labels. There is a great demand for imported food-stuffs, which are considered to be of higher quality than the local competition. The new label should have a positive impact on the TARTINA image. In addition, it will attract customers who aspire to purchase imported peanut butter or jam but can only afford local brands. (**feelings**)
- The label was designed with the female shopper in mind; the pastel colors and floral patterns are visually appealing to women. (**functions, feelings**)
- The label includes a paper safety seal, which is an inexpensive way to assure the customer that the product has not been tampered with. This is an important feature differentiating the product from the local competition, which does not have safety seals. (**freedom, future**)
- Similarly, nutrition information is provided on the new TARTINA label, which is a comparative advantage relative to the local competition. *(***freedom, feelings, future***)*

Marketing Personnel

After plotting the vehicles for your promotion strategy, consider the effect of these choices on enterprise personnel. In the cost columns of the two previous worksheets, you were to some extent tasked with reviewing human resource implications. At this point you must examine personnel needs in concrete terms. Will you need to hire marketing staff, or can you outsource the marketing functions?

PO business advisor, marketing manager, business manager, human resource manager (if applies)

Determining Marketing Staff Needs

The symbols and below denote financial and human resource implications of marketing decisions, information that will be used to develop your financial plan. These implications may cause you to revisit some promotional choices.

- ▲ Make a list of marketing personnel by position or task.
- ▲ Indicate whether staff is currently available in-house or you have to hire either new permanent staff or contract for temporary staff.
- ▲ Indicate whether promotional staff is needed on a full-time or part-time basis.
- ▲ Estimate total annual costs for each person. If you need a full-time permanent professional, include benefits in your projections.

Exhibit 5AA: Promotional Personnel for TARTINA

Position/task	In-house	Hire	Contract	One Time or Recurring	Duration	PT /FT	Annual Cost‡
Marketing Manager	✔				FT		
Marketing Assistant							
Market Researcher			✔	1 time (product study)	4 weeks		
Events Coordinator	✔			Recurring	8 weeks	PT	
Alliance Coordinator							
Graphic Designer			✔	2 (label/logo)			
Other							

‡ For permanent staff include salary plus benefits.

Formulate a Promotion Strategy

Your promotional strategy will be a synthesis of the work completed in this section and will be included in your final business plan.

PO business advisor, marketing manager, business manager, sales staff, external marketing consultant (if desired)

Crafting a Promotional Strategy

- ▲ Develop a promotional strategy for your social enterprise.
- ▲ You will have to formulate a promotional strategy for each product or service you are offering.
- ▲ Locate the **Promotional Strategy Worksheet** in *The Workbook* or create your own.

- ▲ Restate your marketing objectives in the first column, followed by products in the next column, then the promotional vehicles you plan to use, and finally your strategic rationale. The strategic rationale explains how your choice of promotional vehicles will contribute toward the achievement of your marketing objectives.
- ▲ Refer to the example of TARTINA's promotional strategy in exhibit 5BB for assistance or inspiration.

Promotional strategy included in the Business Plan.

EXHIBIT 5BB: PROMOTIONAL STRATEGY FOR TARTINA ENTERPRISE

Marketing Objective	Product	Promotional Vehicle	Strategic Rationale
Increase brand awareness and sales	Peanut butter and grapefruit jam	Personal sales Point-of-purchase (POP) displays	Customers are already aware of the existence of the products. POP promotion will help TARTINA's voice be heard among the several other competitors on the market.
Product awareness	Karapinia and passion fruit jam	Sampling Point-of-purchase displays	For success in launching the passion fruit jam and the Karapinia products, it is not brand awareness that should rule but awareness of the products themselves, which are virtually unknown.
Increase brand awareness and increase sale levels (sales target of U.S. $58,976)	All products	Sampling	• "Tasting is believing!" It will encourage customers to switch brands, as is required in the competitive peanut butter market, or to purchase a new product, such as passion fruit jam, instead of their regular flavor.
		In-store display posters	• POP and posters can increase the TARTINA brand presence in some stores that currently do not have shelf space available for new brands or new products.
		Point-of-purchase displays	• Multiple TARTINA products will be on display, and promotional staff will offer samples of any or all of the products to interested shoppers to taste (and purchase!).
		Cross-selling	• Cross-selling is cost-effective as it uses one vehicle to simultaneously promote multiple products.
		Personal sales	• The sales will offer a market research opportunity. Promotional agents will gain firsthand information on customers' buying motives and product preferences.
		Special offers	• Coupons and discounts at POP displays will encourage impulse purchases by customers trying TARTINA products.
		Trade shows	• These will be primarily aimed at forming strategic alliances and increasing presence in some stores that currently do not carry TARTINA products.

In summary, the promotional strategy will put its accent on personal sales, product presentation, taste tests, and development of promotional material for in-store displays. Additional funds have been included in the business plan's promotional budget to potentially use in larger-scale publicity material, such as print advertising, PR, and stickers with the TARTINA logo, which are popular among children. The costs and benefits of this type of publicity will be further evaluated before any disbursement of these promotional funds.

Sales Plan

The sales plan flows from the marketing plan. Remember that at least one marketing objective must include a sales forecast expressed in unit sales or currency value. TARTINA uses both in its objectives (see marketing objectives in the first section of this chapter). The sales plan is concerned with turning prospective customers reached through marketing into purchasers. It articulates the structure and strategy of closing deals and the costs to do so.

SALES STRUCTURE

Staff members charged with selling responsibilities are the pulse of income generation in your social enterprise. Simply put, without sales there is no income.

Marketing manager, business manager, PO business advisor, HR manager, external sales consultant (if desired)

Establishing a Sales Structure

The symbols and below denote financial and human resource implications of sales decisions, information that will be used to develop your financial plan.

What is your sales structure?

- Do you have a sales force? How many people?
- At what point do sales personnel achieve "full capacity"? When do you decide to hire more sales staff?
- Do you use internal staff (employees) or contract staff (sales firm, free agents)?
- Do salespeople have additional responsibilities? If so, which ones?
- Are other people charged with selling your product or service? Who?
- Who supervises sales personnel/functions? Is this person charged with other responsibilities? If so, which ones?
- Are individual sales staff charged with different responsibilities? How are responsibilities organized?
- How is territory divided up among sales staff? Geographical region, product, customer type?
- What type of training do sales staff receive? How often is training conducted?
- Who is responsible for training sales staff?
- How do you ensure that sales targets are met (use a quota system, assign targets for sales staff, etc.)?
- Summarize sales structure.

Summary included in the Business Plan.

SALES COSTS

Marketing manager, accountant, business manager, PO business advisor, HR manager

Estimating Sales Costs

Give careful thought to the following questions, and then project your social enterprise's selling expenses based on your sales structure. All the information in this section will be used in the financial plan. An example is provided in 5CC.

- ▲ How are sales staff remunerated? Salary? Commissions? A combination of the two?
- ▲ Which out-of-pocket expenses incurred by sales staff are reimbursed? Transportation, communications, travel, meals, etc.?
- ▲ Do sales staff receive a petty cash advance?
- ▲ What type of incentive program do you use to motivate staff? Financial bonuses? Nonfinancial rewards?

Sales cost information will be used in the Financial Plan (Chapter 8).

EXHIBIT 5CC: MONTHLY SELLING EXPENSES EXAMPLE

Sales Staff and Status	Base or Salary	Commission	Bonuses	Expenses	Benefits	Training and Supervision
Martine Du Pré Senior sales	$100/mo.	15% of sales price per unit $1,000 for targets (per/mo. quota)	20% of sales price per unit after quota	$15 for transport per/mo.	Health, sick, vacation	20% Marketing Manager salary spread over 5 sales staff - $55
Luc Dominique Trainee	$80/mo.	15% of sales price per unit $800 for targets (per/mo. quota)	None Bonuses to trainer	$15 for transport	No benefits until post-trainee status	Same (above) Trainer $55

Marketing manager, sales staff, PO business advisor, business manager, external marketing/sales consultant (if desired)

SALES STRATEGY

The sales strategy explains the mechanics of the sales approach your social enterprise will employ to realize its targets.

Developing a Sales Strategy

Use the following questions as a guide to craft your sales strategy:

- ▲ Who identifies potential new customers?
- ▲ Who makes the initial customer contact?
- ▲ What are the follow-up procedures after the first customer contact?
- ▲ Are incentives, bonuses, or rewards given for new-customer acquisition?
- ▲ How is customer contact made—in person, by phone, by mail?
- ▲ At what point does the sales staff decide to stop pursuing a lead?
- ▲ How frequently are existing customers contacted? Are they contacted for additional, add-on, or new-product sales?
- ▲ What kind of customer service or terms do you provide to ensure repeat patronage (credit, returns, etc.)?

▲ To what extent do sales personnel participate in "personal selling" (a marketing tactic), such as taste tests, or marketing events, such as trade shows?

▲ Summarize sales strategy.

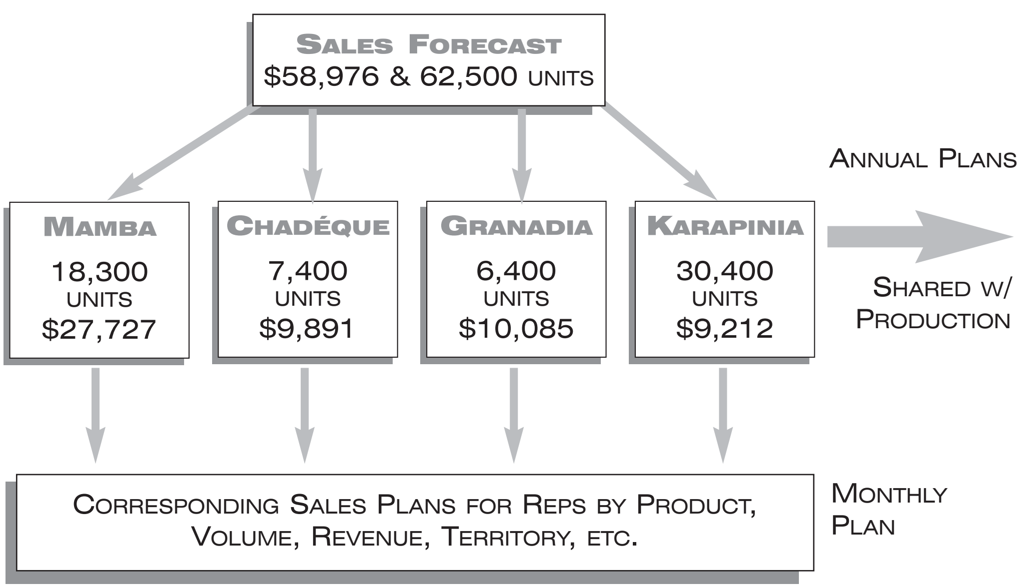
Narrative summary included in the Business Plan.

The Sales Plan

The sales plan aligns quantitative targets with the sales forecasts in marketing objectives (exhibit DD: Information Flows for Sales Planning). Annual sales plans are segmented by product and broken down into monthly or quarterly figures (exhibit 5EE: Annual Sales Plan for Mamba). Subsequently, monthly sales projections are made for individual sales representatives. Setting targets and accomplishing them are a function of your sales structure and strategy. The sales plan requires giving thought to the division of sales territory; time for sales calls, new-customer acquisition, and servicing products; number of personnel; and seasonality of business cycles (chapter 6) and capabilities of individual sales agents.

Targets for individual sales reps are delineated for a certain time period by product, revenue, volume, customers, or a combination thereof. The sales plan example in exhibit 5FF shows monthly sales objectives for Sales Agent Martine Du Pré. There is also a column for units sold. Comparing actual sales performance with projected targets helps managers project future sales more accurately and determine if sales personnel are performing as expected. This example divides sales targets equally between the five TARTINA sales reps (320 x 5 = 1,600) for the month of December 2000. This plan is probably not realistic because it does not account for lower sales productivity of trainees like Luc Dominique or dense territories like Port-au-Prince, which will yield a higher sales volume than secondary markets.

Exhibit 5DD: Information Flows for Sales Planning



This diagram illustrates the steps involved in sales planning and shows that sales information is shared with production or operations.

PO business advisor, production manager, marketing manager, sales staff, business manager

Establishing Sales Targets

▲ Develop an annual sales plan for each product.

▲ Locate blank **Sales Plan Worksheet** located in *The Workbook* or create your own.

▲ Prepare monthly sales plans for each sales representative that are linked to annual sale targets (if you have a sales force).

▲ If you are using another structure to sell your products or services, show how you will achieve sales targets using that structure in a written monthly or quarterly plan.

▲ Use TARTINA examples for inspiration or assistance.

Sales targets are included in the Business Plan.

EXHIBIT 5EE: ANNUAL SALES PLAN

PRODUCT: MAMBA

MONTH	QUANTITY	UNIT PRICE	LOCAL CURRENCY	U.S. $
Apr-99	1,200	25	30,000	1,818
May-99	1,200	25	30,000	1,818
Jun-99	1,050	25	26,250	1,591
Jul-99	1,050	25	26,250	1,591
Aug-99	1,100	25	27,500	1,667
Sep-99	1,250	25	31,250	1,894
Oct-99	1,250	25	31,250	1,894
Nov-99	1,300	25	32,500	1,970
Dec-99	1,600	25	40,000	2,424
Jan-00	1,600	25	40,000	2,424
Feb-00	1,700	25	42,500	2,576
Mar-00	2,000	25	50,000	3,030
Apr-00	2,000	25	50,000	3,030

TOTAL	18,300	457,500	$27,727

EXHIBIT 5FF: MONTHLY SALES PLAN[3]

Market Channel Existing Customers	Customer	Product	Sales/Mo. Objective Volume	Sales/Mo. Objective Revenue*	Units Sold/Mo. (Actuals)
Supermarkets	Big Star	Mamba	150	3,750	
		Chadèque	40	1,040	
		Grenadia	75	1,950	
	Delimart	Mamba	90	2,250	
		Chadèque	40	1,040	
		Grenadia	50	1,300	
Boutiques	Starmart	Mamba	40	1,000	
		Chadèque	10	260	
		Karapinia	100	500	
Institutions	Villa Creole	Mamba	25	625	
		Karapinia	200	1,000	
New Customers	Super-Q	Mamba	15	375	
		Chadèque	10	260	
	Minimart	Grenadia	25	650	
		Karapinia	100	500	
Total Sales Objective for the Month		Mamba	320	**Revenue:**	**Total Revenue Realized:**
		Chadèque	110		
		Grenadia	150		
		Karapinia	400		
				16,490= $1,000	

*Sales projections given in gourdes.

Explanation:

Sales plan shows sales targets by product and customer for Sales Agent, Martine Du Pré. The last column, Units Sold Monthly, are the actual amount of products she sold at the end of the month. These actuals are reconciled with projected targets to monitor agents' performance and the market.

[3]Template prepared by Kellogg Corps Consultants, J.L. Kellogg Graduate School of Management, Aug. 5, 1998.

The Operations Plan

Chapter 6

Chapter 6

"It is not the employer who pays wages—he only handles the money. It is the product that pays wages."

— *Henry Ford*
Manufacturing entrepreneur and philanthropist

Overview: The operations portion of a business plan is concerned with the day-to-day functions of running a business. Focused on administrative and production processes, the operations plan helps social enterprises increase efficiency, improve quantity, and reduce costs. It is the operations plan that an astute manager studies for capacity gaps or bottlenecks that may be costing the enterprise money or for opportunities to respond to customer demand on product or service specifications. The operations, or production, plan is paramount for manufacturing companies that manage a labyrinth of complex processes to fabricate raw materials and move them to the market as products. Service businesses, too, must have a good operations plan to ensure they are effectively managing their highly perishable product—time.

Whether yours is a manufacturing or a service business, this chapter is intended to help you construct an ***operations*** or ***production*** plan. It includes situational analyses to help you set sound targets by examining your current operations **process**, **capacity**, and productivity. You will analyze human resources, equipment, time and space needs, and their costs to formulate the plan. The body of the operations plan is a series of strategies aimed at accomplishing your operations objectives, including plans for improving **productivity, scheduling, information flows, inventory management, quality control, research and development**, and a **budget** for your operating costs.

Treatment of Operations Planning in This Manual

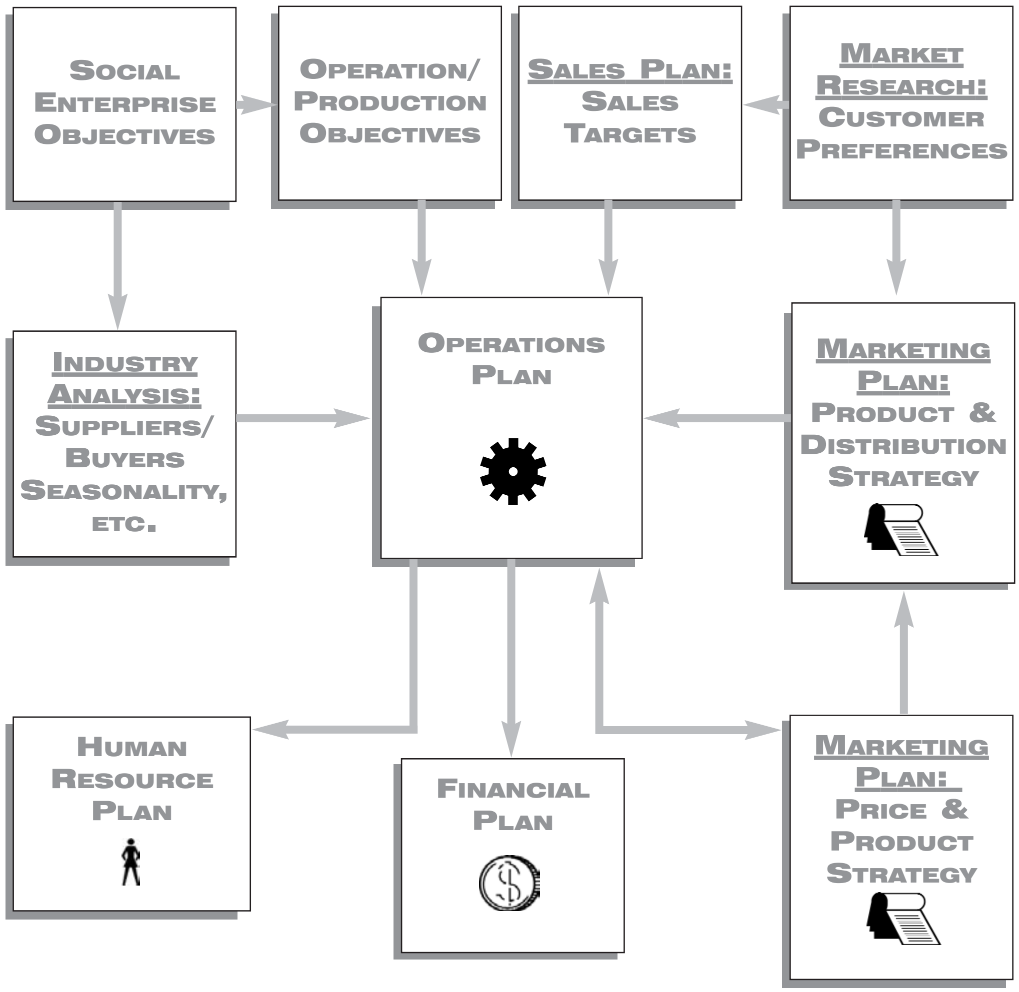
Information needed to formulate an operations plan for manufacturing and service industries converges in some areas and diverges in others. Since "production" (see definition) planning and costing are more detailed and technical for a manufacturing business and include aspects of operations, this chapter is tailored to suit the needs of manufacturers. It assumes that those who run service businesses will be able to adapt or extrapolate tools to develop their operations plan. Note that if your social enterprise is new and lacks an operational history, you may not be able to complete some of the exercises in chapter.

As with other sections of the business plan, operations components are inextricably linked with other business functions, which complicates the handling of this subject. In the following exercises we have attempted to segregate operations variables, recognizing, however, that changes to one will inevitably impact the others. Good operations planning is the ability to manage these variables and understand that operations choices may require tradeoffs at times.

Exhibit 6A: Information Flows for the Operations Plan

***Operations*—**most closely identified with service businesses; operations are the stages or steps required to provide a service or manage a process.

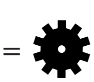
***Production*—**used in reference to the stages or steps required to manufacture physical goods. Manufacturing companies may also have operations stages associated with the nonproduction side of their business, such as tracking and managing inventories, purchasing raw materials, or selling goods.



Guide to Icons

This chapter periodically uses icons (below) next to certain questions or sections to alert the reader to the fact that decisions made in the operations plan have implications for other segments of the business plan. The information flow diagram in exhibit 6A illustrates these relationships.

Financials =  Human Resources =  Marketing = 

Informations Systems =  Operations = 

Operations/Production Process

PROCESS MAPPING

Rationale:

Step-by-step mapping of your operations or manufacturing is a useful way to visualize the whole process. Called a ***flow diagram***, this instrument facilitates the identification of bottlenecks, inefficiencies, and information-sharing problems within your social enterprise, which ultimately eat into your profits. The diagramming also helps you determine operating and production costs and skill and labor requirements for each stage. In the course of this chapter we use flow diagrams for three purposes—assessing process, productivity, and capacity. This exercise begins with the mapping of each stage of your operations and production process (manufacturing businesses).

Flow diagram—a step-by-step map of your operations process. Flow diagrams facilitate identifying bottlenecks, inefficiencies, and information-sharing problems within an enterprise, as well as determining operating and production costs and skill and labor requirements for each stage of the process.

Business manager, production manager, inventory manager, production supervisors, PO business advisor

Diagramming the Operations Process

Step 1: Operations Stages

▲ Map the process—make a flow diagram—depicting each stage of operations. An example for TARTINA is given in exhibit 6B.

▲ The flow diagram and corresponding **Operations Stages Table** (exhibit 6C) should answer the following questions:

- What are the different stages?
- Who is responsible for each stage of operations? (Exhibit 6C)
- How does work get transferred from one stage to another?
- Is any part of your operations ***outsourced*** (contracted to another business or individual)?

Outsource—to contract to another company or individual a business function such as assembly, distribution, sales, etc.

Step 2: Production Steps

▲ Map the production steps (exhibit 6E); respond to the same questions as for operations stages (above).

▲ If your processes vary dramatically among products (e.g., manufacturing is different for peanut butter and jam), draw a map for each product (see exhibit 6D for Mamba).

▲ Exhibit 6E identifies the responsible party for each production step.

EXHIBIT 6B: FLOW DIAGRAM FOR TARTINA OPERATIONS STAGES

1. Purchase Raw Materials	2 Transport to Colline	3. Store Unfinished Goods	**4. Production Mamba & Jam**	5. Inventory Finished Goods	6. Transport to PAP	7. Sales

EXHIBIT 6C: OPERATING STAGES FOR TARTINA

Operations Stage	Responsible Party
1. Purchase raw materials and inputs • Fruit (for jam production) • Peanuts (Mamba) and labels, containers, other nonmarketing-related assets	1. • Clients • Approved by Business Manager; executed by Production or Marketing Manager (depending on item in question)
2. Transport from purchase point to Colline	2. Driver
3. Store in unfinished goods inventory (peanuts and production inputs)	3. Inventory Manager
4. Production (detailed separately, 6D)	**4. Production agents & Manager**
5. Store in finished goods inventory	5. Inventory Manager
6. Transport to sales outlets/force in Port-au-Prince (PAP)	6. Driver
7. Sales in PAP	7. Marketing Manager & sales force

EXHIBIT 6D: FLOW DIAGRAM FOR PRODUCTION OF MAMBA PEANUT BUTTER

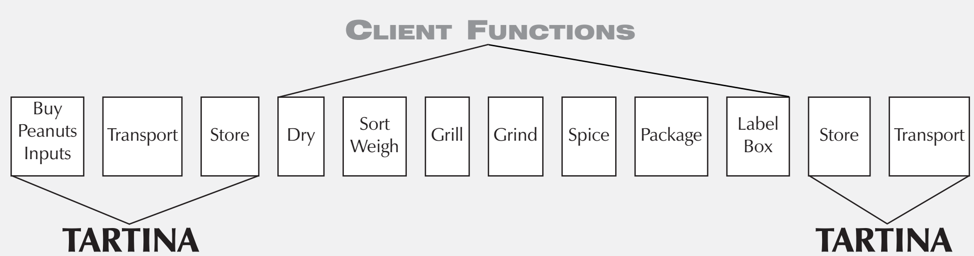


EXHIBIT 6E: PRODUCTION STEPS FOR TARTINA

Production Step	Responsible Party
1. Purchase peanuts and labels, containers, other nonmarketing-related assets	1. Approved by Business Manager; executed by Production or Marketing Manager
2. Shelled peanuts are dried in the sun	2. Guard
3. Store in unfinished goods inventory	3. Inventory Manager
4. Select and weigh high-quality peanuts	4. Production agents
5. Record quantity of peanuts; distribute	5. Production agents
6. Grill peanuts	6. Clients
7. Grind peanuts	7. Clients
8. Add spices/salt (all except unsalted PB)	8. Clients
9. Fill containers with peanut butter; glue labels	9. Clients
10.Box containers for shipping	10. Clients
11.Store in finished goods inventory	11. Inventory Manager
12. Ship to customers	12. Driver

Explanation of TARTINA Model

What is not evidenced in TARTINA's operations process is the role of the clients—self-employed women. In order to realize the cost advantage of buying production inputs in bulk, and overcoming the clients' lack of access to supplies, TARTINA centralized its purchasing and storage functions (see Lessons Learned in Chapter 9). In turn, TARTINA sells peanuts, containers and labels directly to the clients at cost. This system has two important benefits for TARTINA's viability, to regulate quality and keep production costs down in this narrow margin business. For clients, it allows year-round access, a time saving advantage of purchasing from the production site and higher income due to lower priced inputs.

Productivity

Productivity in operations measures the time and number of people it takes to produce a good or deliver a service. If your social enterprise is able to increase its productivity by producing more goods in less time, it will subsequently be able to increase its profitability.

Identifying bottlenecks that constrain or slow processes is a good starting point for increasing productivity. Cutting out unnecessary stages and eliminating duplication of efforts are two methods for streamlining your operations process. The acid test is if you can increase productivity without decreasing quality.

Methods to Improve Productivity

Labor organization. The organization of labor within your social enterprise has a bearing on your overall productivity. The layout or floor plan of your facilities and the tasks at hand determine how labor should be organized.

A *line approach* is when each worker is responsible for one particular task and, upon completion the task, passes the work to the next person in the line. A line approach is an excellent method for assembly businesses or when tasks can be isolated. Its drawbacks are worker boredom and the potential for a vacuum effect if a worker is absent. Job rotation can reduce both of these problems.

A *team approach* is when a group of workers is responsible for all tasks related to an operations or production stage. Using this approach depends on the complexity of the process and the skills and training needs of the workers. For building human resource capacity, a team approach is preferred.

Both approaches have implications for supervision. With a line, fewer floor supervisors are usually needed, whereas with a team, a supervisor is generally designated for each team. In the latter case, workers can be promoted to be team leaders, which has the added benefit of motivating them. The labor method chosen should contribute to the achievement of social and business goals.

Specialization. Workers' productivity can be increased if they develop particular technical competence in a production or operations stage or product. Specialized workers produce at a faster pace and with more precision than those who are not specialized. Specialization requires training and careful planning to ensure that enough workers are skilled in a specialization and that they can cover for one another if one is out.

Technology. It is a given that using technology enhances the production or operations process. A good computer system can manage inventories, billing, and distribution with greater speed and accuracy than a human being. Machinery for manufacturing has the same benefits. The main constraint to using technology in a social enterprise is its often prohibitive costs. Adding technology, however, does improve product standardization and the ability to compete. Therefore, selective use of appropriate technology (including low technology) is encouraged. For example, TARTINA Enterprise added simple grinding machines, which it motorized with car batteries to produce peanut butter. This enabled TARTINA to greatly increase its productivity as well as respond to customers' demands for a highly standardized product.

Scheduling. Advance planning and operations scheduling are imperative for increasing productivity. Not having materials on hand for production, adequate labor to fill a large order, or an audience for a training course slows output and incoming cash. Scheduling prevents bottlenecks from occurring and keeps operations running smoothly during cyclical swings. This is especially true for businesses prone to seasonality, regardless of whether the upturn or decline is in material supply or sales. Save the Children’s experience has shown that a lack of advance planning is one of the primary reasons for low social enterprise productivity and weak revenues. Thus, an entire section on scheduling is provided in section 8 of this chapter.

Financial incentives. Money talks, and it also motivates productivity. Financial incentives such as bonuses for producing over quota, piece rates, profit sharing, etc. are all possible enticements to spur productivity. (Incentive programs are discussed further in Chapter 7, Human Resources.)

Business manager, production manager, supervisors, PO business advisor, delegate clients, inventory manager

Determining Productivity

- ▲ Answer the following questions; your responses will be used later to shape the strategies in your social enterprise production plan. Examples of bottlenecks in Mamba production and counterstrategies to improve productivity are given in exhibit 6G.
- ▲ If you have historical experience with your social enterprise to draw from, where do bottlenecks occur?
- ▲ Using the flow diagram you created, indicate which constraints limit your ability to run operations smoothly and where in the process they occur. (See example 6F for Mamba.) Ask yourself if production is delayed, slowed, or piling up at any stage because of a constraint (e.g., the process itself is inefficient, labor is inadequate, there is an inability to access a key supply, transportation is not available, markets are not developed to sell the product or service, no inventory is ready for sales, etc.).
- ▲ Now analyze the flow diagram again. Are there extraneous steps in the operations or production processes that you can eliminate to reduce the amount of time or number of people it takes to produce a good or render a service? Are tasks duplicated that could be consolidated?
- ▲ How can you reduce or alleviate these bottlenecks in your production process to increase productivity? What are the costs associated with changing your process?
- ▲ For each product or service, specify how much time it takes to produce one unit (minutes, hours, days, months)?
- ▲ How many units can each worker produce per shift (if less than one, use fraction)?

EXHIBIT 6F: BOTTLENECKS IN MAMBA PRODUCTION (PRIOR TO RE-ENGINEERING)

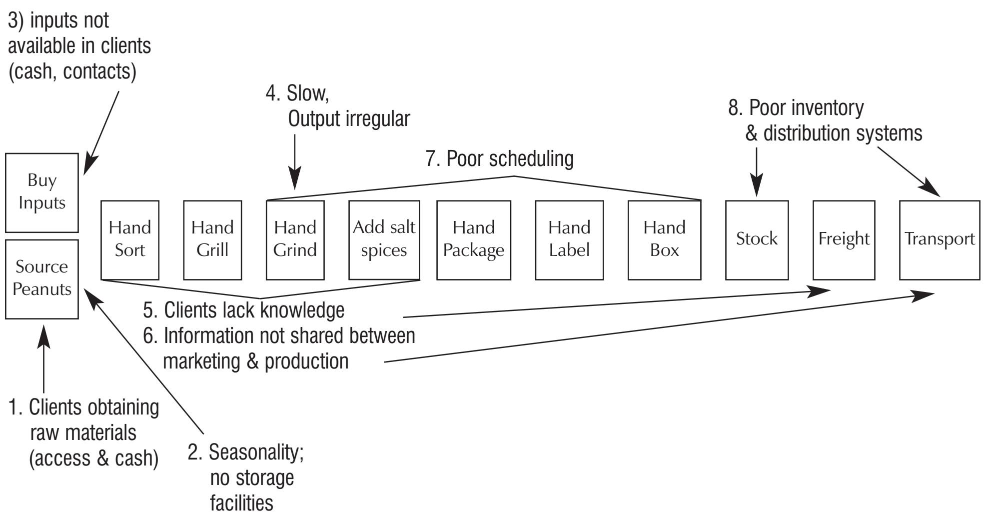


EXHIBIT 6G: CONSTRAINTS ON PRODUCTIVITY FOR TARTINA'S MAMBA

Bottleneck	Result
1. Clients' difficulty obtaining raw materials (cash and access)	1. Variability of production output and low capacity utilization
2. Seasonality of raw materials	2. Same as above
3. Key inputs are not easily accessible to clients (containers and labels)	3. Same as above
4. Hand grinding	4. Same as above
5. Clients and production staff lacked transformation knowledge	5. Same as above
6. Poor scheduling by production agents	6. Same as above
7. Lack of information sharing between sales/marketing and production	7. Production unaware of customer "wants" and unable to realize production targets
8. Inadequate inventory management and distribution systems	8. Inventory stagnation, theft and spoilage

Counterstrategies to Unblock Bottlenecks

1. Invested in peanut storage silos to produce peanut butter during seasonal downturns.
2. Centralized purchasing of raw materials (peanuts). Clients buy from TARTINA.
3. Centralized purchasing of containers and labels. Clients buy from TARTINA.
4. Purchased basic grinding machines.
5. Provided food transformation training for clients and production staff.
6. Introduced monthly scheduling into production planning to address variability of output and seasonality.
7. Instituted weekly meetings between marketing and production managers.
8. Upgraded inventory management by installing an automated system (Peachtree); trained staff on its use.

Assessing Capacity

***Capacity*—**a measure of an organization's or company's facility or power to produce, perform, or deploy an output.

Capacity measures the volume of output your employees, or "labor force," facilities, and equipment can achieve during a given period of time. The capacity of your enterprise determines to what extent it will be able to meet its production objectives and profit potential. If your social enterprise is operating at full capacity, you may want to think about expansion, assuming that growth potential exists for your products or services in the target markets. If your social enterprise has excess capacity, then it has the ability to produce or sell more than it is at current levels of people, space, and equipment. Excess capacity is wastage because it represents unutilized paid earning potential (fixed costs). In other words, the more you produce, the farther you will be able to spread your fixed costs (see break-even analysis in chapter 5, Marketing).

Assessing capacity also relates to staff training and development. Bear in mind these human resource needs as you assess your current capacity and develop a strategy to build your future capacity.

Calculating capacity requires weighing several variables, but exactly how a social enterprise measures its capacity frequently depends on the industry. For example, a public health clinic might determine its capacity by number of beds; a factory, by unit costs and volume of units manufactured. A training institute might assess capacity using amount of training per day, number of people trained, classroom space utilized, number of trainers teaching, or a combinations of these. In this section, several determinants of capacity are reviewed. How you use this information depends on your particular industry and on whether your social enterprise is a manufacturing or a service business.

Capacity Analysis

Rationale:
Knowing the limits of capacity guides realistic planning to attain production targets and future growth. Also, understanding capacity variables and their interconnectivity may lead you to make minor adjustments or changes to your process that free up capacity or improve utilization without adding substantial cost.

Business manager, production manager, PO business advisor, production supervisors (Same for all capacity exercises)

Analyzing Capacity

- ▲ Return to the process map, and next to each stage indicate the amount of labor employed in each production step, the person responsible for ensuring that each step is executed, and the overall manager accountable for realizing the process. Also label where you use machinery in your process. An example for TARTINA Enterprise's production steps is provided in exhibit 6H. The same exercise can be done for operations stages in service industries.
- ▲ Develop a narrative table to explain the diagram (see exhibit 6I, which corresponds to 6H).
- ▲ Respond to questions in the following sections concerning **facilities, skills, labor, time,** and **equipment**.

▲ Note where icons indicate costs and personnel needs. This information will be used in the financial and human resource sections of the business plan.

▲ Calculate the maximum capacity utilization (exhibit 6J to understand how capacity is derived).

Exhibit 6H: Capacity Flow Diagram for Mamba (After Re-engineering)

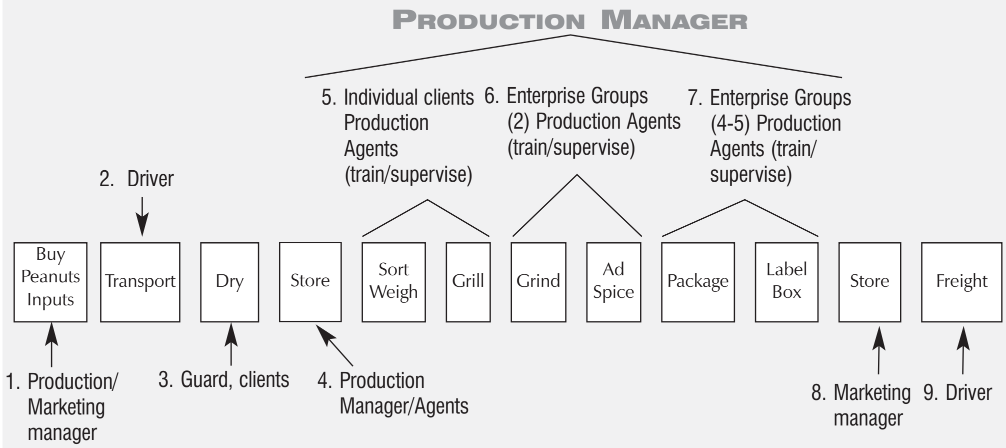


Exhibit 6I

#	Production Step	Responsible Party	Equipment
1	Purchase peanuts and labels, containers, etc.	Production, Marketing Manager	Vehicle
2	Transport (freight) to sales locations	Driver	Vehicle
3	Shelled peanuts are dried in the sun	Guard	None
4	Store in unfinished goods inventory	Production Manager	Storage silos
5	Select and weigh high-quality peanuts	Production agents	Scale
5	Record quantity of peanuts; distribute	Production agents	Measuring cup
5	Grill peanuts	Individual client[1]	Home stove/fire
6	Grind peanuts	Client groups	Grinder
6	Add spices/salt	Client groups	Measuring spoons
7	Fill containers; glue labels	Client groups	Spoons
7	Box containers for shipping	Client groups	None
8	Store in finished goods inventory	Inventory Manager	Storage room
9	Transport (freight) to sales locations	Driver	Vehicle

[1]Peanut grilling is done by individual entrepreneurs in their homes.

Facilities (Space)

- ▲ Describe your principal location. What are the main uses of this site (manufacturing, mathematical, training, conference, administration, storage, etc.)?
- ▲ How is the space organized? Are you using all available space for productive purposes? Do you have the room to expand your operations if need be?

Labor

- ▲ What is the total number of employees working in the production/operations process?
- ▲ Is variable labor used to meet seasonal demands or during other periods when production levels are high?
- ▲ How are employees organized? Team approach? Line approach?
- ▲ Who supervises employees?
- ▲ What basic qualifications are required of employees?
- ▲ What training is needed?

Skills

- ▲ What professional skills are needed to run your operations (technical, mechanical, managerial, etc.)?
- ▲ What operation functions (or positions) require professionals? What kind of professionals (engineers, operations or inventory managers, advisors, service technicians, trainers)?

Using Variable Labor Keeps Operating Costs Down

Increasingly businesses use variable labor—temporary contracted labor—to perform a specific task as needed, rather than hiring new permanent employees. The logic behind this trend is that they can augment their labor force during seasonal or other upswings without incurring the fixed costs associated with permanent staff.

Consultants play the same function when special expertise is needed. TARTINA contracted with a market research firm to conduct a product test in its target market and an agricultural specialist to improve peanut storage techniques.

Managing variable labor can be challenging. Temporary workers generally do not have a stake in the enterprise and therefore may lack the motivation to produce. In addition to controlling expenses, however, using variable labor can increase your social enterprise's outreach by rendering economic opportunities to more clients. Outsourcing certain business functions is another method of controlling costs.

The most critical question to ask when deciding on the use of variable labor is whether this tactic serves the enterprise's social mission and vision.

Time

- ▲ How many shifts do you operate in one day? How long are these shifts?
- ▲ What are the hours of operation?
- ▲ How many days a month on average is your facility operational?
- ▲ What are the constraints on operating more shifts? Is operations/production time limited by seasonal fluctuations? Infrastructure, such as no electricity or water during certain times of the day or week? Observation of religious tenets? Security issues, such as safe passage for workers or theft? Service business are usually constrained by the need to operate during hours convenient to their customers. Are there cultural mores that prevent labor from working at night, on weekends, or on holidays?
- ▲ Are there options to extend the hours of operations? What are the costs associated with this (new machinery, like a generator, or lights, additional fuel); providing transportation or posting guards to accommodate safety needs, etc.)?

Equipment

- ▲ What equipment is needed for the operation of your social enterprise?
- ▲ What equipment do you already own?

Capacity Utilization

Calculating capacity should be done after bottlenecks are worked out (as much as possible) and once the production process is streamlined.

- ▲ How variable is the production level? What is the average volume of output on the "best" production days? On the "worst" production days? What is the base average output? (See exhibit 6J, Easy Estimations for Capacity.)
- ▲ How many units of goods or services can be produced in your current facility per day? Per week? Per month?
- ▲ At what percentage of capacity is your social enterprise operating now?
- ▲ What is the maximum capacity possible? Follow instructions for calculating maximum capacity in exhibit 6J-2.

Chadèque jam under production by TARTINA microentrepreneurs

EXHIBIT 6J: EASY ESTIMATIONS FOR CAPACITY

Average best production days for each product over a given period (three-plus months). Assume this can be reproduced every working day throughout the year. This results in a theoretical capacity based on 100 percent utilization at average best per day.

Formula (see below): Calculate average, best, and worst production days for each product (column 2); then find overall average (column 3). Include labor (column 4) and average production per worker (column 5).

1 Product[3]	2 Criteria	3 Daily Production (lbs.)	4 # of Clients per Day	5 Avg. Production
Mamba[4]	Overall average	140	7.3	19.0
26 production days	*Average best 5 days*	*258*	14.4	26.6
	Average worst 5 days	34	2.4	14.2
Karapinia	Overall average	167	11.2	15.8
14 production days	*Average best 3 days*	*221*	*20.3*	*26.0*
	Average worst 3 days	67	4	11.8

[2]Out of 80 working days between January and May 1998, 26 were used to produce peanut butter and 14 were used to produce Karapinia.
[3]The new peanut butter grinder was installed in May 1998; output jumped significantly, and the top days all occurred since the grinder was put into use.

EXHIBIT 6J-2: MAXIMUM CAPACITY FOR MAMBA AND KARAPINIA[5]

Step 1: Fill in (col. 1) available annual production days; list results from above for overall average production per day (col. 2) and average production for best days (col. 4)
Step 2: Calculate potential annual rate (col. 3): available annual production days (col. 1) times average production (col. 2).
Step 3: Calculate maximum annual capacity (col. 5): annual production days (col. 1) times average production for best days (col. 4).
Step 4: Calculate projected utilization (col.8): sales targets (col. 7) ÷ average production for best days (col. 4).

1 Product	2 Available Annual Production Days	3 Overall Average Production per day	4 Potential Annual Production if produced @average rate (A)	5 Average Production for best days (B)	6 Maximum capacity if produced as best days every day (C)	7 Sales targets for year (D)	8 Projected Utilization based on potential product-ion (E)
Mamba	200	140	28,000	258	51,600	4,450	16%
Karapinia	200	167	33,400	221	44,200	1,500	4.5%

Assumptions:

A. Potential production rate at average rate = 200 working days per year x average production day for both products.
B. Average of the best five days for Mamba and Karapinia.
C. Maximum capacity = 200 working days per year x best rate.
D. Sales projections from marketing plan.
E. Utilization = sales targets ÷ potential production if produced at best-day rate every day (column 6).

[5]The information in this table was produced prior to the re-engineering of TARTINA Enterprise; its purpose here is to demonstrate how to calculate capacity, not for analysis.

Operations Objectives

ESTABLISH OPERATIONS/PRODUCTION OBJECTIVES

Operations objectives are expressed in terms of (1) the number of units to be produced; (2) production costs; (3) product or service enhancements; (4) capacity; and (5) changes to the process, such as tightening quality control or streamlining stages. Operations objectives are in part set using marketing and sales objectives established in the marketing plan. Likewise, they are determined by the product and price strategy (chapter 5) and seasonality (this chapter.)

Rationale:

Operations or production objectives **direct** the operations and ensure that is it moving toward the achievement of the overall business and social goals of the enterprise.

Business manager, production manager, PO business advisor, marketing manager, partner program manager, production staff, finance manager

Setting Operations Objectives

- ▲ Set "SMART" operations objectives (refer to Chapter 2).
- ▲ At least one production/operations target should be a numeric target projecting units to be produced or rendered, corresponding to the marketing plan, and costs associated with it.
- ▲ Refer to the TARTINA example (exhibit 6K) for assistance or inspiration.

Production/operations objectives are included in the Business Plan.

EXHIBIT 6K: PRODUCTION PLAN OBJECTIVES FOR TARTINA ENTERPRISE

- Standardize product
- Improve quality control
- Make necessary changes to respond in a timely manner to consumers' changing demands
- Reduce transformation costs to meet profit margin objectives noted in marketing plan
- Build clients' capacity to manage and implement transformation process
- **Produce 62,500 units for a total cost of U.S. $45,974**

Linking Strategies to Objectives

Most strategies do not independently satisfy an objective but contribute toward achieving it. It is the combination of all strategies working concurrently in a plan that accomplishes its ends.

Operations/Production Process Strategy

Based on your assessment of (or projections for) your operating process, the process strategy articulates how you plan to use and build capacity to achieve maximum productivity.

Business manager, production manager, inventory manager, production staff, PO business advisor, external consultant (if desired)

Formulating a Process Strategy

▲ Use the operations/production objectives as a starting point for your strategy.

▲ The process strategy should focus on how you plan to accomplish (or contribute to the achievement of) operations/production objectives.

Step 1: Capacity Strategy

▲ Based on the conclusions drawn from the **capacity analysis exercise** , formulate a strategy to use excess capacity or expand the existing capacity of your social enterprise. Here are some additional questions to guide your strategy development.

- How will excess capacity be utilized?
- What options exist to use excess capacity?
- How can you provide for extra capacity if needed for growth?
- What training will be needed to build capacity among your production staff?
- What are the cost implications of these changes?

Step 2: Productivity Strategy

▲ Use the conclusions drawn from the **determining productivity exercise** to conceive your strategy. New social enterprises should use process projections.

▲ Refer to the TARTINA example in exhibit 6L for assistance or inspiration.

Process strategy is included in the Business Plan.

Exhibit 6L: Strategies for Increasing Process Productivity and Capacity

Objectives:

- *Improve product standardization*
- *Build clients' capacity to manage and implement transformation process*
- *Realize production target of 62,500 units for a total cost of U.S. $45,974*
- *Reduce transformation costs to meet profit margin objectives noted in marketing plan*

Productivity: Specialization Strategy

- Production groups will specialize in one principal type of transformation. The specializations will be three: peanut butter, Karapinia, and jams/jelly.
- Production agents will also follow product specializations with one "understudy" to ensure continuity in case of absence of the primary production agent specialist.
- Specialist clients will be developed within the production group. Specialists will be selected and trained to "champion" certain tasks of the production process. Again, "understudies" should be assigned to ensure continuity in the case of absence of the primary specialist.
- Financial incentives: Base payment to clients will be based on quality and quantity of output.

Note: Prior to developing this business plan, TARTINA Enterprise consolidated raw materials purchasing to ease bottlenecks clients faced in raw materials acquisition and to increase productivity. TARTINA also added basic machinery to stabilize product variability and augment output.

Capacity

- This will largely fall on the shoulders of the production agents. They will require training of trainers (TOT) to achieve this objective.

Note: During re-engineering, excess capacity in plant facilities was considerably reduced through shift scheduling.

Quality Control

Rationale:

Quality control is the key to product standardization and repeat patronage. It should not be confused with "high quality," although this does have merits. Perhaps the aim of your marketing strategy is to position your enterprise as the "economic solution," offering low-cost goods or services, rather than vying for "high quality." Quality control simply means that you are able to provide consistent products and services to your customers. Consistency is an important product attribute for retaining customers because it gives them the comfort of knowing exactly what they will get with every purchase.

PO business advisor, production manager, inventory manager, production staff, delegate clients, external consultant (if desired)

Devising a Quality Strategy

- ▲ As you did in the previous exercise, begin with operations/production objectives.
- ▲ An illustrative example for TARTINA is given in exhibit 6M.

Fable of Quality Control

Once upon a time, in a land far, far away, there lived a benevolent king. Philanthropy and random acts of kindness were the king's favorite pastime. Each day, as he executed public-spirited good works, he mulled over possibilities for new humanitarian deeds. There was still poverty in his kingdom, and the inequities he noticed among his subjects nagged him. Then he was struck by an idea.

In this kingdom milk was considered a precious commodity, as it was thought to have mystical powers and special health benefits. Milk was used as a mainstay in households for nutrients and restorative cures, yet many people could not afford the magical elixir. Hence, the king decided that milk should be redistributed from the wealthy to the poor on occasion. The very next day, the king called on his subjects who raised milk-producing animals to each contribute a jug of milk to his cause. They were instructed to pour it into the supply pool on the castle grounds, where indigent community members would come and collect the milk.

Most of these "wealthy" residents were small farmers who were unhappy with the king's Robin Hood-like decision, since milk was vital to their livelihood. So as they filled their jugs they grumbled, "We pay our taxes and now he wants our goods equal to one day's wages."

As night fell one resident shared these thoughts with her husband: "If I fill my jug with water, no one will notice once it has mixed with all the other jugs of milk in the pool; then I will lose no money."

By morning a small crowd had gathered outside the castle gates eager to fill their containers with the cherished substance. The king awoke enthusiastically to witness the milky pool that symbolized his altruism. Gleefully, he looked out the window and was astonished at what he saw: an ordinary pond filled with water.

Moral: Even in the most benevolent of ventures, one must have systems to control quality.

Inspired by a Nepali legend.

Exhibit 6M: Strategies for Increasing Quality Control

Objective: Improvement of quality control

- Development of a quality control program: Step-by-step quality control improvements have already been identified by production agents for peanut butter and jam products. The same will also be done for Karapinia. Quality control "specialists" will be developed in each group.
- Training of clients in product standardization and quality control will be required.
- Base payment to clients will be based on quality and quantity of output.

Market Response/Product Development Strategy

The operations/production strategy has a direct relationship to the product strategy in the marketing plan. Product development is market led because it responds to the features and benefits customers in your target market seek from the products and services they purchase (chapter 3). The product strategy attempts to meet customer wants through product development.

Thus, marketers and operations/production staff must work closely together to come up with new products and services or enhance existing ones that fit both market demand and production capabilities. A common error of many businesses occurs when marketing or sales personnel promise customers product specifications that production is unable to meet because it does not have the capacity, equipment, technology, expertise, or a combination of these to produce to specifications. In addition, some customer demands may not be cost-effective for a social enterprise to meet.

Rationale:
The next exercise is intended to help you coordinate the marketing and operations/production functions of product development, as well as to consider the cost implications. This exercise should be completed jointly by operations and marketing staff.

Production manager, marketing manager, production staff, PO business advisor, R&D, external consultant (if desired)

Conceiving a Product Development Strategy

- ▲ Begin with operations/production objectives (see exhibit 6N for an example from TARTINA). Then review your product strategy (chapter 5, Marketing Plan).
- ▲ Create a **Production-Market Response Matrix**. An example for TARTINA Enterprise's Mamba peanut butter is given in Exhibit 6P.
- ▲ For each product, list the stated customer "wants" one by one.
- ▲ Indicate how your social enterprise plans to respond to customer "wants" through its production or operations.
- ▲ Last, note the cost implications of incorporating the proposed changes.

Exhibit 6N: Strategies for Market Response/Product Development

Objective: Commitment to make necessary changes to respond in a timely manner to consumers' changing demands

- Production and marketing managers will meet weekly to discuss customer feedback on products.
- Clients will continue both to produce the Karapinia product and sell it to the artisan market in the locality surrounding the production center. This offers an excellent opportunity for direct feedback from customers to food processors.

Exhibit 6P: Production-Market Response Matrix for TARTINA Enterprise

Product 1: Regular and Spicy Peanut Butter

Customer "Want"	1. Greater consistency in taste and color.
Production Response	Improved standardization and quality control of peanut roasting through client training, specialization, and adherence to higher quality control standards.
Customer "Want"	2. Reduction in amount of oil that rises to the top of peanut butter. Three weeks after production, excessive amounts of oil are present.
Production Response	Short term • Closer coordination between sales and production units to reduce inventory storage time. Monthly sales targets and a production schedule have been prepared, which will aid this coordination. • The use of a fixative is not desirable because of overwhelming customer preference for an all-natural product, the need for an international food scientist to experiment with the addition of the fixative, and the increase in unit production costs. Medium to long term • Research into improved peanut varieties.
Customer "Want"	3. Continued competitive pricing.

Production Response	Short term • During their off-season, peanuts will be stockpiled. Cash flow projections have been prepared to forecast needed bulk peanut purchases to take advantage of harvest peanut prices. • Cost reductions in production and sales will be pursued. Medium to long term • Availability of peanuts will soon pose a problem for the project. Increasing local peanut supply will be required to meet growing peanut butter demand. This will also help reduce pressure on prices. International assistance has been identified that can help peanut farmers increase their yields.
Budget Implications	• Marketing Manager's salary has been increased to attract qualified candidates for this position. • Technical assistance in proper peanut storage and improvement of peanut varieties will be provided by specialists, whose fees will be covered by the Partners of the Americas organization. Peanut storage instruments and insecticide have been included in the budget for the storage component. Cost of materials for local testing of new peanut varieties has also been included.
PRODUCT 2: SWEETENED PEANUT BUTTER	
Customer "Want"	1. Potential market niche of children may have a preference for sweetened peanut butter. Production Response • Production team has already successfully produced a recipe for sweetened peanut butter. The grinder currently used for regular and spicy peanut butter, however, is not appropriate for the new type. Local technical assistance will provide information on appropriate equipment and its cost, installation, and use. • Prior to making the final decision on adding the sweetened peanut butter to the product line, the increase in the unit production cost should be carefully calculated to ensure that the sales price will cover this increase.
Budget Implications	• The above activities will be covered in the following budget line items: • Grinder • Technical Assistance: Consultants in production technique (2-3 days) • Research and development

Research and Development

Rationale:
Research and development is an invaluable part of your operations strategy because it allows for continual product improvement and responsiveness to the changing wants of your customers. R&D is often overlooked in social enterprise operations planning and, consequently, so are the expenses associated with it. Depending on the type of enterprise, industry, and research needs, R&D costs can be considerable. When developing your operations plan, therefore, it is prudent to factor in anticipated R&D and its projected costs, including technical assistance, development of prototypes, studies, product tests, etc.

Same as previous exercise

Crafting a R&D Strategy

▲ Return to your **Production-Market Response Matrix**, and add in R&D requirements opposite "production response." An example is given for Grenadia, a passion fruit jam, and Karapinia, both new TARTINA products, in Exhibit 6Q.

▲ Be sure that your R&D plans respond to stated customer wants.

- Rule of thumb: R&D is particularly important for new-product development or retooling of mature products; refer back to the product life cycle exercise in Chapter 5, Marketing.

▲ Last, note the cost implications (as opposed to projected dollar value) of incorporating the proposed R&D.

R&D specification is included in the Market Response/Product Development Section of the Business Plan.

Exhibit 6Q: R&D Strategy

Grenadia (Passion Fruit Jam)

Customer "Wants"	• Taste—will further bring out the taste of the passion fruit.
Production Response	• The jam production agent will add juice to the passion fruit jam that normally is put into passion fruit jelly. • Experimentation will be coordinated with the R&D agent.
R&D Budget Implications	• R&D agent will split his responsibilities with his production responsibilities. Line item is "ADE Prod/R&D Agent." • Products used in recipe experimentation will be charged to the R&D line item.

Karapinia

Customer "Wants"	• Presentation—reduce powder found at the bottom of the plastic bag.
Production Response	• The R&D agent, together with the production agent responsible for Karapinia, will experiment with reducing the powder.
R&D Budget Implications	• R&D agent will split his responsibilities with his production responsibilities. Line item is "ADE Prod/R&D Agent." • Products used in recipe experimentation will be charged to the R&D line item.

Information Sharing and Systems

Sharing information throughout the operations stages and production steps, as well as with other departments in the enterprise, such as finance and marketing, is critical for creating efficient operations. It is often in the sharing of information that social enterprise and development programs blunder. Exhibit 6R demonstrates problems that affect output when pertinent information is not shared with other links in the operations/production chain or related areas of the enterprise. These problems can be remedied though meetings, management information systems that track and disseminate details of enterprise activities, and other mechanisms that foster open communications.

EXHIBIT 6R: ENTERPRISE INFORMATION FLOWS

Communication Flow	Information Not Communicated	Result
Procurement ➠ Production	Late delivery of raw materials	Production stagnates/slows Cannot meet targets
Production ➠ Procurement	Production input out of stock	Production stagnates/slows Cannot meet targets
Production ➠ Purchasing	Need new equipment	Production stagnates/slows
Production ➠ Marketing	Capacity to produce	Unable to produce to customer specifications
Production ➠ Marketing	Costs to produce good/service	Products underpriced, losing $
Production ➠ Finance	Need new equipment	Production slowed; awaiting purchase authorization
Inventory ➠ Production	High inventory	Overproduction—spoilage, capital tied up in unsold goods
Inventory ➠ Sales	Inventory spoilage	Damage to reputation, lose time, $, customer
Inventory ➠ Sales	Product out of stock	Can't deliver customer order
Inventory ➠ Distribution	Number of units delivered	Oversell/undersell inventory No controls—shrinkage
Sales ➠ Inventory	Number of units sold	No accountability for sales No controls—shrinkage
Sales ➠ Production	Sales targets	Over- or underproduce
Marketing ➠ Production	Customer wants	Lose market share, sales decline
Finance ➠ Marketing	Cash tied up in stock	Shortages of cash to pay salespeople, promotion, sales fall

Enterprise Information Flows

Rationale:
This exercise identifies critical information links within your operations and production processes and to other areas of your business. It will help you think through strategies to improve communications.

Partner program manager, production manager, business manager, MIS specialist, PO business advisor, inventory manager, production staff, accountant, external consultant (if desired)

Streamlining Information Flows

- ▲ Look back over the process maps and narrative tables you developed for the **process**, **productivity**, and **capacity** exercises. What do these diagrams tell you about information requirements in one stage or step needed to complete other stages or steps?
- ▲ Use the productivity map to analyze which constraints resulted from a lack of information.
- ▲ Reflect on exhibit 6R, **Enterprise Information Flows**, for possible scenarios.
- ▲ Review exhibit 6A, **Information Flows for the Operations Plan**. Consider where critical information must be shared between functions. For example, there is an interdependency between production cost and price.
- ▲ Brainstorm ideas to improve information flows. For example, TARTINA has included weekly meetings between production and marketing managers as a means to improve market response in product development (exhibit 6N).
- ▲ Incorporate information-sharing techniques into pertinent parts of your operations plan.

Information Tracking or Management Information Systems

Rationale:
A good management information system (MIS) is vital not only for efficiency but also for instilling internal controls in production and operations and providing managers with important data. Information obtained in operations stages is fed into reports that give a macro view of business activities.

Management Information Systems can be either manual or automated, yet either way they must yield accurate and up-to-date information that informs management decision making on a daily basis. Operations managers can not rely solely on monthly reports that come from the finance department; however, data retrieval capabilities should be linked to the enterprise's accounting system.

A comprehensive "how to" for developing a strong MIS is a vast subject beyond the scope of this manual. Additionally, such a system must be tailored to the specific operations or production processes of the individual enterprise. Consult other sources or hire a professional to help you develop a MIS, either manual or automated, that will meet the particular needs of your enterprise. An example of information tracking (MIS) for TARTINA is given in exhibit 6S.

Exhibit 6S: Information Tracking (MIS)

Operations Stage	Form/Report	Responsible Party
1. Purchase raw materials and inputs 1.1 Fruit (for jam production)	1.1 None	1.1 Clients; verified by Production Manager or agents
1.2 Peanuts (Mamba) and labels, containers, other nonmarketing—related assets	1.2 **Sales Receipt—**records cost per marmite for peanuts + quantity purchase; cost per 100 containers + quantity; labels per 1,000, etc.	1.2 Approval: Business Manager; execution: Production or Marketing Manager (depending on item in question). Submitted to Accountant
2. Transport from purchase point to Colline	2. **Transportation Record—** registers mileage from purchase point	2. Driver; reviewed by Production Manager
3. Unfinished goods stored in inventory (peanuts and production inputs)	3. **Unfinished Goods Inventory Record—** registers the quantity of new raw materials and inputs placed in stock (silo: peanuts; storage room: inputs)	3. Inventory Manager; verified by Production Agent, submitted to Accountant
4. Production 4.1 Client payment	4.1 **Production Sales Record—**piece rate payment to clients	4.1 Prepared by production agents, verified by Production Manager, submitted to Accountant
4.2 Inputs and raw materials used	4.2 **Unfinished Goods Inventory Record—** records quantity of raw materials and inputs withdrawn for production	4.2 Inventory Manager; verified by Production Agent, submitted to Accountant
5. Finished products placed in finished goods inventory	5.1 **Finished Goods Inventory Record—**registers new inventory in stock 5.2 **Bin Card—**indicates date, batch number on product itself 5.3 **Physical Count** of inventory	5.1 Accountant 5.2 Inventory Manager 5.3 Inventory Manager, Production Agent

6. Transport to sales outlets/force in PAP	6.1 **Transportation Record—**mileage report 6.2 **Finished Goods Inventory Record—** records adjustment to inventory withdrawn for sales 6.3 **Bin Card—**removal of inventory, based on time in stock	6.1 Driver; verified by Production Manager 6.2 Marketing Manager; submitted to Accountant 6.3 Marketing Manager; submitted to Accountant
7. Sales in PAP	7.1 **Sales Record—**registers cash or consignment sales 7.2 **Weekly Summary Reports** of sales and terms of sale	7.1 Marketing Manager and sales force 7.2 Prepared by Marketing Manager; submitted to Accountant and Inventory Manager
8. Billing and collection	8.1 **Customer Invoice—**bills retail customers on accounts receivable for products. 8.2 **General Ledger (receivables)—**records customer payments on invoices	8.1 Accountant (billing department); submitted to Financial Manager 8.2 Accountant; submitted to Financial Manager

Enterprise business manager, accountants and finance professionals, MIS professional and PO business advisor

This section is related to developing systems.

Drafting an Information Tracking System

▲ With the assistance of a contracted professional or in-house MIS expert, develop forms and reports that correspond to the information-sharing needs of your operations and production process. A plan stating clear objectives in addition to who will be responsible is a recommended starting point (exhibit 6T).

▲ Records should be directed to pertinent areas of the enterprise, but foremost to marketing, finance, and senior management

▲ As in the previous section, much of the necessary information for developing a MIS can be obtained from earlier mapping exercises.

▲ Indicate individuals responsible for completing forms, verifying their completion, and managing the information.

▲ All information that has financial implications for the enterprise must be shared with accounting or finance.

▲ A good MIS can be expensive to develop. What are the cost implications of developing an MIS (see exhibit 6T)?

<u>MIS details are included in the Business Plan.</u>

Exhibit 6T: Development of Management Information System for TARTINA

The technical assistance (TA) requirements for an MIS include the following:

- First, technical assistance is needed for a better organization of the flow of information required for decision-making and tracking performance indicators, including necessary reports and division of tasks.

- Second, those responsible will require training in the computerization of the forms and reports. Staff should be able to computerize and modify the MIS tools to best serve the decision-making needs of the enterprise.

The first component of the MIS TA is best accomplished through the collaborative efforts of ADE and SC/Haiti, which are most familiar with TARTINA Enterprise and its information and decision-making requirements. The second training requirement, however, is most efficiently met through the use of external expertise. An initial group training is planned, with a period of on-site support to follow.

Cost Implications: U.S. $5,400

Internal Financial Controls

Rationale:
Internal financial controls are an inherent aspect of financial management and should be incorporated into the social enterprise's MIS and accounting systems. It is important that systems are transparent so that multiple users can readily see which financial transactions have taken place: how much money is owed, how much is incoming, and how much is outgoing in the business. Financial controls dictate the treatment of cash, collection of receivables, handling of payments to creditors and employees, and flag late receivables before accounts become delinquent. Most important, they serve as a system of checks and balances, preventing embezzlement and theft. Relying on monthly reconciliation of bank statements with financial statements is an inadequate form of financial control, because it allows far too much time to pass before a problem or a perpetrator can be identified. The key to developing strong systems is to separate duties related to handling financial transactions from record-keeping.

Enterprise business manager, accountants and finance professionals, MIS professional and PO business advisor

Establishing Internal Controls
In summary form respond to the following questions that apply to your enterprise:

▲ Who within the enterprise is responsible for financial oversight? Who does that person report to?

- ▲ What are the policies regarding the treatment and handling of cash? Is cash used to make purchases or pay bills on behalf of the enterprise? How are cash receipts recorded? Who within the enterprise is authorized to use cash?
- ▲ What security measures are taken concerning cash kept in the social enterprise for petty cash or retail use?
- ▲ What is the normal method for paying bills and receiving payments from customers (cash, checks, credit cards, money orders, etc.)? How are receipts and payments recorded? Who is responsible for handling these transactions?
- ▲ What are the policies for extending credit to customers?
- ▲ How are financial transactions on the operations side of the business reconciled with finance? How frequently is this done? By whom?
- ▲ What are the procedures for handling outstanding bills? When is an invoice considered outstanding?
- ▲ Are there penalties or finance charges on late payments?
- ▲ What reports are generated depicting financial status? How frequently are these reports produced? Who prepares them? Who reads them?
- ▲ What early warning systems have been designed to detect theft and late customer payments?

Internal Controls are included in the Business Plan.

Customer Service and Order Fulfillment

Customer service is important for every business, yet it is essential for the social enterprise that frequently struggles with problems of public image and operational efficiency due to its target population's limits. Convincing customers that they will receive professional customer service from your social enterprise may be a major challenge to gaining customer confidence. The reputation social enterprises have earned for poor customer-orientation may be unfounded, but it is often a reality in the minds of consumers who may perceive the social enterprise as an inefficient and cumbersome charity when problems occur. At the same time, customer are demanding better service (and are willing to pay for it), which offers social enterprises an opportunity to gain a comparative advantage over competitors if they make customer service a strategic priority.

Rendering excellent customer service is achieved by having clear policies and procedures, professional staff, and solid systems. Additionally, if the enterprise encounters problems with public perception, it may be tasked with creating a stronger customer-orientation image. This is a marketing challenge. (See Chapter 5.)

Customer service revolves around the following:

- efficient order fulfillment and processing
- ability to track and maintain accurate account information
- politeness and attitude of salespeople
- clear return policies

- maintenance and repair policies
- ease of payment (multiple options)
- reliability of service (do you do what you say you are going to do?)
- on time delivery
- the sense that complaints are heard and handled (customer feedback loop and market response)
- professional image that tells your customers you are a reliable business, not a charity

Business manager, accountants and finance professionals, MIS professional, marketing manager, sales staff, customer service manager (if applicable), inventory manager and PO business advisor

Customer Service Plan

What are your customer service objectives? What is your plan for achieving them (answer the questions that apply below):

▲ How are orders processed? Who is responsible? Who has oversight for processing orders?

▲ How is order information passed to relevant departments (inventory, billing--finance, etc.)?

▲ How is customer account information managed and tracked? How is responsible to recording this information? How has oversight for ensuring customer account information is accurate and up-to-date?

▲ How do customers receive products? Are they shipped? Delivered? Pick up by customers themselves? If shipped, what steps are taken to avoid damage or breakage?

▲ What is the expected turnaround time between order and customer receipt? Is there a policy for the maximum time needed to fill customer orders?

▲ How are late orders handled? Do customers receive a discounted price, free delivery, a credit on their next purchase?

▲ What are the return policies?

▲ What is the average rate of returns? What is the cost of returns?

▲ Are guarantees or warrantees extended for purchase of a product or service? What do they cover?

▲ Is there a formal process for grievances? How are customer complaints handled? Who has oversight for managing customer complaints?

▲ Is complaint information routed to pertinent departments (finance, marketing, MIS, inventory management, sales, etc.) so subsequent changes can be made?

▲ What type of customer service training and orientation do enterprise staff receive?

▲ How is customer service information gathered in operations and shared with marketing and vice versa?

Customer Service Information is included in the Business Plan.

Scheduling

In operations it is easy to squander both time and resources as a result of poor planning. Scheduling is an essential tool in the planning process, as it enables social enterprise managers to appropriate human resources, labor, material inputs, space, and time to best meet production targets.

SEASONAL SCHEDULING

Rationale:
Scheduling is particularly important if your social enterprise has seasonal fluctuations, driven either by production output for heavy selling periods or seasonal constraints that limit raw material acquisition. This seasonal information is incorporated into production planning to reflect upturns and downswings that will impact your business' production or operations.

Production manager, production staff, clients, business manager, PO business advisor

Preparing a Schedule Corresponding with Enterprise Business Cycles

▲ Refer to the industry analysis section in chapter 4. Recall which seasonal factors affect your business cycle. High seasonal demand? Access to inputs? In the industry analysis, how did you plan to respond to seasonal business cycles?

▲ Develop a timetable or matrix for the calendar year, with months or weeks on the horizontal row and products/services down the vertical column.

▲ The table should be labeled according to seasonal information it encompasses. Exhibit 6U shows an example of "harvest season" for raw material inputs for TARTINA products.

▲ Once you have mapped seasonal activity, schedule production/operations to respond to seasonality. The schedule plans what and how much the enterprise will produce during certain times of the year (see exhibit 6V, **Seasonal Production Response for TARTINA**) or what other support activities will be conducted during slow periods (see exhibit 6W).

Key to levels of seasonal activity:

None = Low = Medium = High =

EXHIBIT 6U: HARVEST SEASON BY PRODUCT

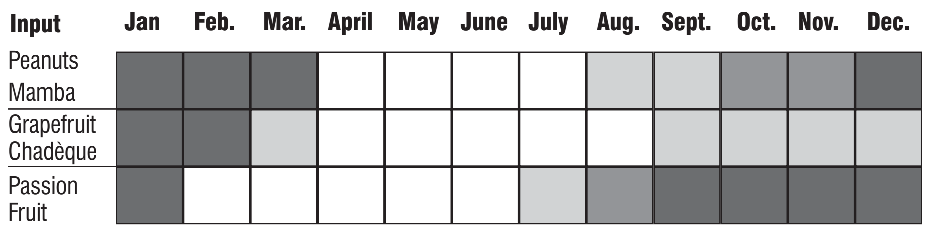


EXHIBIT 6V: SEASONAL PRODUCTION RESPONSE FOR TARTINA
(# of products/quality produced)

Input	Jan	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Peanuts* Mamba	1,797	1,797	1,797	1,320	1,320	1,173	1,173	1,393	1,393	1,393	1,393	1,797
Grapefruit Chadèque	1,000	1,000	600						600	600	600	600
Passion Fruit	980						400	700	1,080	1,180	1,080	980

* Production for Mamba has been year-round since the investment in storage silos, although production does dip moderately during periods when peanuts cannot be purchased on the market.

The following exhibit (6W) shows two services, provided by an eco-tourism enterprise, with distinct seasonal operations. Since the enterprise is located in the Southern Hemisphere, rafting season begins in October and ends in March; the busiest time is November through January because that coincides with vacation schedules. Before October the weather is too cold and the water too high to raft; after March the opposite occurs. During the winter season, this enterprise offers rain forest trekking services. Both services require support activities to prepare for the high season, that is, marketing, training and orientation of seasonal staff (trekking and rafting guides), and logistics planning.

Exhibit 6W: Seasonal Production Response for Eco-Touring Company in Brazil

Service	Jan	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
River Rafting	High	Medium	Low	None	None	None	None	None	None	Low	High	High
Staff Training	None	None	None	None	None	None	None	None	High	High	None	None
Logistics	High	High	None	None	None	None	None	None	Low	Low	High	High
Marketing	None	None	None	None	High	High	High	High	High	High	High	High
Trekking	None	None	None	None	Low	High	High	High	Low	Low	None	None
Staff Training	None	None	None	High	High	None	None	None	None	None	None	None
Logistics	None	None	None	Low	Low	High	High	High	Low	Low	None	None
Marketing	High	High	High	High	High	High	High	None	None	None	None	None

None = ☐ Low = ☐ Medium = ☐ High = ☐

Scheduling Labor

Rationale:
Labor needs also frequently fluctuate with seasons or business cycles. Scheduling labor must therefore be incorporated into planning to reflect upturns and downswings that impact your business production or operations.

Production manager, production, staff, clients, business manager

Planning for Needed Labor
Prepare a labor schedule that corresponds to your production targets and seasonality of the business cycle. Break down the schedule into a manageable time frame; TARTINA chooses to schedule production in one-week intervals.

- ▲ Include relative information in your schedule, such as the supervisor in charge, output per day, and tasks to be conducted (not used for TARTINA because enterprise groups are responsible for all steps related to producing one type of good). A column that tracks actual production levels against projected levels is advantageous for purposes of analysis and setting future targets.
- ▲ Exhibit 6X shows an example for TARTINA Enterprise.
- ▲ This information will be used in the human resource plan.

Exhibit 6X: Labor Schedule Example

Month	Wk	Products to Produce	Quantity (units) Targets	Output per Shift*	# of Labor	Group Leader	Prod. Agent	Realized	+/-
Jan-00	1	Mamba Karapinia	450 500	90 100	6 4	VV	Marcel Denise	465 315	+15 -185
	2	Mamba Karapinia	450 500	90 100	6 5	PL	Marcel Denise	448 550	+2 -50
	3	Mamba Karapinia	450 500	90 100	6 5	PL	Marcel Denise	470 506	+20 -6
	4	Mamba Karapinia	447 500	90 100	6 5	VV	Marcel Denise	432 470	+15 -30
Total		Mamba Karapinia	1,797 2,000	360 400				1815 1841	+18 -159

*One shift per day, five shifts per week.

TARTINA work groups are comprised of 5-6 clients. On days when fewer than 6 clients were scheduled for each product, production targets were not met. TARTINA production staff may want to revisit its current labor schedule so that output realized is more in line with targets projected.

Scheduling for a Service Business

Timebound: Service businesses are extremely timebound, limited by the number of hours available when a service can be rendered. Time is thus extremely "perishable," meaning that it can easily be lost or wasted if mismanaged. In a service enterprise the major cost is expertise, that is, the people providing the service; if they are idle, the business will lose money.

Strategy: Scheduling is an important part of time management in service businesses. Use Gantt charts or calendars to project the number of service offerings, the times when they will be rendered, and corresponding staff needs. Cross-training service staff so they can do other things to fill excess capacity when rendering services is low—such as help with R&D, marketing, or administrative details—improves productivity and reduces wastage. Contracting for professional expertise during busy seasons is another time management option for service businesses. Finally, developing standard service packages helps increase efficiency and drive down costs.

Gantt Chart

A Gantt chart (exhibit 6Y) is a good tool for planning service delivery and administrative processes. There are no exercises in this chapter requiring a Gantt chart; it is presented only for demonstrative purposes. Gantt chart lines can easily be added to reflect individual staff linked to operations or production outputs, providing a way to track and evaluate productivity of human resources (see chapter 7). Gantt charts are easy to make, and software to create them is inexpensive.

Exhibit 6Y: Gantt Chart for Training Institution

Project: New-Product Development "Business Plan Training Series"			Project Schedule Period: First two quarters of Year 1999					
Phase	Activity	Hours	Jan.	Feb.	Mar.	April	May	June
1	Survey training needs/ wants of target market							
	Develop new training module concept based on needs							
	Contact for consultant to provide TA to develop							
	Develop curriculum							
	Logistics planning							
	Marketing							
	Hold introductory or test training							
	Customer satisfaction/ evaluation							
2	Retool training based on evaluation feedback							
	Market new product							
	Logistics planning							
	Train staff on new product delivery							
	Launch new training product							
	Customer satisfaction/ evaluation							
3	Standardize training product							
	Develop accompanying materials							
	Train staff on final product delivery							
	Market aggressively							
	Hire contract staff							
	Begin regular multiple training series							

Inventory Management

Inventory—product that is either completed or in some stage of production and is to be sold in the normal course of the enterprise's business.

Shelf life—length of time before a good spoils or becomes obsolete.

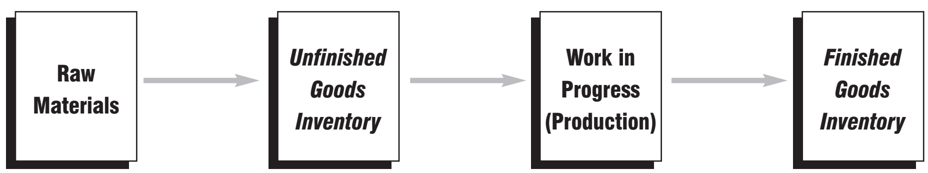
Shrinkage—theft.

Unfinished goods inventory— also called *work in progress,*—the portion of inventory that is in the production process but is not yet a finished good.

Finished goods inventory—completed products stored in inventory and ready for sale.

Inventory management is an important aspect of enterprise management. The type of product your social enterprise sells will determine how you stock and distribute your inventory. Some businesses must keep surplus stocks on hand to minimize production delays and avoid shortages, particularly during high-volume sales periods like holidays. Those that sell perishable products must turn over inventory rapidly and keep precise records of how long each product has been stored to avoid spoilage. Natural peanut butter is such a product and because its oil separates within a few weeks of manufacturing, it cannot sit in a stockroom for long periods of time. Jam, on the other hand, has a ***shelf life*** of two years, so Chadèque and Grenadia can be stored and distributed when the raw material is no longer in season, which prevents disruptions in sales (and keeps customers happy). Another important factor is that holding inventory costs money. Unsold stock means that capital that could be used elsewhere in the business is tied up in inventory, which has repercussions for cash flow. Managing inventory in a social enterprise requires a delicate balance because finance usually wants inventory levels low while marketing wants ample sales stock on hand. Finally, good inventory management acts as a control system that prevents ***shrinkage***, or loss due to theft.

Inventory Flow Diagram



Bin Cards

To the manager of a modern business, bin cards probably seem archaic, but for a social enterprise that are not automated, they are a reliable and simple method of inventory management. Simply attach a card to the product indicating the batch or lot number and date the product is placed in the finished goods inventory. When marketing managers remove inventory for sale, they select it by date. Bin cards are particularly useful when managing perishable items or seasonal products. They also serve to isolate lots or batches that have defects or have suffered damage. Bin cards are also used in accounting to record inventory valuation.

Tying inventory to sales and production is one method of projecting necessary inventory levels. Exhibit 6Z show an example of such a system. Sales and inventory plans are reconciled with actual figures and built into the MIS. This information is used as well for scheduling production. Ending inventory is subtracted from sales projections to determine the amount that must be produced the following month (see production schedule, end of this chapter).

EXHIBIT 6Z: MONTHLY SALES AND INVENTORY PLAN

Month: December			*Prepared by: Marketing Manager* *Submitted to: Accountant and Inventory Manager*			
Sales Agent	**Product**	**1. Monthly Sales Objective (Units)**	**2. Beginning Month Inventory**	**3. Planned Production**	**4. Total Product Available for Sale**	**5. Expected Ending Inventory at Month's End**
Martine Du Pré	Mamba	320				
	Chadèque	110				
	Grenadia	150				
	Karapinia	400				
Luc Dominique	Mamba	280				
	Chadèque	80				
	Grenadia	100				
	Karapinia	400				
Catherine Gillet	Mamba	400				
	Chadèque	150				
	Grenadia	150				
	Karapinia	400				
Isabelle Benoit	Mamba	300				
	Chadèque	100				
	Grenadia	200				
	Karapinia	400				
Patrice Michaux	Mamba	300				
	Chadèque	160				
	Grenadia	150				
	Karapinia	400				
		(1)	**(2)**	**(3)**	**(2) + (3)**	**(4) - (1)**
Total for Month	**Mamba**	**1600**	**39**	**1,797**	**1836**	**236**
	Chadèque	**600**	**87**	**600**	**687**	**87**
	Grenadia	**700**	**123**	**1,080**	**1,203**	**503**
	Karapinia	**2000**	**346**	**2,000**	**2,346**	**346**

Column 1: *Sales objective*—taken from monthly sales plan for each sales agent.
Column 2: *Beginning month inventory*—Finished Goods Inventory Record (exhibit 6S) verified with physical count.
Column 3: *Planned production*—taken from the Monthly Production Plan for each product (exhibit 6V)
Column 4: *Total product available for sale*—Column 2 + Column 3.
Column 5: *Expected ending inventory at month's end*—Column 4 - Column 1.

Keeping Mamba inventory low is important to prevent the product from spoiling. Grenadia, on the other hand, can be stockpiled to sell during seasons when it is not produced.

Production manager, inventory manager, production staff, clients, PO business advisor, marketing manager

Plotting An Inventory Management System for Your Enterprise

Answer the following inventory management questions:

- ▲ Who is responsible for managing inventory?
- ▲ What is the minimum level of inventory to be maintained at any one time?
- ▲ What is the minimum time needed to get raw materials from suppliers?
- ▲ What is the minimum amount of time necessary to produce goods ordered?
- ▲ What is the minimum time needed to distribute products to customers?
- ▲ What are the reasons for holding inventory (minimize production delays, maximize sales efficiency, avoid shortages, strategically place product on market during certain times of the year, respond to known demand, etc.)?
- ▲ What management information system does your social enterprise use? Manual or automated? How is inventory information linked to the MIS (see exhibit 6S, Information Tracking)?
- ▲ How is inventory management integrated with finance/accounting?
- ▲ How do you track inventory to avoid spoilage or overage?
- ▲ What steps do you take to reduce theft of inventory?
- ▲ What inventory control steps does your social enterprise use (such as MIS coupled with routine physical counts)?

Inventory Management System included in the Business Plan.

Production/Operations Financials

Deducing Costs

Rationale:
Operations and production costs are a major part of social enterprise expenses. Thus, delineating costs helps the social enterprise manager control them and set production targets that cover these costs.

Partner program manager, PO business advisor, production manager, financial manager, business manager

Figuring Out Your Costs

- ▲ Respond to questions in the following sections on: **Facilities, Labor, and Materials and Supplies**.
- ▲ Complete the equipment schedule in sections entitled **Equipment**; an example is provided for TARTINA in Exhibit AA.

Facilities (Space)

- ▲ What is the condition of the facilities? Is there a need for major improvements? What type of improvements?
- ▲ Do you rent or own your building and/or plant? What are the costs associated with this?

▲ Are maintenance costs regular costs, or do they vary between high and low production periods?

▲ What are your average monthly utility costs for electricity, water, gas, etc.; do these costs vary according to production levels?

Labor

▲ Do you use variable (contracted or wage) labor?

▲ What are your total labor costs? What percentage is variable labor costs and what percentage is fixed labor costs?

▲ What training for labor is needed? How much does training cost?

▲ How many salaried professionals do you have working in the operations of your social enterprise? What are their total costs?

▲ What training is included for professional staff? What are the costs associated with this?

Raw Materials and Supplies

▲ What quantity of raw materials do you need to produce the desired amount of output?

▲ What is the cost of your raw materials?

▲ Are raw material inputs available year-round? If not, are there additional costs related to seasonal raw material acquisition, such as storage or stockpiling, off-season purchase, or advance purchase?

Equipment

▲ When will your equipment need to be replaced?

▲ What type of equipment will you purchase? When?

▲ Use the Inventory Valuation Schedule, in the box entitled **"Useful Life of an Asset."** This information will also be used in your financial plan (chapter 8) to calculate depreciation.

EXHIBIT AA: TARTINA PRODUCTION EQUIPMENT (PARTIAL LIST)

Type of Equipment	Condition	Number	Owned Leased	Date Purchased	Total Cost	Monthly Payments	Anticipated Replacement Date
Grinder	Good	2	Owned	May 1998	$1,212	None	May 2002
Electric Generator	Excellent	1	Owned	Jan 1998	$2,277	None	Jan. 2008
Blender	Good	3	Owned	May 1998	$88	None	May 2008
Mixer	Good	3	Owned	Jan. 1998	$310	None	Jan. 2008
Moped (used)	Fair	2	Owned	March 1999	$5,150	None	Jan. 2001
Furniture	Good	8 pieces	Owned	April 1997	$394	None	April 2002
Gas Burners	Good	4	Owned	Nov. 1997	$150	None	Nov. 2007

Useful Life of an Asset

In order to calculate annual depreciation for plant and equipment, it is necessary to determine "their useful life" or years of productive use the asset will provide. The equation begins with the "scrap value" of the asset, the approximate worth if resold as waste at the end of its expected life. Scrap value depends on to what extent original materials or components retain value after the asset can no long be employed for its intended use. For example, the scrap value for a computer is zero, since none of its materials or components can be reused, whereas for a car, steel and spare parts have resale scrap value.

Formula: $$\frac{\text{(Price of Asset - Scrap Value)}}{\text{Years of Productive life}}$$

Check with local government tax offices or commerce departments in the country where you work to confirm if an official depreciation schedule exists. In many countries, the generally practiced asset depreciation schedule follows:

Fixed Asset	Life	Annual Depreciation
Machinery	10 Years	10%
Building	20 Years	5%
Furniture	5 Year	20%
Vehicle	7 Years	15%

Depreciation Schedules also estimate when you will need to replace equipment.

PRODUCTION/OPERATIONS BUDGET

Once you have estimated all your operations/production costs, you are ready to prepare an operations budget.

Rationale:
The operations/production budget gives you important expense-side information to project social enterprise operations costs. Operations budget information is filtered into ***financial statements*** (chapter 8) and used to project enterprise profit or loss. Actual production costs (or budget actuals) equal ***costs of goods sold***, which appear in the ***income statement (profit and loss statement)*** and are used to determine the gross profit margins. Most social entrepreneurs are experienced in budget forecasting and know that a budget is a working document. If estimates are too high when measured against projected sales revenue (chapter 5), probe budget line items to determine which ones can be pared down, or make adjustments to price or sales volume (see break-even analysis, chapter 5).

Calculating Overhead

Some social enterprises split ***overhead*** to distinguish between factory and operating overhead. The former includes only those fixed costs associated with producing a good or delivering a service, whereas the latter includes fixed cost functions, such as accounting, secretarial, marketing, management, etc.

There are several reasons why it is important to distinguish between the two types of overhead. First, factory overhead is included in the calculation for costs of goods sold—all costs to make a product or render a service—used in marketing and finance. Second, tracking unit costs before and after operating overhead is one means to incrementally benchmark advancement toward sustainability (see chapter 8, Financial Plan). Third, apportioning overhead can be beneficial if you have several branch offices or plants and want to compare costs between them. And finally, this method will alert you to programs that have disproportionately high operating costs, not uncommon in businesses run by nonprofits.

Same as previous exercise

Preparing an Operations Budget

- ▲ Fill in the operations/production budget template provided in exhibit 6BB. A copy of our template can be found in *The Workbook* or create your own.
- ▲ If your social enterprise already has an operating history, use past cost information. If not, verify that projected expenses are grounded on market prices.
- ▲ Calculate costs for each line in item by month.
- ▲ Total fixed production costs (factory overhead), and variable costs.

Overhead—the costs of operating a business—such as utilities, administrative offices, supervision, insurance, and maintenance—that cannot be linked directly to products or services produced and do not vary with any fluctuations in production volume. Overhead can be separated to distinguish between factory overhead, or fixed costs associated with production, and operating overhead, or fixed costs or **general and administrative expenses** for operations other than production.

Financial statements—the balance sheet, income statement, and cash flow statement (and sometimes owner's equity), which together provide a fair portrayal of a company's financial condition at the end of an accounting period and the result of operations for the accounting period.

Costs of goods (COGs) sold—Costs of inventory sold during an accounting period by the selling enterprise. COGs include all costs to make a product or render a service: labor, raw materials, operations, factory overhead, etc. It is important for social enterprises to list costs of goods sold in their income statement.

Profit and loss statement—a financial statement that summarizes the amount of revenue earned and expenses incurred by a business entity over a period of time; also called an **income statement**. In nonprofit accounting, the profit and loss statement is sometimes referred to as the statement of activity.

EXHIBIT 6BB: PRODUCTION/OPERATIONS BUDGET

COSTS PER MONTH	AMOUNT	
Factory Overhead or "Fixed Costs"	**Per Month**	**Annual**
Facilities		
Monthly rent/mortgage payment		
Improvements		
Utilities		
Average monthly utilities		
Maintenance		
Service and repair		
Equipment		
New or replacement equipment		
Depreciation		
Labor		
Production worker (salaries + benefits)		
Management and staff (salaries + benefits)		
R&D*		
Technical assistance		
Other		
Training		
Other		
Total Factory Overhead		
Variable Production Costs		
Variable labor		
Wage or rate		
Production bonuses		
Production inputs		
Raw materials		
Other inputs		
Variable utilities		
Gas, electricity, water, etc.		
Waste or spoilage		
% of estimated product loss		
Transportation (freight)		
Total Variable Costs		
TOTAL OPERATIONS EXPENSES		

Budgeting for Research and Development

R&D falls under the fixed-costs category, and budgeting for it depends on the industry. If your social enterprise operates in a technology-driven or trend-based industry (such as fashion), your research and development costs will probably be substantial. The diagram in exhibit 6CC plots various industries by their R&D requirements. The case of the dynamic computer industry is obvious; industries driven by patents, like the pharmaceutical industry, also require ample R&D. On the other hand, the tire industry has remained relatively unchanged for years. It is likely that most social enterprises will have low R&D costs; still, the potential costs are important factors to consider during your budget preparations, especially to avoid shocks down the road.

Exhibit 6CC: R&D Requirements

Computers	Pharmaceuticals	Frozen Foods	Tires
High			Low

Planning Production Output

Setting Numeric Production Targets

Rationale:
Setting annual targets directs production by establishing quantifiable goals (units to be produced and the cost of production).

Exhibit 6DD: Numeric Production Targets for TARTINA

Objective: Production targets of 62,500 units for a total cost of U.S. $45,974

In exhibit 6EE, four months are shown in addition to totals for the year comparing sales targets against production targets. Here it is clear that production targets correspond to sales targets. Slight discrepancies occur between the two to accommodate seasonal ebbs and flows and inventory management. Variable production costs are inputted from the previous budget exercise or the variable cost break-out exercise conducted in chapter 5.

Exhibit 6EE: Sales and Production Targets for TARTINA

Annual Sales Targets[9] for TARTINA Enterprise				Annual Production Targets for TARTINA Enterprise			
Month	**Quantity**	**Variable Production costs in LC[10]**	**U.S. $**	**Month**	**Quantity**	**Variable Production costs in LC**	**U.S. $**
Apr-99	4,400	54,400	3,297	Apr-99	4,120	35,540	2,154
Aug-99	4,000	57,300	3,473	Aug-99	4,073	45,554	2,761
Dec-99	4,900	83,800	5,079	Dec-99	5,377	75,854	4,597
Apr-00	6,400	99,300	6,018	Apr-00	3,694	22,433	1,360
TOTAL	**62,500**	**973,100**	**$58,976**	**TOTAL**	**62,500**	**758,570**	**$45,974**

[9] For all TARTINA products.
[10] LC = Local Currency

Same as previous exercise

Setting Production Targets

- ▲ Set targets for the number of units to be produced during the year.
- ▲ Calculate total variable production costs required to achieve annual output targets.

PRODUCTION SCHEDULE

The production schedule is the center of operations plan; it is the strategy you will employ to meet your annual targets. The production schedule details the amount of each good to be produced, and fixes it to a timeline (see exhibit 6GG). Of equal importance, it gives you valuable information needed to manage your cash flow. A monthly production plan should be prepared by the production manager based on input from the marketing manager.

Devising a production schedule requires taking the sales plan and working backwards to the level of finished goods inventory needed to satisfy sales targets. An example is provided in exhibit 6FF. Production and marketing should work together to ensure that seasonal fluctuations are reflected in both sales plans and production schedules (see seasonal scheduling in this chapter).

EXHIBIT 6FF: DETERMINING PRODUCTION FOR MAMBA (FEBRUARY 2000)

PLANNED SALES (FROM SALES TARGETS)	1700
PLUS REQUIRED INVENTORY*	150
LESS BEGINNING INVENTORY	103
EQUALS PLANNED PRODUCTION	1,797

* Surplus stock to hold over during high sales periods, when raw materials are not available for production, or as a "safety stock" to avoid running out.

Rationale:

A production schedule is a tool to ensure that an adequate quantity of goods is being produced to suffice the needs of sales. It also helps anticipate outlays of cash needed for production. Finally, a production schedule benchmarks incremental progress toward achieving final targets, thus measuring whether you're on track.

Same as previous exercise

Developing a Production Schedule

- ▲ Establish a production plan **for each product** that demonstrates how you will achieve stated production targets.
- ▲ Use the worksheet in *The Workbook* or create your own.
- ▲ Schedule by month for the year (or corresponding to your sales targets timeline). Tracking periods of longer than one month leaves too much margin for errors to

occur and too little time to correct them when they do. Internally, production agents should have daily and weekly production schedules so that they can keep very close tabs on realizing output objectives.

▲ List a column for production costs in whatever currency is consistent with other enterprise financial reports and a column for per-unit costs.

▲ Follow the TARTINA example in 6GG.

Production schedule is included in the Business Plan.

EXHIBIT 6GG: ANNUAL PRODUCTION SCHEDULE FOR MAMBA PEANUT BUTTER

Month	Quantity	Variable Unit Costs	Monthly Costs in Local Currency	Monthly Costs in U.S. $
Apr-99	1,320	19.5	25,740	1,560
May-99	1,320	19.5	25,740	1,560
Jun-99	1,173	19.5	22,874	1,386
Jul-99	1,173	19.5	22,874	1,386
Aug-99	1,173	19.5	22,874	1,386
Sep-99	1,393	19.5	27,164	1,646
Oct-99	1,393	19.5	27,164	1,646
Nov-99	1,393	19.5	27,164	1,646
Dec-99	1,797	19.5	35,042	2,124
Jan-00	1,797	19.5	35,042	2,124
Feb-00	1,797	19.5	35,042	2,124
Mar-00	1,977	19.5	38,552	2,336
Apr-00	594	19.5	11,583	702
TOTAL	**18,300**		**356,850**	**$21,627**

Social Impact Assessment and Monitoring Systems

Rationale:

Affording economic opportunities to disadvantaged populations through a social enterprise is a means to have a deep positive impact on their lives. Measuring social impact is important for managers to evaluate effectiveness in reaching enterprise social goals. Donor-investors are also interested in seeing increased social impact in the enterprise programs they fund. Unfortunately, quantifying and measuring social value creation is difficult due to its frequently elusive nature. For example, how does one capture results such as peace of mind, increased confidence or self-esteem, which are often realized by social enterprise programs? Although social entrepreneurs may never succeed in quantifying all levels of impact, it is possible to measure certain social indicators with relative accuracy in order to assess the social value created by the enterprise.

Social impact assessment and monitoring flows from social impact objectives set in chapter 2; it is your internal system to track the accomplishment of your stated social objectives. Many social entrepreneurs will track other indicators as a means to develop and test their systems. Indicators vary widely among social enterprises depending on the type of client the enterprise serves and the impact it is trying to achieve.

This section concerns the need to include a system to monitor and assess social impact in your social enterprise's operations. It is does not provide concrete methodological explanations other than some examples, which may or may not apply to your program. Several methodologies have been developed to provide social entrepreneurs with essential tools to measure social value creation.[1] Examples of impact indicators in this section are grossly oversimplified and provided for illustrative purposes only (exhibit 6HH).

Exhibit 6HH: Examples of Social Impact Indicators for the Social Enterprise

Direct Impact Indicators (result of social enterprise)

Indicator	Quantified by
Scale	Total number of clients receiving service
Employment creation	Jobs created or work hours created
Work autonomy	Number of clients per supervisor or # of supervisory hours
Net income	Changes in income per client
Income adequacy	1) Unable to meet basic needs; 2) able to meet basic needs; 3) beyond basic needs; 4) beyond basic needs + savings
Skills acquisition	Level of difficulty of skill or number of skills learned
Assumes greater responsibility	Internal promotion
Wealth accumulation	Monetary value of assets accumulated including savings deposits

[1]For additional reading on methodologies to measure social impact, we recommend: the chapter entitled "Social Return on Investment: Exploring Aspects of Value Creation in the Nonprofit Sector," by Jed Emerson, Jay Wachowicz and Suzi Chun, from *Investor Perspectives*, Roberts' Foundation, 2000, SF, CA; and "Learning from Clients: Assessment Tools for Microfinance Practitioners," *Assessing the Impact of Microenterprise Services (AIMES)*, by The SEEP Network, January 2000,Washington, DC.

Indirect Impact Indicators (result of increased income, adjunct programming or employment benefits)

These indicators are often difficult to measure and may require substantial time to see meaningful results.

Indicator	Quantified by
Improved housing	Own permanent housing (rented room, apartment), larger house, safer neighborhood, etc.
Quality of diet	# of meals per day, protein eaten per week, quality/nutritional value of food eaten
Increased autonomy	Improved self care, minimal assisted living, own bank account
Access to health care	Health insurance, money for health care, health service provided through program, etc.
Improved health	Fewer sick days, fewer hospitalizations, less medication, etc.
Access to Education	Classes or training offered by enterprise or parent organization, tuition reimbursement or educational incentives offer, time provided for classes
Improved Education	Increased literacy rate, received GED, reading at X grade level, new skills (other than skills related to employment)
Increased functionality	***Soft skills***—communications, punctuality, ability to work with team, stable mood/frame of mind, concentration

Soft Skills—social and interpersonal skills that clients may be lacking due to their disadvantaged circumstances.

Impact Indicators for Enterprises Providing Services to Self-Employed Persons

Business complexity	Trade, service, production, agriculture, combination
Status of business	Nonregistered, registered
Business space	Ambulatory, stationary-rented, stationary-owned
Seasonality of business operations	Months during the year business operate
Number of employees	Employs owner only, employs # of family members, employs # of externally hired employees
Profitablility	Sales growth, net income, gross profit margin

Helpful Hints for Creating an Impact Assessment and Monitoring Systems

- **Begin With a Baseline Study**

  The baseline study measures target population before they become beneficiaries of the social enterprise program. Gather baseline on the social impact information you intend to monitor. Questionnaires, survey tools and interviews may be used to triangulate responses and ensure you are getting an accurate picture. Be consistent in the tools you use for "client intake" in your baseline study.

- **Well-Defined Indicators**

  It is important that indicators are clearly defined and understood by those who collect information as well as by those who use it. The strength of an impact monitoring system is dependent on the depth of understanding on which it is built. If indicators are ambiguous, interpretation of data will not be meaningful. If you cannot set concise parameters to succinctly measure increases in social impact understood by all users, discard the indicator.

- **Systematic Gathering of Information Linked to an MIS**

  Enterprise staff with regular direct client contact (i.e. production supervisors or loan officers) should be charged with systematically gathering impact information as part of their responsibilities. Data is then entered into a Management Information System (MIS) that can be viewed by different users. This is a sound method of creating a measurement system that can be used regularly by enterprise staff and management.

- **Time Savvy**

  Monitoring social impact can be time consuming! Limit time dedicated to data collection and data entry to the minimum necessary to track core impact indicators. Running the enterprise and working with the clients should take the majority of the staff time. Significant additional effort in impact monitoring may lead to more quality data being collected, yet detract from the program itself.

- **Data Interpretation Supported by Dialogue**

  Data alone is often insufficient to interpret social impact. For example, in one of Save the Children's programs, a number of clients reported increases in family food expenditures; however, the data was unable to explain why these increases occurred (i.e. higher disposable income, increased food prices, change in number of dependents, seasonal factors, economic factors outside the country, etc.). Enterprise staff conducted interviews with clients to augment data and improve accuracy of their analysis.

- **Appropriate Tools/Sample Size**

  Several impact gathering methods and measurement tools have been developed. It is essential to have the right mix of surveys, interviews, questionnaires, data checklists and the appropriate sample size to validate findings. Consistent use of tools is important when conducting longitudinal studies, yet inconclusive data (as in the case above) may indicate methodological gaps necessitating a change in one tool or different combination of tools. Hence flexibility is also important in the course of developing a reliable impact assessment and monitoring system.

- **Case Studies**

  Case studies personalize the account of your clients; they give clients a public face and create reader empathy and understanding that statistics cannot. They also make the story and challenges of your social enterprise vivid to a larger audience. Case studies serve dual purposes: anecdotal measures of impact for donors, investors and peers, and as marketing and public relations vehicles. Case studies also substantiate statistical data. Save the Children has learned that conducting detailed longitudinal qualitative case studies with a sample of clients strengthens social impact monitoring.

- **Balanced Methods**

  A balanced approach using both quantitative and qualitative data is necessary to accurately capture changes in social impact. Each method has advantages and disadvantages, and must be evaluated on its merits for gathering the type of information you want to measure. To make your impact assessment and monitoring system effective use a combination of the best quantitative and qualitative methods.

- **Imprecise Science**

  Until significant methodological inroads have been made, assessing and monitoring social enterprise impact will remain an imprecise science. Therefore, social entrepreneurs are tasked with trail blazing: testing and developing impact measurement systems to satisfy the needs of their donors and enterprise management. Hopefully, social entrepreneurs will share their social impact monitoring lessons and successes through documentation, conferences and other forums in order to develop best practices.

Business manager, partner or PO social program mangers, staff with direct client contact, MIS professional, PO business advisor, external statistician or impact specialist (if desired)

Developing Impact Assessment and Monitering Systems

In summary form respond to the following questions:

- What kind of baseline information will be gathered from clients entering your social enterprise? How will baseline information be collected? (Attach samples of baseline tools in business plan appendices.)
- What social indicators will you routinely track? How will indicators be quantified? How frequently will social impact information be collected? Using which tools? (Samples of interview guidelines, questionnaires, surveys, etc., can be attached in the business plan appendix.)
- What does this social impact information tell you about your enterprise?
- Who will be responsible for gathering impact information? Analyzing it?

- ▲ What provisions will be taken to ensure impact information is accurate and appropriately interpreted? Is there a system of checks and balances or a means to triangulate information?
- ▲ How will you evaluate your impact assessment and monitoring system?
- ▲ How will social impact information be used by management and staff? What types of programmatic decisions will be based on this information?
- ▲ impact assessment and monitoring be linked to an MIS? If so, how will this work?

Impact Assessment and Monitoring Information is included in the Business Plan.

TARTINA client-producers

The Human Resource Plan

Chapter 7

Chapter 7

"The people are a [social enterprise's] most valued resource."

— *Unknown*

Overview: People are the heart of every business. Especially in light of the tension between social and economic goals, it is overwhelmingly the right mix of high-quality people that ensures the success of a social enterprise. Talented, well-qualified people are needed to handle the occasionally tangled enterprise reins and manage the realization of its targets. For this reason, investor-donors ask that résumés be attached to proposals and give generous scoring weight to enterprise programs staffed with competent people. Indeed, the same is true in the private sector, where many venture capitalists base their investment decisions more on the strength of the skills and experience of a company's management and employees than on its products or services.

Capacity building is a critical piece of the social enterprise to create a sustainable and viable venture. How your program is structured among donors, the parent organization, field offices, the implementing partner, the enterprise, and clients has huge implications for the success of the enterprise. The multiple layers in social enterprise programs add complexity, and a lack of clarity about the **roles and relationships** of these actors can convolute business operations and diffuse accountability. Attention must also be given to **training** and **technical assistance** as they apply to skills transfer among the target population, enterprise managers, and technical specialists.

Capacity building—the act of transferring skills or management knowledge through training, technical assistance and applied learning. Capacity building occurs on two levels. Client capacity building refers to hard and soft skills development aimed to increase clients' employability, economic security and self-esteem. In some cases, clients are also trained in management. Institutional capacity building transpires at the level of the social enterprise. It is the supported process of transforming a nonprofit program into a business. Management capability of nonprofit and business professionals is developed to simultaneously achieve the enterprise's financial and social objectives.

Human resource requirements for social enterprises often fall outside the realm of traditional development professionals, favoring functional skills acquired in the private sector over those of project managers, development generalists, or technical professionals in specialties like health, education, or emergency response. Even professionals with experience in "income-generating projects" or "microcredit" often do not have the sophistication in financial and business management and strategic planning needed for a prosperous social enterprise. Striking a balance among staff members who possess both hard skills and share the enterprise's social values can be challenging. Finding nontraditional development staff requires new **recruitment strategies** and **incentive programs** to retain employees.

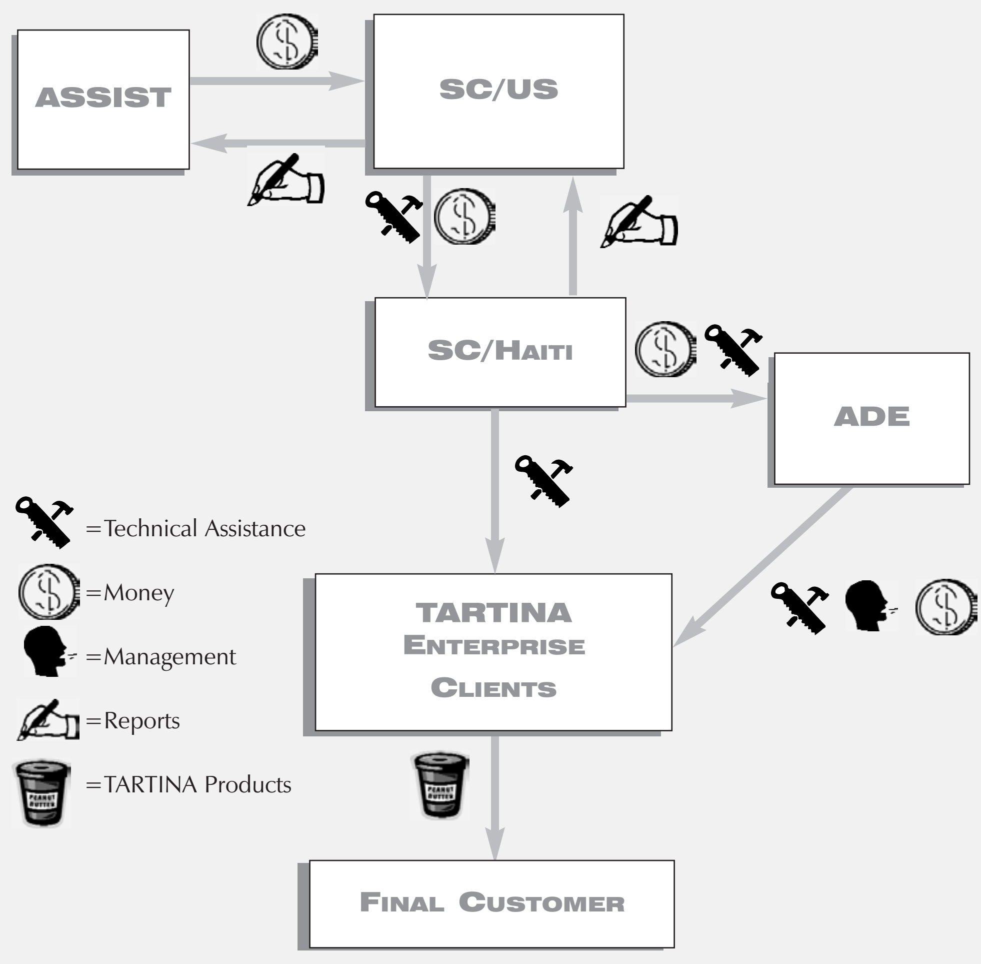
Social Enterprise Actors

There are several layers of actors in social enterprises, which can complicate program execution and blur roles and responsibilities. First, there is the *target population*, the poor and disadvantaged people whose income or economic opportunity social enterprise programs seek to improve. Second, there is the *donor*, to whom the parent organization is accountable for reaching certain targets stated in the project's design. Third, there is the *implementing partner* (nonprofit, private sector), whose capacity to execute is often largely dependent on the technical and financial inputs provided by the parent organization (PO). Fourth, there is the social enterprise itself, which is being developed in the course of the program. And last, there is the *target market*, the customer who is purchasing the final product or service that the social enterprise or the self-employed client is selling. To some extent, all social enterprise actors are "customers," so it is imperative to delineate who is serving whom, and their respective responsibilities, early on.

Sorting Out Who's Who

Rationale:
Our social enterprise experience has shown that a lack of clear roles and responsibilities leads to duplication of efforts, tensions around authority issues, and low efficiency. Identifying the layers in your program structure will help you avoid certain pitfalls down the road. In Haiti, we were surprised to discover that six levels of actors were involved in the social enterprise program. The following two-part exercise is intended to help you clarify these roles and responsibilities in your enterprise.

Exhibit 7A: Enterprise Actors Diagram for Save the Children/Haiti



Save the Children's Enterprise Program Structure

TARTINA Enterprise is centrally funded by a grant from a donor, ASSIST. SC/US manages the grant, acting as a financial conduit and providing some technical assistance to the SC field office in Haiti. SC/Haiti manages the program, with overall responsibility for developing capacity of the implementing partner, ADE (an nonprofit), to create a viable enterprise, TARTINA. The target population, self-employed and economically disadvantaged women microentrepreneurs living in the Colline area, are housed within the enterprise; they are the producers of TARTINA's goods. ADE, with the assistance of SC/Haiti, manages the business and provides technical assistance to TARTINA staff, including the clients.

EXHIBIT 7B: ENTERPRISE ACTORS CHART

ENTERPRISE ACTORS FOR SAVE THE CHILDREN'S PROGRAM IN HAITI[1]

Who	Roles	Responsibilities	For Whom
1. SC/US 2. SC/Haiti	1. Financial conduit; communication; oversight 2. Reporting	1. Achieve final and intermediate program targets; ongoing communications w/ASSIST on behalf of project 2. Business plan, quarterly reports; secondary responsibility for meeting project targets	**Donor:** ASSIST
1. SC/US	1. Technical support; donor communication	1. Technical assistance visits and support; communication with ASSIST on behalf of SC/Haiti	**Parent Organizaton:** SC/Haiti
1. SC/Haiti 2. SC/US	1. Technical assistance; financial positioning 2. Technical assistance (TA) as needed	1. Build sufficient capacity of ADE to manage and sustain TARTINA Enterprise by project's end; help ADE gain access to additional funding as required 2. Technical assistance as requested by SC/Haiti	**Implementing partner:** ADE
1. ADE 2. SC/Haiti 3. SC/US 4. Consultant	1. Management 2. TA - TARTINA staff 3. TA 4. Specific TA	1. Management and oversight of business operations 2. TA in all components of business operations 3. TA as requested by SC/Haiti 4. TA for specific technical constraints	**Social enterprise:** TARTINA Enterprise
1. ADE 2. TARTINA staff	1. Organize/mobilize clients; provide TA, facility and equipment, limited financing 2. Training, scheduling, targets, supervision, skills transfer, encouragement	1. & 2. Build production and management skills and self-esteem of clients; provide economic opportunity and increased income (at some point, responsibility may be transferred to TARTINA) 2. Realize production targets	**Target population:** Poor and economically disadvantaged women in Colline
1. Target population 2. TARTINA	1. Quality production 2. Marketing, quality assurance, production, inventory management, customer service	1. Purchase TARTINA products that meet customers' wants and needs 2. Access to high-quality TARTINA products in the market; realize marketing targets; develop new product to better serve customer demands	**Customer:** Buyers of TARTINA products

[1]Primary and secondary parties and their roles are indicated by descending numbers. For example, Save/US plays a technical support role to Save/Haiti in the enterprise program; therefore, in the first cell, under "Who," Save/Haiti is denoted by the number 1 and Save/US by 2.

The flatter the program structure—e.g., a direct implementation of an enterprise program, thus bypassing the partner—the simpler your chain of command and, consequently, program execution. (See Lessons Learned in the last chapter of this manual.)

Executive and senior program, and enterprise management (PO, partner, enterprise)

Identifying Social Enterprise Actors

<u>Step 1: Program Diagram</u>

▲ Begin by drawing a diagram of all actors involved in your program. Pictorial representation can sometimes make it easier to understand the distinct levels.

▲ Use the Save the Children example in exhibit 7A as a guide for your diagram. It may be useful to employ icons to represent major responsibilities and arrows to refer to whom each party is accountable.

<u>Step 2: Actors Roles and Responsibilities ’</u>

▲ Complete **The Enterprise Actors Chart** found in *The Workbook* or create your own. An example is provided in exhibit 7B.

▲ Give thorough consideration to all customer levels. The list in exhibit 7B appears exhaustive, but there are other potential actors. An obvious one is when you have more than one donor. Others are subtler—for example, if your suppliers are small producers, you may want to include them in your chart.

▲ Write the name of each actor in the “Who” column; the actor’s roles and responsibilities in the next two columns, and whom each actor serves in the “For Whom” column. Actors’ roles and responsibilities should directly support the achievement of the enterprise’s vision, mission, and objectives (see chapter 2).

▲ Important points to keep in mind when you prepare your Enterprise Actors Chart:

- Be very clear on where the target population is in the structure of your social enterprise program. Whether clients are integral to your business, as in TARTINA, whether they are suppliers, or whether they are customers has implications for human resources.
- Also take note of capacity-building responsibilities at the different levels.

Staff Accountability

Lack of accountability for achieving objectives at the employee and management levels can be the epitaph of a social enterprise program. In this section we discuss some strategies to increase accountability among staff members by linking them to performance. There are no exercises at this juncture; rather, information herein is incorporated in later sections on human resource planning.

Save the Children advocates an approach that gives enterprise managers wide freedom to execute their program while maintaining strong external controls on achievement of targets. This method yields positive results in building confidence and self-esteem of staff, as well as in instilling integrity in and building capacity of the enterprise. Micromanagement, though tempting because of the large financial stakes involved in social enterprise programs, produces the opposite effect and often leads to tension over power and authority. The program management approach requires clear targets, defined roles and responsibilities, reporting lines, and a performance evaluation and appraisal process. Strategies follow.

Linking Program Funding to Targets

If you are in the early stages of social enterprise development and have not yet received funding, we suggest that you link disbursement of funds to accomplishing stated targets. It is much easier to begin a program on these terms than to invoke them later. Results-oriented contracts are a growing trend among larger donors and one that has worked well for Save the Children's microfinance programs. Performance-based contracts are drawn up periodically at each level where money is handed over to finance program activities. In TARTINA's case, ADE still has overall management responsibility for enterprise results; therefore, the contract would be between SC/Haiti and ADE. Milestones or "sub-objectives" are taken from business plan objectives, for example, monthly or quarterly production/sales targets or benchmark progress toward achieving annual or final objectives in the business plan.

Targets can be a powerful way to elicit program results. A caveat is in order, however. Be careful about the timing of contract deadlines, as the aim is to stimulate performance, not to disrupt business operations. Performance-based deadlines should correspond to financial needs of the business cycle and should be done after completion of the cash flow analysis in the financial plan (chapter 8). If you fail to disburse needed resources at a critical period for enterprise investment or production, you could exacerbate the problem you are trying to resolve.

Linking Staff to Performance Outputs

Individual enterprise staff members should be held accountable for realizing objectives under their jurisdiction. The simplest method for holding enterprise staff accountable is to begin by spelling out key outputs for which they are responsible in their job descriptions. For example, the "main output" for SC's Financial Director in the enterprise program is "building capacity of partner nonprofit to maintain adequate financial information systems to support enterprise program decisions." For TARTINA's Marketing Manager, the output is "achievement of marketing plan objectives" (exhibit 7C).

Linking Outputs to Performance Objectives

A staff performance plan highlights specific objectives for a defined period of time directed at accomplishing the staff's "main outputs." Typically, performance plans span a quarter, six months, or a year, but if you are using a contract approach to funding, then individual staff plans should correspond to the contract's time frame. Similar to performance-based contract objectives, these targets serve as milestones to measure staff performance at scheduled intervals. In the example of SC's Financial Director, performance objectives would indicate the specific number and type of accounting training or technical assistance sessions to hold. Detailed within her plan might be a three-day training with ADE and TARTINA management on principles of accounting and basic financial analysis; three technical assistance visits to help the ADE Financial Director, Business Manager, and Accountant prepare balance sheets and income and cash flow statements; and bookkeeping training for sales representatives. This might look like a light load, but the SC Financial Director spends only 15 percent of her time supporting TARTINA.

Since individual staff members themselves are best equipped to judge the demands required to meet objectives, they should prepare a draft of their own work plan. Feedback and approval are given by supervisors. Using performance plans requires regular appraisal of staff on progress toward reaching objectives. Performance should be tied to a positive reward—such as bonuses, merit-based salary increases, promotions, and nonfinancial enticements such as training opportunities, travel, etc.—and determined in the evaluation process. (See Incentive Programs, in this chapter.)

Job Descriptions

Unambiguous job descriptions are also important for ensuring staff accountability. In addition to "main outputs," job descriptions should describe general responsibilities and activities that support achieving the main outputs. Exhibit 7C is a sample job description for TARTINA's Marketing Manager.

Exhibit 7C: Job Description

Title Marketing Manager (100%)

Location	Port-au-Prince
Main Output	**Achievement of marketing plan objectives**
Responsibilities	• Recruit new sales agents and train new recruits and existing sales agents. • Develop and implement plans for sales agent staff development to improve productivity. • Monitor and evaluate sales staff performance. Make a priority the quicker recovery of cash following credit sales. • Identify market trends and new sales opportunities. • Coordinate market research activities. • Collaborate with Production Manager on the preparation of an operational plan for research and development. • Manage finished product inventory, including that of Port-au-Prince (PAP) and Colline (with support from the ADE Security Guard, who will physically monitor inventory flows in PAP; for Colline, inventory reports will be the responsibility of the Production Manager). • Coordinate marketing and sales activities with those of the production department on a weekly basis.

Human Resources

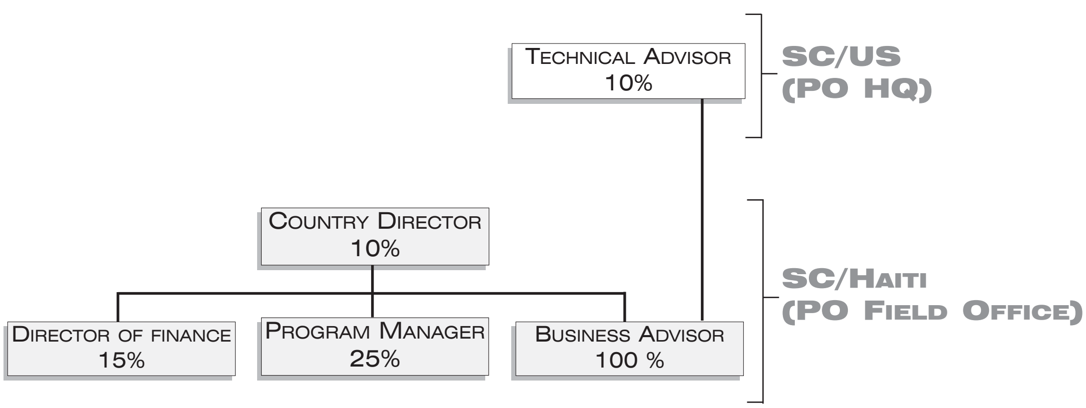
This section does not cover staffing enterprise programs at PO headquarters, field offices, or even the implementing partner in great detail; rather, it focuses on the staffing concerns of the enterprise itself. Before tackling enterprise staff issues, however, we devote some attention to PO personnel issues.

HQ and Enterprise Program Staff (and Implementing Partners)

Rationale:
Keep your program staff structure as light as possible. Avoid building in superfluous headquarters (HQ), field, or organizational personnel who are not directly working on the program. Social enterprises need support in technical functions apropos to their operations, i.e., finance, accounting, marketing, inventory management, product specializations, etc. In short, there is no room on the payroll for generalist project managers. Most POs that launch enterprise programs will have to recruit at least one business advisor to manage the program.

Exhibit 7D

SC Staff Involvement in Enterprise Program



This organizational chart 7D shows the program staffing at both PO headquarters and field offices for Save the Children. In the future, Save the Children's business programs will be staffed solely by technical professionals. They will report along technical lines rather than management lines directly to the Economic Opportunities Unit in Washington. This new structure is aimed at increasing efficiency through technical support and keeping the business focus.

Senior management–business manager, PO business advisor, program manager, HR manager, production manager, marketing manager, finance manager, etc.

Determining PO Staffing Needs

Note: This section can also be completed by nonprofits that have received direct funding to provide assistance to an enterprise program distinctly separate from their own structure.

Step 1: Responsibilities Summary

▲ Return to your Enterprise Actors Chart. Review the major responsibilities of PO staff (see exhibit 7B). For international organizations that have or are seeking a centrally funded grant, you may have two organizational levels, HQ and the field.

▲ Write a summary statement of PO responsibilities. An example for TARTINA is provided in exhibit 7E. This summary directs staffing at the PO level, asking the question, "What kind of staff do we need to meet our responsibilities?"

▲ List PO staff members by position title and the percentage of time they will be dedicated to the enterprise project. How many positions do you need to carry out PO responsibilities and achieve the enterprise's mission and objectives? Which positions? Will these be full-time positions or part time ones? If part time, how much time will be dedicated to the program?

Step 2: Job Descriptions

▲ Elaborate a job description for each position that answers the following questions (an example for TARTINA is given in exhibit 7F):
- What are the position's specific responsibilities?
- Where will the position be based? This question is important if the enterprise site is different from the home office.
- For which output(s) will this position be held accountable?
- What qualifications do you seek?
- What are the anticipated costs for salary and benefits?

▲ Draw an organigram (see exhibit 7D). Be sure that reporting lines are logical with respect to achieving program objectives. In sum, are supervisors qualified to oversee and support enterprise staff, or would a less traditional reporting structure be more appropriate? Creating a program hierarchy for political or cultural appeasement reasons normally does not serve program objectives.

Responsibilities Summary included in the Business Plan.

EXHIBIT 7E: SC/HAITI'S MAIN RESPONSIBILITIES

SC/Haiti is the principal player in building the capacity of ADE management and TARTINA Enterprise to emerge as a viable enterprise. SC/Haiti's main responsibilities lie in the provision of technical support; training; evaluation and monitoring of progress toward achievement of project and business plan objectives; and ensuring financial accountability as per the ASSIST cooperative agreement.

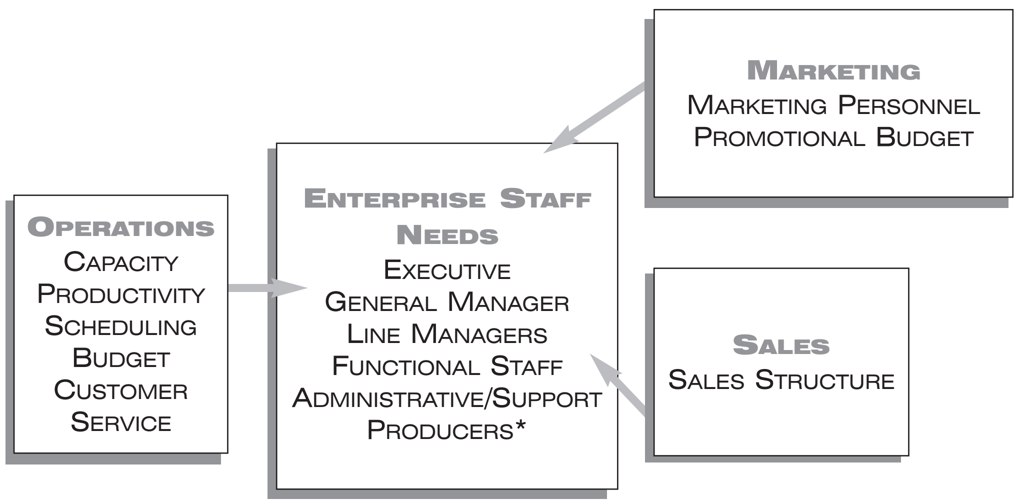
Exhibit 7F: Job Descriptions for SC/Haiti's Enterprise Staff

Title	**Executive Director (10%)**
Location	PAP
Main Output	**Provision of strategic direction to the enterprise program**
Responsibilities	Provide oversight and institutional leadership to program
Qualifications	* Extensive development and management experience w/ Save the Children * Master's Degree in International Development, Public Administration or Management * French/Creole
Cost	Salary + benefits based on percentage of time dedicated to the project
Title	**Business Development Advisor (100%)**
Location	PAP and Colline
Main Output	**Build capacity of program personnel to meet project objectives**
Responsibilities	* Facilitate business plan preparation and execution * Advise on all business aspects of the enterprise project * Provide training on subjects appropriate to skills and experience * Coordinate all outside technical assistance, including that in food transformation. * Monitor, evaluate, and report progress on project activities to project partners and ASSIST.
Qualifications	* Private-sector experience * 5+ years of experience in social purpose business (some manufacturing preferred) * Master's degree in business administration * French
Cost	Salary + benefits based on percentage of time dedicated to the project
Title	**Director of Finance (15%)**
Location	PAP and Colline
Main Output	**Building capacity of partner organization to maintain adequate financial information systems to support enterprise project decisions**
Responsibilities	Provide financial and accounting technical assistance (TA) and training to partner and enterprise staff
Qualifications	* Formal accounting/financial management credentials (CPA, MBA) * 5+ years of professional accounting/financial management experience
Cost	Salary + benefits based on percentage of time dedicated to the project

Enterprise Staffing Needs

"What type of staff will I need to run my social enterprise?" "How much will they cost?" and "Where will I find them?" are questions typically addressed in human resource planning. Much of the information you will need to develop a staff plan for your social enterprise was uncovered in the marketing, sales, and operations planning segments. In this section you will determine staff needs by consolidating data from earlier chapters as well as examining other HR functions, such as management, administrative support, and finance.

Exhibit 7G: Information Flows for Enterprise Staff



*Manufacturing businesses

Human Resource Chart

Management falls into two categories: **line managers** and **general managers**. Line managers are those responsible for certain business functions (operations/production, HR, finance, management information system (MIS), marketing, sales, etc.). In a small enterprise it is not necessary to have a line manager for each function; often one manager supervises complementary functions, such as marketing and sales or production and inventory. Or the enterprise might hire a part-time manager. Every social enterprise needs a general (business) manager, who oversees all the functions. Not having this person in place usually leads to a breakdown in process, communications, and consequently, business performance.

Functional staff positions are those that support general and line managers in a technical or "functional" capacity, such as production or sales agents and production workers. Functional staff can have supervisory and management responsibilities, but they are not line managers. The Accountant is a functional employee of the Financial Manager or, in the case of TARTINA, the Business Manager. The organizational chart in exhibit 7J shows this relationship clearly.

Administrative and support employees are the backstops who assist the work of enterprise professional staff. These positions include secretaries, drivers, couriers, guards, bookkeepers, administrative assistants, etc.

Producers are the worker bees of manufacturing companies, fabricating goods the enterprise sells. Those in SC's target population in Haiti are the producers for TARTINA.

In staffing, the **leadership** usually consists of a board of directors. The PO and implementing partner often provide leadership to the social enterprise during a definitive period; this structure may or may not continue, depending on the implementing partner's exit strategy. Optimally, the enterprise's leadership should be made up of its own staff and directed by a board and eventually shareholders.

Rationale:
The Human Resource Chart is a tool to help you identify permanent staff needs for your social enterprise. In addition, it serves as the basis for your recruitment plan and human resource budget. An example for TARTINA is shown in exhibit 7H.

A Note on Job Sharing

As a result of limited resources, many nonprofit professionals are multi-taskers, juggling several projects simultaneously to the point of near schizophrenia. Job sharing therefore is often a necessary evil of this type of work. Yet how jobs are divided can be controlled. In social enterprise programs it is far better to split jobs within the business than between the enterprise and the implementing partner (or even the parent organization). Remember chapter 2's discussion of the importance of not confusing the missions of the partner and the social enterprise? Our experience is that job sharing between the two entities at times creates a conflict of interest, but always results in competition for time and priorities. At least when a job is split within the enterprise, the person wakes up each morning thinking about how to make the business successful, even though he or she may be concerned with more than one function.

Unless the implementing partner (or PO) is a single-focus (business) organization, rarely does it warehouse all the appropriate business skills for a social enterprise. Check the motivations for wanting to put partner (or PO) staff in the enterprise program and be sure they are consistent with your objectives. Staff development and capacity building are integral to social enterprises, yet they should be done on a core basis of skills and potential. If partners are trying to cover salaries of existing staff, they definitely have the wrong motivation.

PO business advisor, business manager, human resource manager, marketing manager, other functional managers.

Determining Enterprise Staffing Needs

<u>Step 1: Responsibilities of Enterprise Staff</u>

▲ Return to your Enterprise Actors Chart. Review the major responsibilities of the enterprise's and/or implementing organization's staff (exhibit 7B).

<u>Step 2: Identifying Individual Positions</u>

▲ Be careful to distinguish where partners overlap with the enterprise and where they do not. In Haiti, human resources intersect at the general management level of TARTINA only (see, "Partner Staff," the last column in exhibit 7H).

▲ Locate the **Human Resource Chart** (exhibit 7H); a blank copy can be found in *The Workbook*, or you may create your own.

▲ Begin by sorting through the personnel information you obtained in earlier sections of this manual (chapters 5 and 6).

▲ Fill out the **Marketing** section in the HR chart using information from **chapter 5**:

- "Marketing Personnel" for staffing needs
- "Sales Structure" and "Sales Costs"
- Include both line management positions and functional staff

▲ Fill out the **Operations and Production** sections in the HR chart using information from **chapter 6**:

- "Assessing Capacity": labor and skills
- "Productivity": labor Organization and Specialization
- "Operations Budget": direct and indirect labor
- "Scheduling Labor"
- "Inventory"
- "Customer Service"
- "Impact Monitoring"
- "MIS"
- Include both line management positions and functional staff.

▲ Fill out the **Finance** section in the HR chart using information gathered in **Chapters 5 and 6**. If you lack sufficient information on your financial staffing needs at this time, delay completing this section until after you have worked through chapter 8.

▲ Fill out the **Social Program** section in the HR chart. This section pertains to social programming such as supplemental education and training, or services for clients' special needs such as counseling or in-house medical attention. Since Save the Children does not integrate its social services with business operations, social program staff are not reflected in our example.

▲ Look for this icon:  throughout the text.

▲ Check the box indicating whether you will be required to hire new staff, whether the person can be found in-house, and what percentage of staff time will be devoted to this position.

Step 3: Fill in HR Gaps

General and Line Management

▲ Fill out the Management section in the HR chart:

- The sections of chapters 5 and 6 mentioned above have information on line management for marketing and operations/production functions; be sure you include it.
- Consider line management for functions not addressed earlier, such as HR, MIS, and finance. Ask yourself these additional questions: Which functions do you need line managers for? Can one manager oversee two functions? Can someone in-house do the job part time?
- What is your human resource solution to general management? Will this person be full time or part time, internally or externally recruited?

Functional Staff

▲ Include functional staff members who support line and general managers, such as accountants for finance, marketing assistants or sales agents for marketing, and computer programmers or technicians for MIS.

Administration/Support

▲ Indicate support staff positions for your enterprise (secretaries, drivers, couriers, guards, administrative assistants, etc.).

Producers (for Manufacturing Enterprises)

▲ Who is producing the goods for your final customer? How many production workers are needed to achieve full capacity?

Leadership

▲ Who provides the leadership for the social enterprise (board of directors, partner senior management, parent organization, or executive body at the enterprise level)? How is the leadership body structured? What are the backgrounds and key qualifications of members in the leadership body? What is the relationship between the leadership and the enterprise staff? What role does the leadership play (advise, oversight, fundraising, etc.)? What are the implications for human resources using your leadership structure (paid staff positions, time of project, etc.)?

Enterprise Staff Plan is included in the Business Plan.

Colline children help sort peanuts

Exhibit 7H: Human Resource Chart for TARTINA Enterprise

Staff Needs	#	Time on Project	Currently on Staff	To Hire (external)
PO Field Office Staff (SC)				
Country Director		10%	✔	
Program Manager		25%	✔	
Director of Finance		15%	✔	
Business Advisor		100%	✔	

Staff Needs	#	Time on Project	TARTINA Staff	To Hire (external)	Seconded from Partner
Enterprise Staff					
Management					
Business Manager	1	50%	✔		
HR Director	1	25%			✔
Marketing					
Marketing Manager	1	100%		✔	
Sales agents	5	100%	2	3	
Production					
Production Manager	1	100%	✔		
Production agents	4	100%	✔		
Purchasing agent	1	40%	✔		
Inventory Manager	1	50%	✔		
Logistics	1	60%	✔		
R&D Agent	1	50%	✔		
Production workers	120	25% - 100%	85	35	
Finance					
Financial Manager	1	30%			✔
Accountant (s)	1	100%	✔		
MIS		25%		✔ Contract	
Admin. & Support					
Accountant	1	100%	✔		
Secretary	1	40%			✔
Driver	1	100%	✔		
Security guards	2	100%	✔		

Recruitment

Enterprise Staff

Qualifications and, hence, recruitment channels for social enterprise staff may be somewhat different from those traditionally used by development professionals. Jeffery Ashe, founder of the organization *Working Capital*, refers to the quintessential social enterprise manager as "Joan of Arc with an MBA." As previously mentioned, this combination of business skills and social values is not encountered readily. SC has found that entrepreneurial traits and business experience are preferable to academic credentials for social enterprise staff. Program facilitators (parent organizations) and implementing partners need to be clear about the type of qualifications they seek for enterprise positions and recruit staff through relevant channels, which by and large means the private sector.

Recruiting social enterprise staff from private business presents two potential dilemmas for social entrepreneurs. The first is salary scale. Private-sector candidates generally earn substantially more than development professionals. Thus, attracting and retaining social enterprise staff from the private sector requires remuneration commensurate with commercial pay. Salary inequities between private-sector and traditional development staff with similar levels of education and years of work experience can cause tensions. Additionally, higher pay scales inflate social enterprise overhead, requiring more donor capital for start-up and higher revenues to cover costs. The second potential conflict relates to institutional capacity building. Since social enterprises are programs destined to become sustainable businesses, questions arise regarding the role of the parent organization in developing the human resource capacity of partners to reach this goal. For some organizations, simply hiring experienced business staff from the formal sector runs contrary to their mission. Save the Children believes that ample capacity-building needs exist regardless of staff experience and that hiring ex-business professionals, provided they identify with the social enterprise's mission, is part of a winning strategy for a successful enterprise.

Target Population

Another consideration is recruiting from your target population. In most social enterprises little attention has been given to qualifying those we endeavor to help. Some, however, like microfinance programs' clients, are screened and selected by their peers. SC's experience shows that it is important to set selection criteria (see Design for Risk Aversion, in Chapter 9, Lessons Learned). Initially, TARTINA clients, poor self-eployed women, were expected to have had food-processing experience. A criterion of sorts, this proved to be of lesser significance than other factors because of the need to retrain production workers in order to standardize TARTINA products. TARTINA learned that "entrepreneurial traits," including the willingness to assume risks, are more important than technical know-how or other prerequisites.

Selection criteria will differ depending on your type of enterprise and how your target population figures into it. For example, if your target population consists of your suppliers, you might establish criteria such as on-time delivery, dependability, or product consistency or quality. *Setting selection criteria also helps guide your capacity-building agenda.*

TARTINA production agents and workers (clients) screen TARTINA candidates through interviews, which use a rating system to determine if they meet qualifications. Simple questions indicate if candidates have the following characteristics: opportunity seeking, persistence, commitment to work contract, demand for quality and efficiency, risk taking, goal setting, information seeking, systematic planning, and self-confidence.

Exhibit 7I: Recruitment Schedule

Position	Qualifications	Recruitment
Business Manager	Entrepreneurial, results oriented, prior management or business ownership experience in similar business, strong financial skills, understands systems, good human relations, able to delegate responsibilities and supervise. Relevant higher education credentials. Commitment to mission and targets.	Management consulting firm or like company Permanent hire
Marketing Manager	Entrepreneurial, creative, innovative, understands markets/customers, previous professional experience in marketing. Ability to motivate and mobilize sales staff. Market research and statistical analysis skills. Relevant higher education credentials. Commitment to mission and targets.	Market research or marketing firm or company selling similar products Permanent hire
Production Manager	Production process experience in food processing. Relevant production and plant management experience. Detail oriented. Knowledge of suppliers. Commitment to mission and targets.	Manufacturing company Permanent hire
Sales agents	Outgoing, knowledge of commercial outlets, excellent communications skills and personal relations, motivated, self-directed, networking skills, and the ability to "close" a sale. No formal marketing education or previous sales experience required. Commitment to mission.	Local community or private company, recent school graduates Permanent hire
Product Developer (R&D Agent)	Highly creative and innovative, product development experience with own business desirable, intimate understanding of market (customers' wants), expertise in production techniques, ability to communicate product development to production staff. No formal education required.	Food production business; buyer or product developer for like company Contract hire
Production agents	Responsible, reliable, commitment to mission, communications skills (local language and ability to impart information to workers), proactive and literate.	Local community Permanent hire
Production workers	Diligent, entrepreneurial traits, reliable(for TARTINA these are the clients). No formal education or literacy required.	Local community Contract hire Permanent hire
Inventory Manager	Honest, conscientious, detail oriented, strong basic math skills, able to keep accurate records (former ADE staff).	Local community Permanent hire

Rationale:
A recruitment schedule is a tool to identify the skills and experience you seek for each position and the corresponding recruitment channel.

PO business advisor, general and functional enterprise management and clients

Planning Recruitment

Step 1: Enterprise Staff

▲ Drawing from the staffing needs you isolated in the "Human Resource Chart", develop a recruitment schedule for social enterprise staff, including each position and associated qualifications you seek. Also indicate where you propose to find each person. You can add a column to include specific advertising sources or recruitment means you will pursue.

▲ Refer to exhibit 7I, which provides examples from TARTINA Enterprise.

Step 2: Target Population

▲ Develop basic selection criteria for your target population.

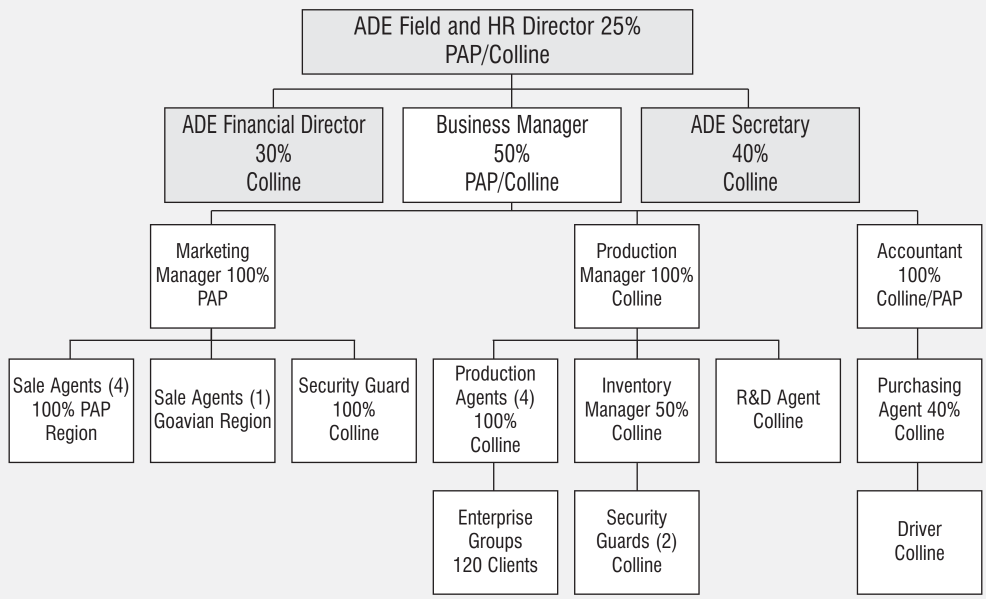
▲ Also develop screening procedures: Who will be responsible for selecting members of the target population to participate in the enterprise, and what process will be used?

Recruitment Plans for both enterprise staff and target population are included in the Business Plan.

Reporting Lines

Once you have identified your human resource needs, you will prepare an organizational chart (organigram). An organizational chart is useful in describing reporting lines between management and employees, as well as in creating a visual image of the hierarchical structure in your enterprise. (Frequently structures are heavy, filled with middle management positions and extraneous "assistants," but a business model requires a relatively flat and light structure for maximum efficiency and minimal cost.) Most important for a social enterprise, an organizational chart delineates the relationship between the implementing partner and the social enterprise. Our recommendation is to separate these two entities, but early in an enterprise program, they usually overlap. An example is provided in exhibit 7J.

EXHIBIT 7J: TARTINA ENTERPRISE ORGANIZATIONAL CHART



In this example, the implementing partner (ADE) staff, represented by the shaded boxes, straddles the top of the hierarchy. Thus, TARTINA Enterprise is still controlled by ADE. The Business Manager below ADE's Field and HR Director is second in charge and may eventually assume the role of the enterprise's leader. Line managers for marketing and production and their functional staff can be seen to the left and right. Line managers and the enterprise Accountant report directly to the Business Manager.

Rationale:
Preparing an organizational chart allows you to organize the human resource and reporting structure of your social enterprise. Additionally, you will recognize any personnel gaps through this visual depiction and can plan for extra assistance.

PO business advisor, executive and senior management

Preparing an Organizational Chart

▲ Prepare an organizational chart (exhibit 7D). Be sure that reporting lines are logical with respect to achieving program objectives—in other words, that supervisors are qualified to oversee and support enterprise staff.

The Organizational Chart is included in the Business Plan.

PO business advisor, HR manager, general manager, functional manager (as needed)

WRITING JOB DESCRIPTIONS

Rationale: (See Staff Accountability: Job descriptions)

▲ Write a job description for each position (see exhibit 7K):

- What are the specific responsibilities?
- Where will the position be based? This question is important if the enterprise site is different from the home office.
- For which output(s) will this position be held accountable?
- What qualifications do you seek?
- What are the anticipated (new position) or current (existing position) salary and benefit expenses?

Job descriptions and key resumés of management and executive are included in the appendix section of the Business Plan.

EXHIBIT 7K: TARTINA JOB DESCRIPTIONS

Title	**Business Manager (50%)**
Location	PAP/Colline
Main Output	**Achievement of enterprise objectives as expressed in the business plan**
Responsibilities	✷ Monitor and evaluate progress against business plan. Develop and coordinate implementation of required corrective action to meet business plan objectives. ✷ Supervise the integration of production, research and development, and marketing activities. ✷ Oversee MIS, administration, and financial management. ✷ Report to ADE Field and HR Director regularly on enterprise project's progress toward achievement of objectives. ✷ Directly supervise the Marketing and Production Manager positions. ✷ Complete annual performance appraisal for these supervised positions. ✷ Participate in monthly Strategic Team meetings and in weekly opera tional meetings with TARTINA staff. ✷ Prepare quarterly project reports. ✷ Recruit enterprise staff.
Compensation Scheme	✷ Salary + year-end bonus based on realization of targets.

Title	Sales Agents
Location	Four in PAP (including existing) and one in Petit Goave.
Main Output	**Achievement of sales objectives**
Responsibilities	* Prepare sales reports. * Collect information on buying habits and motives of final consumer, purchaser for consumer (secondary consumer), and retailers. * Collect information on the competition.
Compensation Scheme	* 1/4 base salary + commission sales + bonuses.

Title	Production Manager (100%)
Location	Colline
Main Output	**Development and achievement of production plan objectives**
Responsibilities	* Develop and implement production plan. * Coordinate production activities with marketing and sales activities on a weekly basis. * Manage all stages of the production process including mobilization of clients; collection, storage, and conservation of raw materials; product transformation; packaging; inventory; quality control; and finished product storage. * Prepare plan for production research and development in collaboration with Marketing Manager. * Maintain necessary MIS to support timely production management decisions. * Initiate steps to increase productivity of production staff and of clients. * Perform annual performance appraisals for production staff. * Participate in weekly operational meetings. * Provide weekly finished and unfinished product inventory reports to Marketing Manager.
Compensation Scheme	* Salary + year-end bonus based on realization of targets.
Title	**Production Agents (4)**
Location	Colline
Main Outputs	**Achievement of each product's production objectives for quality and quantity** **Building of clients' capacity to prepare high-quality products at maximum productivity levels**
Compensation Scheme	* Base salary + performance-based bonus system.

Governance and the Board of Directors

Governance is a system of checks and balances whereby a board of directors is established to oversee the social enterprise managers.[1] Governance is about accountability and the exercise of authority to ensure that the social enterprise fulfills its mission and protects its assets. As a rule, the board should have ultimate decision-making power and culpability for results to the public trust and organizational constituencies. Board governance is reflected in its roles and responsibilities.

The role of the social enterprise board of directors is to:

- articulate and protect the mission;
- set the strategic direction of the enterprise;
- secure necessary funds;
- ensure ethical and legal obligations are met; and
- approve plans and review performance of senior management.

Board Responsibility falls into four distinct areas.

- **Fiduciary**—The board has responsibility for safeguarding stakeholder financial interests. They approve budgets and oversee budget adherence; contract external auditors; manage capital, investments and reserve funds; and help raise funds.
- **Strategic planning and oversight**—The board participates in the strategic planning process; it approves strategic plans prepared by management, then supports and oversees execution of plans.
- **Supervisory**—The board delegates authority for running social enterprise operations to management through an executive director[2] or chief executive officer (CEO). Directors are responsible for approving selection, compensation, performance evaluation and (if necessary) dismissal of the chief executive officer.
- **Development and effectiveness**—The board is responsible for evaluating its own performance and maintaining an effective organization. This includes recruiting new board members, forming active special interest committees, managing CEO transitions, rotating board members (as specified in bylaws), developing clear procedures and evolving in step with the social enterprise maturity.

Board Stages

Board structure evolves as the social enterprise matures—becoming more formal, with clear distinctions between management and governance. (exhibit 7L: Characteristics of Board Stages).

- ***Stage One:* Organizing Board**—The organizing board may be established at the time the social enterprise is changing from nonprofit program to enterprise. At first it may not function as a formal board, but rather as a loosely organized advisory body. Organizing boards tend to be small and hands-on, with their members committed to the mission and agenda of the executive director. Transition to the next stage is marked by financial problems, board/staff tension, resistance to the founders' agenda and a desire to formalize roles and responsibilities.

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[1] C-Gap, "Effective Governance for Micro-finance Institutions," *Focus*, Note 7, March 1997

[2] Ibid.

- ***Stage Two:*** **Governing Board**—In this stage, the board has more formal powers and distinct roles. The board assumes greater responsibility for organizational oversight and more accountability for performance. Board committees are developed to manage certain functions, and relations with staff principally occur between the executive director and the board chairs. Transition to the next stage is marked by a greater dependence on the board for fundraising, an increase in board size, and a desire to increase community representation and influence through the board.
- ***Stage Three:*** **Fundraising Board**—The final stage in board development, the fundraising board is common among large, mature organizations, such as Save the Children. This board's chief responsibilities are to raise money and to manage the organization's assets and investments. At this stage the board may be very large, meeting infrequently as a whole to approve budgets and strategic plans. Board committees are active and operate with great autonomy from the full board.

Exhibit 7L: Characteristics of Board Stages

Organizing Board	Governing Board
Founding CEO is present	Founding CEO/Executive Director departs; new leader is selected and hired by board
Board members recruited by CEO	Members are elected and self-perpetuating
Program driven	Staff and management driven
Constituency based	Constituency and public trust based
Board does not fundraise	Board raises money
Parent Organization has seats	PO board presence is diminished; may hold minority equity stake in enterprise.
Homogenous representation	Diverse representation
Involved in implementation	Not involved in program management
Three to seven members	Up to 15 members
No term limits	Term limits

Board Composition

Ideally the board of directors should be composed of members that have specific technical skills, civic connections or political clout, money to contribute, respectable standing, and time. Maturity and reputation of the social enterprise, however, are determinates of attracting high-powered professionals to serve on your board. Of primary importance is a mix of leadership and technical skills (exhibit 7M: Recommended Board Member Skills). For social enterprises, pertinent skills include financial, nonprofit social program expertise, legal, business management, entrepreneurship, and industry expertise. Representation should also be demographically balanced vis-a-vis gender and ethnicity. The board is ultimately responsible for defining its process of recruiting new members, setting term limits, establishing working committees, deciding on the number of its members and meeting attendance, and evaluating member contribution and rules for expulsion.

EXHIBIT 7M: RECOMMENDED BOARD MEMBER SKILLS

Leadership	Technical
Commitment to social enterprise mission	Industry expertise in business area
Integrity and trustworthiness	Expertise in social program areas
Demonstrated leadership success	Business management
Communications skills	Accounting and financial
Sound judgement	Marketing
Willingness to make time commitment	Human resources
Objectivity and independent thinking	Entrepreneurship
Ability to work with other board members	Information technology
Consensus building skills	Legal
"Can do" attitude	Fundraising
Willingness to participate	Operations/production management
Awareness of personal contribution	Product development/R&D

Rationale:
The importance of good governance in social enterprises has captured the attention of the donor community. Having an established board gives donor-investors confidence that their interests are being served, the mission is protected and enterprise managers are supervised. As in the private investment community, a functioning and qualified board is fast becoming a minimum requirement for donor funding from government agencies and foundations. To this end, board development built into capacity-building budgets is commonplace. This is particularly true for international development organizations mandated to foster self-reliance and local institutionalization of the social enterprise. From the donor-investors point of view a solid board of directors also assures that the enterprise has the ability to attract other investors.

The board of directors must be an independent body, separate from that of the implementing partner or parent organization to fully represent the interests of the social enterprise. Like venture capitalists, however, the parent organization may elect to hold board seats for a limited term. Save the Children routinely used this strategy to maintain involvement in the enterprise while it transitions to an independent entity.

Board members (if existing), PO advisor and senior management delegate, executive director and senior management of implementing partner, enterprise senior management

Board of Directors

- ▲ Locate blank **Board of Director's Worksheet** in *The Workbook* or create your own.
- ▲ What is the board's current stage of development?

▲ List board members by name, area of professional expertise and financial stake (if any). Use the blank Board Table Worksheet provided in The Workbook, or create your own.

▲ Describe board functions and responsibilities; who is the Board Chair?

▲ What committees have been formed and what are their functions?

❖What is the plan for recruiting new board members?

Board of Directors information is included in the Business Plan.

Attach board members resumes in the appendix.

Exhibit: 7N: TARTINA's Board of Directors

Name	Title	Area of Expertise	Financial Contribution
Melinda Tyler	Save Haiti Country Director	General Management	75K[3]
Christine Peterson	Regional Business Advisor	Social Enterprise Management	
Luckner Bapiste	Managing Director, Charter National Bank	Banking	5,000
Michelle Alphonse	Marketing Director, Natural Trails	Processed Foods	2,500
Abner Gillet	CEO/President, Vallay-Bec Ltd.	Entrepreneurship	4,000
Robert Septembre	Attorney, Picard, Seplembre and Yves	Business Law	5,000
Guerda Saintus	Executive Director, Women's Business Association	Nonprofit Management Women-run businesses	- 0-

[3] Save the Children/US's offered of 75K in equity financing to TARTINA is currently under review in HQ.

Incentive Programs

In SC's experience, the best universal "carrot" is money, particularly in developing countries, where economic insecurity is a serious problem. Many enterprise programs shy away from financial incentive programs because of their costs. However, when employed wisely these programs result in high staff performance and yield financial returns over and above their investment. Nonfinancial enticements can be motivators, too, and though less effective, they also bear costs.

Remuneration should be at competitive, market rates. Enterprise staff often are poorly remunerated because POs and nonprofits have limited budgets. But underpaying staff members costs money in the long run because they either leave or underperform. Paying staff at or close to market rates increases retention and reduces recruitment, new-staff training, and lost time.

Financial incentives should be linked to targets and objectives *that earn income for the enterprise*. They can be in the form of sales commissions; bonuses based on targets, new customers, reduction of wastage during production, etc. (exhibits 7L and 7M). For example, TARTINA sales staff incentives are based on sales volume—a commission on sales plus a bonus on sales over quota. Other financial incentives are built in. For example, when a sales agent supervises a trainee, he or she receives any bonuses the trainee earns; and for signing up a new customer, sales reps are paid 3 percent of the value of the order. Financial incentives programs should be employed throughout the enterprise in instances where the net effect is of financial benefit to the enterprise.

Nonfinancial incentives include supplementary or staff-driven training for the purposes of career enhancement; travel; compensation time; flexible scheduling; opportunities for advancement; assumption of new responsibilities; and awards, recognition, and certification. Use of nonmonetary incentives benefits the enterprise by keeping morale high and improving efficiency—for instance, when employees receive cross-training to cover other employees' jobs. Giving awards and recognition, such as picking an "employee of the month," sparks a little healthy competition among staff and has only marginal costs.

PO business advisor, business manager, HR manager, financial manager

Devising Incentive Programs

- ▲ Develop financial incentives linked to job performance and enterprise income.
- ▲ Calculate the costs of the proposed incentive program as well as the projected revenues.
- ▲ Refer to exhibits 7O and 7P for guidance or inspiration.
- ▲ Fashion a nonfinancial incentive program. What incentives will you use to motivate employees? What are the associated costs? Who will benefit from the program?

Information on Incentive Programs is included in the Business Plan.

Exhibit 7O: Incentive Program for Sales and Production Staff

Sales Staff and Status	Base or Salary	Commission	Bonuses	Production Staff	Salary	Bonuses
Senior sales	$100/mo.	15% of sales price per unit $1000 for targets (quota)	20% of sales price per unit after quota	Production Agent	$300/mo.	5% of sales price per unit, if: targets are met with < 3% defect or error margin < 2% waste
Trainee	$80/mo.	15% of sales price per unit $800 for targets (quota)	None Bonuses to trainer	Agent in Training	$200/mo.	Bonuses to Trainer

Exhibit 7P: Financial Incentive Program for Clients

Monthly Incentives	For Years						
	1	2	3	4	5	6	7
Base Labor	$25	$26	$27	$28	$29	$30	$31
Bonuses	$42	$47	$51	$57	$62	$68	$75
Total monthly revenue per client	$67	$73	$78	$85	$91	$98	$106

Motivate Your People (for Enterprise Managers)

Although people are motivated by different needs, two important motivators for most in a work situation are mutual respect and personal involvement. When employees feel good about themselves, the work they do, and the organization they work for, it is much easier to elicit their cooperation. Below is a list of ways in which social enterprise managers can get the best from employees, benefiting not only the social enterprise but also those working for it.

Establish a participatory decision-making process. Give staff members a share in decision-making. If they are not deciding what is to be done, then let them decide how it is to be done or when, in what way, and by whom. Let their "share" increase over time.

Maintain open communications. Keep staff informed about changes that directly affect them, such as policy changes, procedure or rule changes, product information changes, and performance changes. Always listen to and try to understand what employees are communicating.

Ask for suggestions. Be sure to invite suggestions and new ideas from employees concerning work. Be willing to put good ideas into action by making changes.

Watch for changes in morale. Be sensitive to changes in morale. Know when and why it goes up or down.

Develop employees professionally. A good manager trains, develops, counsels, guides, and supports his or her employees. As well, opportunity for professional advancement (via new skills acquisition and promotion) should be built into the enterprise structure.

Treat all staff with respect. Be thoughtful and considerate of all employees.

Recognize your staff. Give employees the appropriate praise and recognition for a job well done.

Set clear job responsibilities and reporting lines. Make certain employees know exactly what is expected of them and how their performance will be evaluated.

Create a high-quality work environment. Develop a favorable work environment with adequate resources and clear direction to enable employees to work to the best of their ability. Other factors that contribute to the quality of the work environment are flexibility, creativity, responsibility, education opportunities, and social benefits.

Emphasize the mission. Hire people who strongly identify with the enterprise's mission; they will be motivated by working for a "cause."

Maintain high standards. Involving employees in establishing high standards of performance will build their pride and self-confidence.

Remunerate well. Pay people fair, competitive salaries and employ financial incentive programs.

Capacity Building

The goal is to create a business that can compete effectively in the marketplace. This is done with external technical and financial support warranted by the decision to work with a particular target population. Sometimes, in a developing country, there are additional difficulties. And in any case, it can mean working through an inexperienced nonprofit partner. These characteristics ultimately set a social enterprise apart from private business, making it a so-called intervention for the benefit of improving economic opportunities and quality of life of poor and disadvantaged people.

Capacity building is needed to overcome obstacles of limited skills and low business acumen so that the social enterprise becomes viable and continues to serve its target population over the long term with little or no injections of external donor funding. Capacity building occurs on two levels: the enterprise and the client. Institution building develops capabilities of enterprise staff to effectively manage a successful commercial business; and client training imparts both hard and soft skills necessary to sustain a productive livelihood. Since capacity building implies a cost, capacity building decisions are investment decisions intended to render a net benefit to the enterprise (exhibit 7Q) and the clients (exhibit 7V). At times, these two are at odds; therefore, the social entrepreneur's challenge is to determine which capacity building investments present the highest return, and which do not justify their cost.

Decision-making flows from the mission and objectives that direct the social enterprise's capacity-building requirements (see chapter 2). So what are the implications of the program's mission for capacity building for the enterprise, the implementing partner, and the target population? Save the Children created an **Enterprise Capacity Building Plan** (exhibit 7R) that charts the training and technical assistance TARTINA Enterprise and ADE management need to accomplish their mission *"to create a financially viable social enterprise."* For SC's target population—poor self-employed women—"increased economic opportunities and income" are the direct result of job creation and skills training.

The Woodcutter's Tale of Capacity Building

There once was an apprentice woodcutter. He had all the strength, zeal, and ambition to make a fine woodcutter. On his first day he felled 25 trees in eight hours of work. That evening he went to his Mentor and told him what he had done.

"Och, lad, you've done a fine job for a day's work. Aye, you've done better 'n many a men do in 10 years' cuttin' wood. You'll make a fine woodcutter, me lad."

The boy left feeling proud. And he came to work the next day, and all that week, to fell 25 trees in eight hours. And each day his Mentor smiled and told him he'd done a fine job.

The following Monday didn't go quite so well; the boy cut 20 trees in eight hours. On the next day, the boy worked longer hours to make up the difference, yet in 10 hours he felled only 16 trees. By the end of the week, the boy was working 16-hour days but could only manage to cut down four or five trees. That Friday evening, the boy came to his Mentor with his head hanging low.

"I don't understand it, Mentor. I am now working harder and longer than ever, and I am able to cut fewer and fewer trees. Perhaps I will not make a fine woodcutter after all."

The Mentor smiled warmly at the discouraged boy. "You've got to sharpen your ax, me lad," he said with a wink.

Moral: Know the importance and appropriate timing of sharpening staff skills.

Institutional Capacity Building

Investments at the level of the enterprise include technical and management skills building; systems installation and development for accounting, impact monitoring, billing, inventory tracking, etc.; and equipment and infrastructure for your business activities. Each investment decision has a direct financial cost as well as a financial return quantified by revenue the social enterprise is able to generate. It is up to the social entrepreneur to weigh potential investment decisions against projected returns to gauge whether the investment is a legitimate business decision. The matrix in exhibit 7Q, "Institution Building Investments and Their Associated Costs," serves as an example. It is important to consider that investment decisions are not generic and are made according to the specific needs of the social enterprise.

However, some general rules do apply. As previously discussed, decisions to move existing social program staff into enterprise positions rather than hiring qualified professionals from similar private sector businesses bears implicit costs. Often the new social entrepreneur looks only at disparity in salary requirements between the nonprofit and private sector. This is a short-term view and neither considers direct capacity building costs to adequately train a former social service professional, nor indirect costs of lost revenue due the incompetence or inexperience, or worse, "cultural resistance" to adopting a businesslike approach to social programming. The latter can be particularly expensive, not to mention harmful in achieving business objectives.

Nonprofits often resort to using in-house expertise to meet all their capacity building needs, rather than hiring outside experts. Although the parent organization may have an excellent business advisor, invariably no professional is expert in all business functions. Therefore, consultants should be used strategically to provide specific skills or alleviate constraints that cannot be met with in-house talent. (The skills inventory in the following exercise helps to delineate in-house expertise from that which must be contracted externally). Finally, nonprofit run enterprises often cut or defer costs on accounting systems by depending on those used by the parent organization. This may seem like a savvy business decision at the outset, but parent organization financial reports (the timing of their issuance, their form and content) are designed to meet funders' requirements and are inadequate for use in a growing business.[3] Social enterprises must have the capacity to generate financial reports that indicate trends in sales revenue and costs, and can be compared across their industry and benchmarked against like businesses (chapter 8, Financial Plan).

Try to heed these lessons to avoid typical pitfalls when planning capacity building investments. The adage "it takes money to make money" runs counterculture to many a nonprofit organization obsessed with minimizing expenditures. When entering the world of business this nonprofit thinking must change: Capacity building costs should be viewed as investments and analyzed for their potential long-term financial benefit to the social enterprise over immediate costs.

[3] "Accounting Issues for the Social Purpose Enterprise," by Cynthia Gair, from *Investor Perspectives*, Roberts' Foundation, 2000, San Francisco, CA.

Exhibit 7Q: Institution Building Investments and Associated Costs

Which Investment Costs Justify Their Return?

Return on Investment (Revenue)	Cost of Investment: Low	Cost of Investment: High
High	* In-house management training (has needed skills/qualifications) * Pro bono expert consulting * Purchase used and low technology equipment * Enhance existing facilities	* Market rate external expert consulting * Purchase new systems/hire developer * Rent/purchase plant or offices to accommodate growth
Low	* In-house Management Training (lacks skills/qualification) * Use existing PO MIS systems * Share office space with PO despite growth/divergent needs	* Buy/Maintain state-of-the-art equipment * Modify systems from PO * Build plant and offices

Client home and peanut-grilling equipment

Exhibit 7R: Institutional Capacity-Building Plan for TARTINA

Topic	Benchmark	Participants	Method	Provider
Finance	Strong system of internal financial controls established	TARTINA/ADE Management, Finance	Three-day workshop on control system	SC/Haiti
			Technical assistance (TA) to reinforce learning	SC/Haiti
			External audit	Audit firm
Management	Complete operations, policies, personnel, and financial systems manual	TARTINA/ADE Management	Two-day workshop to review operations, policies, and financial documents	SC/Haiti
			TA writing manual	SC/Haiti
Governance and structure	Full agreement on future legal structure of TARTINA reached, i.e., registered business	Management and Board	Two one-day workshops	SC/Haiti Guest speakers
	Strategic plan developed		One-day workshop	SC/Haiti
HR	Food-processing knowledge transferred to clients	Production agents	Two-day "training-of-trainers" (TOT)	SC/Haiti
Production	New product (sweetened peanut butter) and production techniques developed	Production Manager, agents, and workers	Four-week technical assistance visit for product development and processing	Farmer to Farmer Program
Marketing	New Mamba product tested in two markets	Marketing and sales staff	Two-day market research and product-testing workshop	Marketing firm
			Follow-up TA	SC/Haiti
MIS	Learn how to use and maintain new inventory management system and accounting controls to support the multiplicity of distribution channels	Management and financial staff	Five-day comprehensive training	Two business graduate students
			Follow up TA	Local Firm

[4]The plan is not a comprehensive one; selected capacity-building activities are shown for illustrative purposes only.

Rationale:
This three-part exercise will help you define the capacity-building needs of your enterprise program and the best methods for meeting them.

PO business advisor, program manager, enterprise general and functional management

Planning Enterprise Capacity-Building

Step 1: Capacity-Building Needs Assessment

▲ Start with your mission and objectives: What capacity-building activities will be needed to realize these goals? Ask these questions:

▲ What are the projected capacity-building needs of social enterprise and partner staff?

▲ The parent organization and enterprise leadership (board) may also require some development—what would that be?

▲ Augment mission information by employing needs assessment surveys or other tactics (as per standard practice—no example is included here).

▲ Review the business plan framework in chapter 1. Because the information is organized along functional lines and the participants are indicated, it may serve as an aid to thinking through capacity-building activities needed to support enterprise functions and the target participants.

Step 2: Internal Skills and Competency Inventory

▲ What technical capabilities do you have in-house among the parent organization, implementing partner, and enterprise staff?

- To take an **internal inventory**, list all social enterprise participants (parent organization, implementing partner, enterprise staff, and leadership, i.e., board members). What are their functional skills and competencies? In what areas are they particularly strong? Could they be asked to lead or assist with training or technical assistance?

Step 3: Capacity-Building Plan

▲ Locate Enterprise Capacity-Building Plan in *The Workbook* or create your own. Use **SC's Capacity-Building Plan for TARTINA**, exhibit 7R, as an example:

- Organize capacity-building needs of the enterprise by function.
- Set clear benchmarks you expect to achieve.
- Note the participants you have targeted for the capacity-building activity.
- Note the method you will use to impart knowledge.
- Note the provider that will deliver the information (specify internal or external).
- Specify the time period for institutional development (yearly, quarterly, etc.).

The Enterprise Capacity-Building Plan is included in the Business Plan.

ENTERPRISE AND PARTNER STAFF TRAINING

Training is one of the chief capacity-building methods for all enterprise actors. Some training needs are evident at inception; others evolve over time. The type of training and who provides it are other planning decisions. Selective training can be done in-house. For example, included in the Marketing Manager's job description is "train new recruits and existing sales agents" (exhibit 7C). Other training must be conducted by external professionals.

Rationale:

Training needs to be well defined, well targeted and followed up on.

PO business advisor, business manager and functional management

Preparing the Training Plan

The following exercise is aimed at helping you project and plan for training needs of social enterprise participants and staff.

▲ Segregate training activities from your **Enterprise Capacity-Building Plan**; in our example there are two, **HR** and **MIS**.

❖Write an outline for each training that includes the following information (two examples are provided in exhibits 7S and 7T):

- Objective of the training
- Who it is for (the participants)
- Approximate date of the training
- Who will provide the training (internal or external)
- Estimated costs
- Follow-up

Depending on the number of projected training sessions for a period covered by the business plan, it may be too time-consuming to prepare an outline for each training. Instead, prepare annual or semiannual training outlines.

▲ Schedule training for the business plan period using a Gantt chart. (chapter 6: Gantt Chart for Training Institutions.)

Training plan for enterprise and partnership staff is included in the Business Plan.

EXHIBIT 7S: TARTINA INTERNAL TRAINING

Training Topic: Training-of-Trainers (TOT)

Participants: Production agents

Date: July 1999

Objective: *Production agents will learn techniques to transfer food processing knowledge to the clients.*

Provided by: This TA will be provided by SC/Haiti.

Cost: No additional money required.

Follow-up: A regular training/teaching program will be initiated and supervised by the TARTINA Production Manager to reinforce TOT training.

Exhibit 7T: TARTINA External Training

Training Topic: Inventory Management

Participants: TARTINA Accountant, Business Manager, Inventory Manager, ADE Financial Director, Production Manager, Marketing Manager

Date: August 1999

Objective: Management and financial staff will learn how to use and maintain new inventory management system and accounting controls to support the multiplicity of distribution channels.

Provided by: Two business graduate students from Northwestern University's J.L. Kellogg Graduate School of Management.

Cost: No additional money required (included in scope of work for inventory system development—MIS packet, $5,400 total).

Follow-up: System to some degree is self-regulating; SC and ADE management will supervise implementation and monitor for noncompliance. Reinforcement of technical assistance will be given if errors occur.

External Technical Assistance

Technical assistance reinforces enterprise staff members' ability to carry out their responsibilities. Internal technical assistance, supplied by the parent organization, is considered capacity building and is configured on an ongoing, as-needed basis for the duration of the program. Although we believe that technical assistance should be pre-programmed as much as possible (see example for SC's Financial Director in exhibit 7F), the structure fosters continuous support. External technical assistance, on the other hand, is usually short term and is aimed at alleviating distinct technical constraints or knowledge gaps. This type of technical assistance usually implies a cost and should be planned in advance.

Rationale:

External technical assistance is sought to maximize the likelihood of achieving the enterprise project's social and commercial objectives by contracting for specific technical expertise not warehoused within the business or supporting institutions.

Same as previous exercise

Planning External Assistance

▲ Segregate external technical assistance activities from your **Enterprise Capacity-Building Plan**; our example shows TA for **production**, **marketing and finance**.

▲ Write a scope of work for the provision of external technical assistance. Include the following information:

- Type of TA
- Specific technical area
- Scope of work—goals and objectives, activities, and output (expected results)

- Which consultant will provide TA
- Cost implications for TA

▲ Refer to the examples (exhibits 7T and 7U) for illustration.

▲ Place External Technical Assistance Schedule on the Gantt Chart with training for the business plan period. (See chapter 6 for information on preparing a Gantt Chart.)

Technical Assistance Plans are included in the Business Plan.

EXHIBIT 7T: SCOPE OF WORK FOR EXTERNAL TECHNICAL ASSISTANCE

Type of TA	Food processing
Specific Area	Product development (all peanut-based products)
Duties	**Improvement of peanut storage and conservation.** Peanuts are seasonal crops in Haiti. To be able to produce peanut-based products year-round, the enterprise last year stored peanuts during the off-season. Unfortunately, 30 percent of the stored peanuts were lost during the year as a result of inadequate storage techniques. **Increasing peanut farmer productivity.** Peanut supply will quickly become a serious constraint to higher production volumes of peanut-based products. **Quality and variety of peanuts used in production.** Better qualities of peanuts are being searched for. These will make for tastier peanut-based products. In the case of the peanut butter products, a variety of peanut is also being searched for that will reduce the amount of oil that rises to the top after a short period of time. **Peanut-purchasing criteria.** The enterprise needs to develop a "peanut purchase checklist" to ensure consistent selection of the highest grade of peanuts available on the Haitian market.
Consultant	Two American specialists in peanut harvesting and storage from Farmer to Farmer Program.
Cost Implications	The costs associated with the continued international TA of the peanut specialists will be covered by the Farmer to Farmer Program of the organization Partners of the Americas, funded by ASSIST. Local logistical costs will be covered by ADE, with the exception of translation/interpretation expenses, which have been included in the business plan budget. ($3,500)

Exhibit 7U: Scope of Work for External Technical Assistance

Type of TA	Food processing
Specific Area	Product development (sweetened peanut-based products)
Duties	Initial experiments conducted by ADE with this new product have produced very flavorful results. The sugar, however, appears to damage the peanut butter grinder used in the transformation of peanuts for the other flavors. National TA will be sought to resolve this issue. TARTINA Enterprise will be looking for recommendations for alternative sugar sweeteners that are less damaging to the grinder or for another type of grinder suitable to production of this type of product.
Consultant	Haitian food technology specialist
Cost Implications	Fees for consultation, possible installation of a new grinder, and training in its use have been included in ADE's portion of the budget. This is expected to take only two or three days. The cost of purchasing a new grinder and of regularly servicing it has been included in the business plan budget, although this purchase may not be necessary if an alternative to sugar is found. ($800)

Target Population Capacity Building

To meet your social enterprise's mission, what investments will you make in building the capacity of your target population? Where on the continuum (exhibit 7V) do you place your social enterprise in capacity-building activities? Will you simply provide a job or one that includes technical training and "hard skills" such as production methods, bookkeeping, sales methods, use of new equipment, etc.? Maybe you will incorporate "soft skills" training into your program, such as teaching clients the value of being reliable by showing up regularly and on time. Some social enterprise programs go farther, offering credit and savings components, and others integrate the training with nonbusiness disciplines such as environmental education, literacy training, or health care services.

Exhibit 7V: Client Capacity-Building Investments

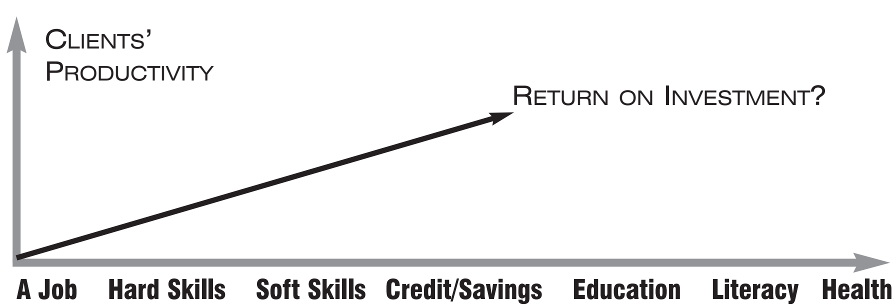


EXHIBIT 7W: TARGET POPULATION CAPACITY-BUILDING NEEDS

Capacity Building	Method	Benefit to Enterprise	Supports Mission
On-the-job learning	Provide a job	Labor	✔
Processing skills	Training/TA	Skilled labor improves productivity	✔
Peanut roasting	Training/TA	Improves product quality	✔
Labeling techniques	Training/TA	Improves product appearance, worker productivity	✔
Specialization	Training/TA	Improves productivity, product quality	✔
Inventory tracking	Training/TA	Improves inventory management	✔
Meeting behavior	Training/practice	Increased self-esteem, meetings more useful, higher morale, productivity	✔
Work etiquette	Training/practice	Stabilizes work force	✔
Decision-making	Training/practice	Higher self-esteem, morale, productivity, self-management	✔
Leadership development	Training/practice	Higher self-esteem, morale, productivity, self-management	✔
Understanding risk	Training/practice	Reduces risk aversion, more entrepreneurial	✔
Savings program	Savings service	Reduces risk aversion through financial security	✔
Credit program	Credit service	Clients assume risk of raw materials purchasing	No
Literacy	Literacy program linkage	Literate clients assume more responsibility, move up enterprise ladder	No
Environmental education	Environmental program linkage	Conservation of fruit trees	No
Health services	Health program linkage	Improved health = higher productivity	No

Rationale:
Target population capacity building is one of the most important aspects of your social enterprise program; it is directed by the mission.

PO business advisors, program partner manager, production manager, production agents, business manager, client representatives

Developing a capacity-building plan for target population

▲ Start with your mission and objectives, and ask these questions:
- What capacity-building activities will be needed to realize these goals and objectives?
- What will be the benefits to the enterprise from capacity building?
- What are the potential costs?
- What methods or capacity-building activities will be used?
- Who will be responsible for executing them?
- Refer to exhibit 7W for guidance.

The target population capacity-building plan is included in the Business Plan.

Human Resource Budget

Rationale:
A human resource budget is a good tool for scrutinizing the costs of capacity building, and it will be used in the financial plan.

PO business advisor, HR manager, business manager, finance manager or accountant

▲ Using the Human Resource Chart (exhibit 7H) as the template for your staffing needs, assign annual personnel costs, including benefits, based on employees' time percentage allocation to the program (an example for TARTINA is provided in exhibit 7X).

▲ Project costs for external training and technical assistance based on the analysis conducted in Capacity Building section.

▲ Information yielded in the human resource budget will be used in the financial section of the business plan (chapter 8).

EXHIBIT 7X: TARTINA HUMAN RESOURCE BUDGET

Staff Needs	Time on Project	Amount
Management		
Business Manager	50%	7,758
Financial Director (ADE)	30%	2,955
HR Director	25%	3,939
Admin. & Support		
Accountant	100%	6,909
Secretary (ADE)	40%	1,576
Driver	100%	1,970
Security Guards (2)	100%	2,915
Marketing		
Marketing Manager	100%	13,758
Sales Agents (4)	100%	5,999
Production		
Production Manager	100%	10,909
Inventory Manager	50%	1,891
Production Agents (4)	100%	5,727
Purchasing Agent	40%	2,705
Logistics	60%	4,360
Production Workers	25% - 100%	10,879
R&D	50%	5,567
Fringe (All Staff)		7,217
Incentives		
Bonuses, commissions, profit sharing		13,783
Nonfinancial incentive programs		N/A
Training		
In-house training (materials)		1,182
External training		2,950
Technical Assistance		5,666
TOTAL		**$120,615**

The Financial Plan

Chapter 8

Chapter 8

"The highest use of capital is not to make money, but to make money to do more for the betterment of life."

— *Henry Ford*
Manufacturing Entrepreneur and Philanthropist

Overview: The financial plan is the last section to be completed, as it reflects the decisions made in the other parts of your business plan. For example, if you project selling a certain volume of products or services at designated prices, these numbers are indicated in your sales forecast. Equally, the type and frequency of advertising you have chosen as well as the number of staff you will need to support these efforts bear costs evidenced in your marketing plan. Each planning decision is associated with numbers that when aggregated form the basis of your financial documents.

> **Treatment of Accounting and Finance**
>
> Because there are volumes of accounting and finance books available, technical information on preparing financial statements and budgets is treated in this manual (in relative terms) superficially. This does not diminish the importance of having an excellent accounting system in place and qualified accounting professionals on staff.

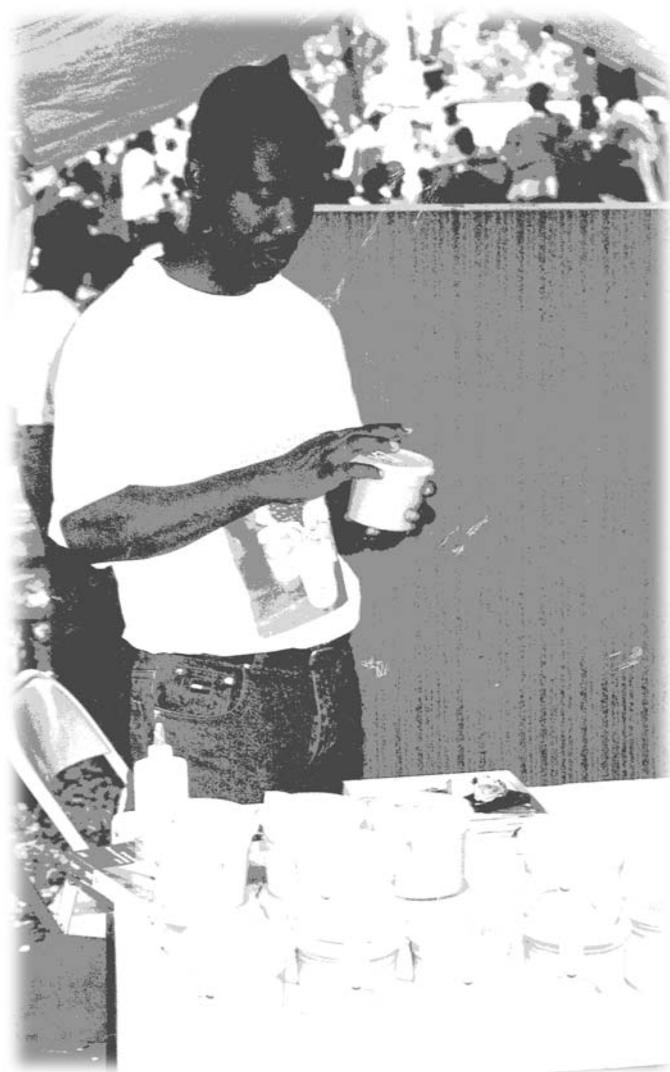
This chapter examines useful financial **targets** for social enterprise business planning as well as four critical financial tools: the **balance sheet**, **profit and loss statement**, **cash flow statement**, and **budgets** and methods to **quantify social costs** in accounting. Also discussed are how social enterprise **cost structures** and **resource acquisition** differ from those in private businesses and why.

Financial Planning Objectives

As with the other operational components of the business plan, the objectives of the financial plan must feed into the overriding objectives of the social enterprise (chapter 2). In fact, there should be some overlap between the larger financially oriented objectives, such as cost recovery or net profit/loss, and the objectives set out in your financial plan (exhibit 8A). Other objectives stated in the financial plan support attaining these larger objectives by giving enterprise management and PO business advisors valuable information toward this end. For example, TARTINA uses several ratios that determine profitability, efficiency, and liquidity to benchmark progress toward achievement of its sustainability objectives.

Selecting Financial Objectives

- ▲ Financial objectives of the social enterprise must be separate from those of the parent organization and the implementing partner (chapter 2).
- ▲ When setting objectives, wear the hat of every important stakeholder and ask the question, "What are the financial objectives for this social enterprise from my perspective?"
- ▲ Use exhibit 8A as a guide from which to select your financial planning objectives. This is not a complete list of possible objectives, so additions that suit your particular social enterprise are fine.
- ▲ Select financial objectives appropriate for your enterprise. No absolute number is specified; you will need to set a sufficient number to track financial information pertinent to your social enterprise. TARTINA uses all the objectives in exhibit 8A. Remember that you will have to follow and evaluate any objective you choose, a task that takes time and human capacity. The following exercise will help you determine if you are being unrealistic in your selections.



A sales agent sets up TARTINA display of Mamba products.

EXHIBIT 8A: FINANCIAL PLANNING OBJECTIVES FOR SOCIAL ENTERPRISES

Type of Objective	What It Measures	How to Calculate	Primary Users	Reporting Period	Information Source
Cost Recovery	Ability of enterprise to cover its costs through generated revenue	% = ***Gross income*** minus expenses	Public donors Investors PO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Cost Efficiency	Ability of enterprise to render services at a decreasing cost over time	$ = Expenses divided by # of clients	Public donors Investors PO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Operating self-sufficiency[1]	Ability of enterprise to cover its costs through generated revenue (with or without) using borrowed funds	$ = Income divided by operating costs + financial costs of loans + reserves/or loss provisions	Public donors Investors PO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Average Client Revenue	Ability of enterprise to generate increasing revenues per client over time	$ = Gross income divided by # of clients	Public donors Investors PO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Net Profit/Loss	Enterprise's progress toward financial viability	$ = Enterprise gross income minus expenses	Shareholders Public donors Investors PO Business Advisor Enterprise Manager Entrepreneurs	Quarterly Annually	Profit/loss statement
Gross Profit Margin	Ability of enterprise's product or service revenues to contribute to covering fixed costs	% = (Sales minus cost of goods sold) divided by sales	Enterprise Manager	Quarterly Annually	Profit/loss statement
Budget Expenditure Pattern	Enterprise's implementation of activities as planned	% = Actual expenses divided by planned budgeted expenses	Public donors PO Business Advisor Enterprise Manager	Quarterly Annually	Budget Profit/loss statement
Clients' Profit	$ that individual clients earn	$ = Individual client gross income minus individual client expenses	Clients	Weekly Monthly	Clients' financial records
Return on Equity **(ROE)**	Ability of enterprise to generate sufficient income to be a worthwhile investment	% = Net profit divided by owner's equity	Shareholders Investors Public donors Enterprise Manager Clients	Quarterly Annually	Profit/loss statement Balance sheet

[1] *Financial Ratio Analysis of Micro-Finance Institutions*, the SEEP Network and Calmeadow, 1995, Pact Pubications, NY, NY.

Exhibit 8A: Financial Planning Objectives for Social Enterprises

Type of Objective	What It Measures	How to Calculate	Primary Users	Reporting Period	Information Source
Current Ratio	Liquidity: how well the enterprise can meet its short-term cash requirements	X = Total of ***assets*** able to be converted into cash within one year divided by ***liabilities*** to be paid within one year	Shareholders Investors PO Business Advisor Enterprise Manager	Quarterly Annually	Balance sheet Cash flow
Quick Ratio	Liquidity: ability to pay current liabilities without relying on the sale of inventory	$ = Cash + accounts receivable divided by current liabilities	Shareholders Investors PO Business Advisor Enterprise Manager	Quarterly Annually	Balance sheet Cash flow
Sales Growth	Profitability: ability of the enterprise to make a profit through increasing sales	$ = Current year's (month's, quarter's) sales minus last year's (month's, quarter's) sales divided by last year's (month's, quarter's) sales	Shareholders Investors PO Business Advisor Enterprise Manager Marketing Manager	Monthly Quarterly Annually	Income statement Cash flow
Accounts Receivable Collection Period	Efficiency: ability of enterprise to collect its accounts receivable promptly	# of days = (Average accounts receivable divided by sales) times # of days in the reporting period (year, month, etc.)	Business Advisor Enterprise Manager	Quarterly Annually	Balance sheet
Inventory Supply	Efficiency: ability of enterprise to meet sales demand with available unfinished and finished stock	# of days = (Value of inventory divided by COGS) times # of days in the reporting period (year, month, etc.)	Business Advisor Enterprise Manager	Quarterly Annually	Balance sheet Profit/loss statement
Donor Dependency[2]	Show extent of dependency of enterprise on outside funds	% = Grants and Donations divided by ***average performing assets*** or ***average total assets***	Pubic donors Investors Business Advisor Enterprise Manager	Quarterly Annually	Balance sheet

Accounts receivable—money due from customers for products or services sold.

Accounts receivable collection period—number of days it takes for an enterprise to collect its accounts receivable. It is calculated as follows: number of days = (accounts receivable/sales) x number of days in the reporting period.

Assets—items owned by a company that are expected to generate cash. Examples include accounts receivable, inventory, and equipment.

Average performing assets (APA)—only the part of the assets used to support the business program[3]. Using APA is an appropriate measure when an enterprise is an early program phase under the auspices of the parent organization or implementing partner, or if after maturity it continues to share assets with another organization-i.e. building and land.

Average total assets (ATA)—calculated by summing the total assets in the balance sheet. ATA is an appropriate measure when all assets are used by the enterprise for its business activities.[4] It is the case when the enterprise is single purpose and assets are distinctly separate from another organization (parent organization, implementing partner, nonprofit).

Gross income—all revenue before deduction of any expenses.

Inventory supply ratio—the number of days the inventory will last given the rate of sales.

Liabilities—debts, or the obligations of a company to pay money to others (creditors, suppliers, payroll, etc.).

Return on equity (ROE)—expressed as a percentage that measures the ability of an enterprise to generate sufficient income to be a worthwhile investment. This is calculated by dividing net profit by owner's equity.

[2] Ibid., Donations and Grants Ratio.
[3] Ibid.
[4] Ibid.

Setting Targets for Each Financial Objective

After selecting the most appropriate types of financial objectives for your social enterprise, the next step is to set the targets for each one. Setting targets essentially means quantifying objectives with a specific number or percentage and tying them to a particular time frame. For example, to arrive at net profit/loss objectives, annual targets are sets for both revenue and expenses (exhibit 8B).

Exhibit 8B: Net Profit/Loss

Year	1	2	3	4	5	6	7
Total revenue	$15,000	$45,000	$95,000	$145,000	$190,000	$215,000	$235,000
Total expenses	$205,000	$265,000	$280,000	$285,000	$270,000	$225,000	$185,000
Net Profit/Loss	($190,000)	($220,000)	($185,000)	($140,000)	($80,000)	($10,000)	$50,000

How to Set Targets

You can set the targets in one of two basic ways:

1. **Bottom up.** This approach follows the format in this manual and is the best method for new enterprises. Begin with marketing, operations, and human resource plan calculations found in the respective budgets, sales forecasts and production plans. Then total projected expenses and revenues to determine financial target. Evaluate this target. Is it achievable for the time period specified? (chapter 2 for a complete list of criteria for setting "SMART" objectives.) If not, recalculate original numbers in the marketing, operations, and human resource plans. Total them to derive the financial target again. Repeat until the optimal financial target is found. Note that all of the targets that feed into the financial target must also be achievable for the specified time period.
2. **Top down.** This approach can be used if you have at least one year of experience operating your social enterprise and historical records to reflect performance to date. Pick a "ballpark" target. Then work backward through the marketing, operations, and human resources plans to calculate what is required to meet that target. Adjust the target as needed to ensure it is achievable for the time period in question.

Whether you choose a top-down or bottom-up approach to establishing your social enterprise's financial targets, you must decide how far into the future to project the financial targets. There is no one right answer. Generally, the detailed targets should be set for one to three years into the enterprise's "financial future," and broader-stroke calculations should be consistent with the time it takes to reach financial viability, usually three to seven years barring country context and type of enterprise. Social entrepreneurs define financial viability in a variety of ways. For our purposes, a social enterprise is considered financially viable when it no longer requires external subsidies. It may still require loans or other investments to support its business operations, as many profitable private-sector enterprises do. A financially viable social enterprise is one that is able to secure necessary funds through regular, unsubsidized financial channels.

In most cases of subsidized social enterprises, financial viability is one of the financial objectives, which means that the financial targets should be calculated at least to the point when the enterprise reaches financial viability. It is important, however, to distinguish between overall financial objectives as stated in chapter 2 and financial targets that support achieving these objectives, which correspond to the time frame of your business plan.

For TARTINA Enterprise, financial viability is estimated to be realized in the seventh year of operation. Cost recovery and net profit/loss are the objectives that most directly indicate progress toward financial viability. By the end of Year 7, cost recovery is expected to be at 127 percent for TARTINA Enterprise. Since TARTINA's business plan is for one year, the cost recovery target of 10 percent is set for the first year of operation (see exhibit 8C).

Exhibit 8C: Cost Recovery

Year	1	2	3	4	5	6	7
Cost recovery	10%	17%	34%	51%	71%	96%	127%

TARTINA clients wash up before beginning a production shift.

Exhibit 8D: Hints for Setting Targets

Financial Objective*	Guidelines for Setting	Targets Over Time
Budget Expenditure Pattern	Within 5% of projections. Most donors tolerate up to a 10% deviation from projected budget line items.	% deviation decreases. By the end of the subsidized period, any overexpenditures must be absorbed by the social enterprise. Unspent funds are returned to the donor.
Clients' Profit	Equal to or greater than what clients can earn in other income-generating activities.	Increase
Sales Growth	Look for steady increase. If costs and inflation are on the rise, then watch for related increases in your sales. If not, this is an indicator that your prices are not keeping up with costs.	Increase
Return on Equity (ROE)	Equal to or greater than what can be earned from the money (equity) if invested in alternative income-generating activities.	Increase
Current Ratio	A ratio of 2:1 is generally considered desirable. At least the value of the ***current assets*** must be greater than that of ***current liabilities***, which means that the social enterprise can meet its short-term cash requirements.	Increase
Quick Ratio	A ratio of 1:1 is desirable. This means that you don't have to rely on the sale of inventory to pay your bills.	Increase
Accounts Receivable Collection Period	30-90 days. The shorter the collection period the sooner cash is freed up for other uses.	Decrease
Inventory Supply	A low number of inventory supply days may mean a risk of running out of stock. A high number of days may mean the stock is not selling well. The "best" target is a balance between the two. Depends on the subsector the social enterprise operates in. Poor inventory management ties up cash.	Approach a balance between high and low numbers of inventory supply days

***Current ratio*—**a measure of liquidity used as an indicator of an enterprise's ability to pay short-term debts. The current ratio is derived by dividing current assets by current liabilities.

***Quick ratio*—**a measure of the relationship between the most liquid assets (cash, short-term securities, receivables and short-term investments) to current liabilities, used as an indicator of an enterprise's short-term liquiditiy.

***Current assets*—**assets that are expected to be turned into cash within one year through the company's normal operations.

***Current liabilities*—**liabilities due for payment in one year.

*Annual targets for a seven-year period for objectives: *Cost recovery, cost efficiency, and income per client* are detailed in chapter 2 of this manual and therefore are not reproduced here.

Role of the Audit or Evaluation

There are two different types of audits: internal (which vary in frequency) and external (which usually are annual). The primary purpose of an internal audit is to check the systems of an organization and ensure that all internal controls are in place. The primary purpose of an external audit is to ensure that the financial statements of an organization present a true and fair view of its operations. External audits are generally a legal requirement for any social enterprise program. Sometimes donors also conduct audits of individual projects or grants. Any large implementing organization or social enterprise should have an internal auditor who reports directly to the board or, sometimes, the head of the organization. An internal auditor usually has some accounting qualifications but may not be fully qualified.
External audit firms are generally legally required in most countries to be managed by fully qualified accountants.
Auditors in many countries have a code of ethics that recommends they undertake their work with an attitude of "healthy professional skepticism," so expect your answers to be questioned at times.

Setting Financial Targets

▲ Have a qualified staff accountant or financial manager participate in preparing this section.

▲ Arriving at financial targets can be a time-consuming and rigorous mathematical exercise; be sure to allow ample time for preparation and include key participants (chapter 1, Business Plan Framework, exhibit 1E).

▲ Begin by projecting the financial viability of your social enterprise; at what point in time will this occur?

▲ Use either the "top-down" or the "bottom-up" method to set targets for each of your financial objectives that correspond to targets in other business plan sections as well as support overall viability objectives.

▲ Recalculate targets for marketing, operations, and human resource plans, if necessary, until you are able to reach optimal financial targets.

Business manager, PO business advisor, program manager, finance and accounting staff

Financial targets are included in the Business Plan.

EVALUATING FINANCIAL TARGETS

Setting financial targets helps you keep your social enterprise on track, serving to measure and evaluate incremental progress toward achieving objectives. Therefore, at the time of setting objectives, you will need to establish a schedule for evaluating progress toward financial targets.

Rationale:

Establishing an evaluation schedule at the beginning is important for several reasons:

✷It brings the "M" of measurable down to earth by ensuring that you have identified useful targets that warrent the time and resources required to measure them.

✷It highlights whether or not you have qualified personnel to do the job by assigning an evaluation task to qualified personnel.

✷It helps human resource performance management by linking responsibility for financial target results to performance appraisals (chapter 7).

✷It sets a platform for communicating results of financial target assessment, i.e. published information in newsletters or reports.

✷It assists planning by considering which objectives/targets should be measured internally or externally during an audit.

✷It incorporates cost implications in business plan budgetary projections.

Preparing an Evaluation Schedule

▲ Develop an evaluation schedule for internal and external audits that corresponds to the time frame of your business plan.

▲ Include information on how evaluations will be conducted, who will conduct them, and who will be responsible for oversight.

▲ Be sure to link responsibility for target results to job performance (chapter 7).

Evaluation Plan is included in the Business Plan appendix.

Social Enterprise Cost Structure and Financial Trends

By now you know that the difference between a social enterprise and a private business is that a social enterprise has two bottom lines—a social and a financial one—whereas the private business has only a financial one. Your social enterprise has to both build local capacity and create a viable business; the private company is only interested in increasing value for its shareholders. By the same token, social enterprises are expected to have returns (quantified in terms of social impact) and are answerable to their investors—donors.

Capacity-building and investment decisions are more dramatic for social enterprises than they are for private businesses, with returns coming later, normally much later, than what would be acceptable in the private sector. *Capacity building* involves extra costs for training and technical assistance. A social enterprise also bears the financial burden for social costs of executing its mission and serving a disadvantaged population. Referred to as ***comparative disadvantages***, these costs include: client inefficiency allowance, extra supervision time, above market wage/income, wastage, productivity compensation due to poor infrastructure (for programs in developing countries), extra time required for donor reporting, and money for social program activities. Capacity building demands investment money, whereas comparative disadvantages require ***subsidies***. Regardless of the nature of costs, viability is a condition of a social enterprise, not an exception. You will not be able to satisfy your impact objectives if you cannot achieve viability.

The next section distinguishes between investment capital and subsidies in social enterprise programming. A good social enterprise business will need capital for capacity building to achieve viability, whereas a bad one (a nonviable one) will need subsidies to sustain its operations. Provided that you have selected a solid business idea within a hospitable environment with a sufficiently large market in which to launch your social enterprise (see chapters 3 and 4), revenue streams will be close to those of a private business. Operating costs, however, are much higher for social enterprises, which have to cover capacity-building and comparative disadvantages costs before they break even.

As development practitioners can attest, capacity building per se is hard to account for. Nonprofit professionals have tried various methods to quantify capacity building, including logging numbers of people trained or documenting skills development. Save the Children's view is that capacity is the acid test of social enterprise success and is measured by achieving business objectives (chapter 2) and financial targets outlined in this chapter. Benchmarking progress toward reaching targets and objectives over time indicates trends.

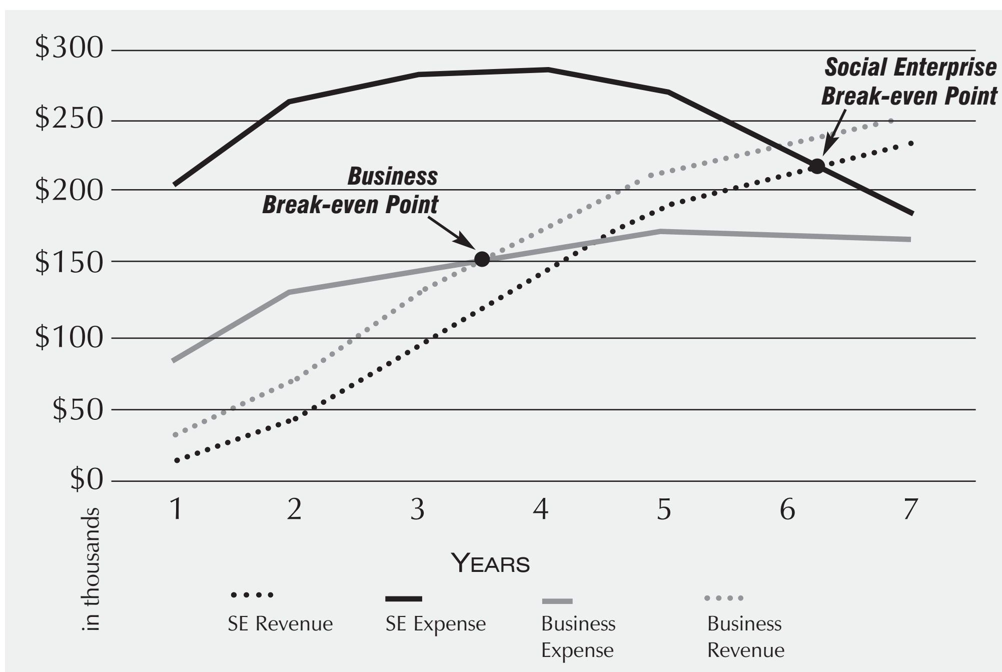
Comparative disadvantages—factors within a social enterprise such as expensive capacity building, compensation for loss in productivity and materials, and costs of social programs that make it difficult to compete with private sector competitors due to substantially higher costs.

Subsidies—grants or gifts by private individuals, governments, or foundations aimed at assisting a venture reputed to be beneficial to a target population or the public.

It is important to watch these trends closely; they can act as a warning system and flag a problem endemic among nonprofits business interventionists—understanding the difference between a subsidized social enterprise and a variable one. A common shortcoming of social enterprise professionals is that they often readily accept that costs are high. While this may be partly true, if trends show a continued deviation from projections, that is an indication that structural problems are present: Either the cost structure is too high or revenues are too low to support the business without continued subsidy. What this means is that the extra costs are not due to capacity building but, rather, the enterprise is not fully in the market and without adjustment will be doomed to failure. Ultimately, if capacity building is accomplished successfully the social enterprise will be able to sustain its operations after five to 10 years without external aid other than what is provided by investors or creditors, as in the case of any private business.

Exhibit 8E shows this relationship using projected profit/loss trends for TARTINA compared with a similar private business. The example gives a visual representation of numeric projections. The balloon-like shape clearly portrays the high capacity-building costs inherent in social enterprises, but not present in private businesses. After the enterprise achieves viability, though revenue between the two is close, cost structures for social enterprises continue to be marginally higher than those of a private business.

EXHIBIT 8E: FINANCIAL TRENDS



PO business advisor, business manager, finance and accounting staff

Projecting Financial Trends

▲ Using the graphics feature in a spreadsheet program, project the trend lines of your financial targets and objectives.

<u>Social enterprise trend projections are included in the Business Plan.</u>

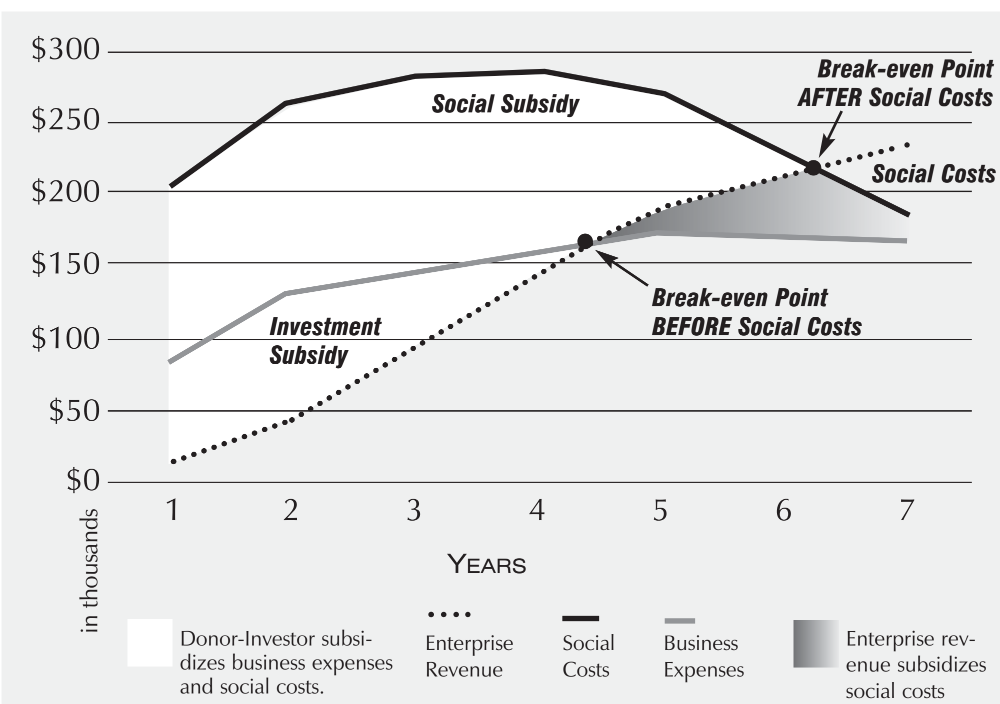
Investment and Subsidies

In the private sector investments provide the necessary capital to start and grow a business until it is profitable. Similarly, a social enterprise requires investment, yet it also needs a subsidy to cover social costs. Donors and private investors expect a return on their money, and like business investments, subsidies to social enterprises are only warranted if their costs can be justified. Simply put, will they realize a financial or a social return?

Subsidies represent a real cost; therefore, you are accountable to your donors to demonstrate a quantifiable return. For investment expenses, realistic financial projections must show an eventual break-even point (within an acceptable time frame) as well as evidence that social impact targets (chapter 2) are met, ensuring that investor money is not being squandered. When investors are dissatisfied with a business' performance, they withdraw their support, evoking the "survival of the fittest" rule in the business world. By the same token, auto-regulation of social enterprise programs is the power of the donor to pull the plug if your program is underperforming both in financial and social impact terms.

Social subsidies are more complicated and difficult to quantify (see next section Quantifying Social Costs) than investments. As mentioned, capacity building costs are considered normal investment costs, though they tend to be higher for social enterprises than in private business due to the low skills or special needs of the populations these enterprises serve. Subsidies, on the other hand, offset losses in productivity and expenses related to running social programs. These costs create disparity between social enterprises and their competitors in the private sector because they substantially increase enterprise costs, making it difficult to compete, or measure business performance against industry standards. (exhibit 8F.)

Exhibit 8F: Investment and Subsidy



The question is: Which costs should you subsidize with donor money and which ones should you try to cover with revenue? The structure of your organization, requirements from current donors, internal management decisions, the nature of the enterprise, and financing opportunities determine how to treat certain costs. For example, Save the Children segregates its overhead and technical assistance costs from enterprise operations, considering them a temporary but necessary expense to finance capacity building. SC assumes that its costs will be fully subsidized for at least the first donor funding cycle of the enterprise program. Start-up costs of initial fixed assets and capital are fully subsidized by donor monies. SC does not expect that the social enterprise will be able to recover and repay initial investments like private business. Operating deficits are subsidized on a declining basis to fill the gap between revenues and capacity-building, loss compensation and social program expenses. Unlike a private business that may borrow funds or use venture capital to finance ***working capital*** and operating costs prior to breaking even, social enterprises are not required to recuperate these costs and reimburse donors. Lastly, some social costs will need continued subsidy. Depending on the social enterprise's ability to generate revenue, social program mix and donor funding priorities, social subsidies will either be provided internally from enterprise revenue or externally from donor support.

Working capital—the excess amount in current assets over current liabilities. Working capital is the money a business uses to run its operations and in accounting is a measure of the enterprise's ability to service its financial obligations.

Exhibit 8G Social Enterprise Financing Structures illustrates how subsidies work in social enterprise programs. Although all money is ***fungible***, subsidy must be recognized separately from income generated by the enterprise in financial statements and budgets (see following sections on preparing financial statements). Additionally, allocating subsidies coupled with the viability of your social enterprise have a direct impact on your fundraising and financing strategy (see Resource Acquisition Strategy).

Fungible—being of such a nature that one part or quantity may be replaced by another equal part or quantity in the satisfaction of an obligation.

TARTINA Clients clean up after their production shift.

Exhibit 8G: Social Enterprise Financing Structure

Parent Organization Budget Salaries TA/Training Operating Overhead	**Wholly subsidized** (for duration of the program)
Enterprise Budget Start-up Costs	**Wholly/Partially subsidized** (one time) (if match)
Enterprise Budget Salaries TA/Training Operating Costs & Overhead	**Subsidize deficit** (declines over time, replaced by revenues and investor/creditor capital)
Social Costs Capacity Building Loss Compensation Social Programs	**Donor or Parent Organizations Subsidized/Financed by Enterprise Revenues** (possible to receive grants for some program costs despite profitability of enterprise)

Use of Income

Until the enterprise actually breaks even, revenues simply represent a decrease in loss, but they should be acknowledged and accounted for differently from subsidy in financial statements (explained later).

There are a variety of ways in which social enterprise revenues can be handled:

Prior to breaking even:

- First, revenues should be used to cover variable and production costs (reflected in cost of goods sold in the profit and loss statement, which gives you gross margin).
- Second, revenues in excess of variable costs should be used to cover the fixed costs of the social enterprise (or the operating deficit for salaries and overhead costs).

- Third, revenues are used for capital assets, such as equipment investments, that will generate additional revenue for the enterprise.
- Fourth, revenues used for pay raises to workers, clients, employees in-step with cost of living increases and job performance promotions.
- Fifth, revenues are contributed to a revolving loan fund, savings accounts, or insurance schemes for the microentrepreneurs operated by the social enterprise.
- Sixth, revenues applied to financial costs of borrowed capital (interest on loans) to finance business operations and growth.

After viability is achieved:

- Use revenues for profit sharing via bonuses, dividends or increases in base salaries or wages of workers, clients, employees to increase their overall economic security.
- Use revenues to finance the expansion phase of the social enterprise.
- Invest revenues in diversifying enterprise business or other income-generating activities in the formal or informal markets.
- Use revenues to cross-subsidize other sector activities or add new capacity-building programs, such as literacy, that may have been too expensive to include in the immature business.
- Invest in an endowment or long-term securities to generate income for social programs.

Remember to consult the enterprise's program donor(s) early on this matter, as they are likely to have their own regulations and preferred approach. An agreement needs to be reached before start-up of the program and the appropriate financial instruments prepared.

How TARTINA Dealt With Revenues

TARTINA negotiated with its donor that it would use enterprise project revenues to cover fixed costs of the enterprise. This was considered the best strategy, as it most directly contributed to the cost recovery and financial viability objectives. In practice, this approach required that TARTINA plan in advance which fixed costs the revenues would cover. TARTINA chose promotional and sales staff salaries for this purpose, as these were expenses with some degree of flexibility. That is, if TARTINA were unable to reach its revenue targets, the budget line items projected to be covered by the revenues would need to be scaled back. As well, TARTINA's revenues would cover depreciation of the enterprise project's vehicle, as this was an expense that the donor could not subsidize because of its own regulations.

Business manager, accountants and finance staff, PO business advisor, partner program manager

Planning for Revenue

▲ Write a few lines on how you plan to use enterprise revenues.

Revenue information is included in the Business Plan with your trend projections (previous section).

Quantifying Social Costs

Rationale:

Running a social enterprise involves additional costs not incurred by traditional businesses. Directly employing disadvantaged people in your work force who face constraints to normal employment or providing services to them to bring their products to market when access is otherwise not possible are expensive business propositions. Yet, as a social enterprise you are bound by your mission to increase this population's economic security and quality of life while operating with reference to a financial bottom line. Thus, social enterprise managers must be able to make informed decisions with respect to both the business and the social programs. One device for effective decision-making is to segregate the costs of these distinct functions that run simultaneously.

Distinguishing social costs from business costs has express advantages. Concerning the business side, knowledge of the social enterprise's profitability shapes every strategic and operational decision made by management. It provides the means to assess the enterprise's market position and craft a competitive strategy. Furthermore, separating these costs permits social enterprise accountants to prepare financial statements comparable to those of similar private businesses, enabling managers to measure enterprise performance against competitors and industry standards. This is important because it informs management about costs that may be reduced or investments made to increase enterprise profitability and competitiveness. Moreover, understanding the social enterprise's financial performance vis-à-vis its for-profit colleagues provides information for strategic decision-making on issues such as pricing, expansion, market entry, product development, exit, etc.[5]

Similarly, quantifying social costs informs decision-making regarding social programming. Understanding social cost allocations allows managers to measure the effectiveness of achieving social impact objectives. Tracking expenses over time informs whether costs are rising or declining to meet objectives. Evaluating program cost effectiveness helps determine which social costs yield the largest benefit on social impact. Likewise, when costs are separated, social cost figures can be analyzed for their impact on business performance. This enables managers to delineate

[5]*Investor Perspectives*, "Quantifying Social Costs: A Case Example from Rubicon's Buildings and Grounds Business," Kim Starkey, 2000, Roberts Foundation, SF, CA.

which social costs can be considered investments rendering a return via increased revenues, and which are subsidized costs inherent in achieving a social mission and never yield financial benefit to the business. (exhibit 8F, Investment and Subsidy.) Making this distinction helps managers plot their resource acquisition strategy (see Resource Acquisition Strategy at the end of this chapter).

Enterprise production/operations and business managers, accountants and finance professionals, supervisors, social program directors, PO business advisor

Quantifying social costs is a complicated and imprecise science[6] that requires developing consistent methodologies suitable for your social enterprise.

▲ Find the blank table **Quantifying Social Costs** provided in *The Workbook* to use as a template, or create your own.

▲ *Step 1*—brainstorm the types of social costs that are significant for your social enterprise and assess the likely cost magnitude of each one. For example, if you have clients in your labor force, and labor is one of the largest components of your enterprise's cost base, then it is likely your most significant costs are related to employee inefficiencies or additional supervisory time.

▲ Fill out table based on conclusions.

▲ *Step 2*—outline each methodology that could be used to identify social costs and pinpoint its methodological challenges. Three examples of methodology follow: 1) **time**—approximately 30% of the manager's time is devoted to "extra" tasks necessitated by the challenge of managing the enterprise's disadvantaged labor force; thus 30% of the manager's salary and benefits would be quantified under social costs. 2) **Lost income** (+ time)—poor health of clients constitutes 25 sick days and 20% loss in productive days or income not earned. Therefore, the percentage of lost productive days over and above the industry standard (use for example 3%), which would be 17% lost revenue, is allocated to social costs along with the costs of sick day benefits of 20 days over and above industry standard (for example 5 days). 3) **Wage premium**—social enterprises pay livable wages to a population that may not have such a high earning potential. Compare salaries, wages or piece rates across your industry. Use published industry statistics if available, or contact your competitors, suppliers, buyers to determine standard pay scales. Deduct the social enterprise "premium," the amount above median industry standard rate.

▲ *Step 3*—decide which social costs to include in the analysis by weighing methodological challenges and the estimated magnitude of each social cost. You will probably not quantify all of the social costs that are relevant to your enterprise. Some costs will be eliminated on the grounds that they are either financially insignificant or the methodological challenges for determining them are too great.

▲ *Step 4*—execute your methodology and translate social costs into dollar amounts or use local currency. Pay particular attention if your methodology is based on percentage, not to confuse percentage and dollar values. Methodology should be applied to accounting periods, and quantified monthly, quarterly and annually.

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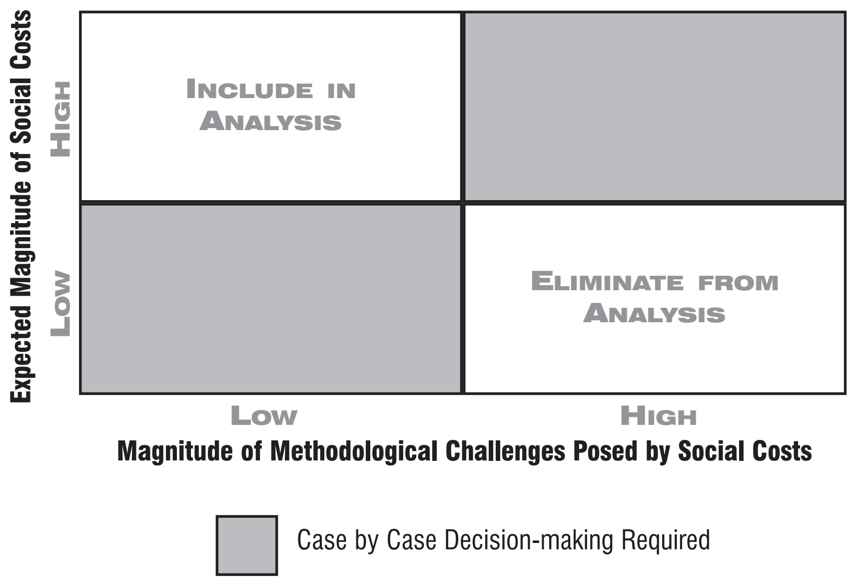
[6]Ibid., steps to quantifying social costs given in exercise.

Social cost information will be used for two purposes later. First, to define both bottom lines in financial terms when you prepare a profit and loss (income) statement for your social enterprise (see Adjusting the Profit and Loss to Include Social Costs). And second, to provide useful decision-making information for your resource acquisition strategy (see Resource Acquisition Strategy).

EXHIBIT 8H: HOW TO DECIDE WHICH SOCIAL COSTS TO INCLUDE IN THE ANALYSIS[7]



[7]*Investor Perspectives*, "Quantifying Social Costs: A Case Example from Rubicon's Buildings and Grounds Business," Kim Starkey, 2000, Roberts Foundation, SF, CA.

EXHIBIT 8I: QUANTIFYING SOCIAL COSTS[8] FOR TARTINA

TYPE OF SOCIAL COST	DEFINITION	MAGNITUDE OF COST	SUBSIDY OR INVESTMENT	FUNDED BY (AFTER INITIAL INVESTMENT)
CAPACITY BUILDING	**Skills training of disadvantaged work force.**			
Hard Skills Training	Time and costs for transferring hard skills (production techniques, packaging, machine use, etc.) to work force.	High	Investment	Revenue/ Grants
Soft Skills Training	Time and costs of interpersonal skills, accountability, etc).	Medium	Investment	Revenue
LOSS COMPENSATION	**Loss in productivity and materials due to disadvantaged nature of work force.**			
Allowance for Inefficiency	Time needed to complete job due to low skills, illiteracy, disabilities, of disadvantaged work force.	High	Subsidy	Revenue
Extra Supervisory Time	Time for supervision, counseling, on-the-job training of disadvantaged work force.	High	Subsidy	Revenue
Wage/Income Premium	The difference between social enterprise rate and industry standard for level of skills in work force.	Medium	Subsidy	Revenue
Wastage	Cost of wasted materials due to employment of work force in training.	Low	Subsidy	Revenue
Illness/Family Problems	Loss of work time due to poor health, emotional or family problems.	Medium	Subsidy	Revenue
Poor Country Infrastructure/Inefficiencies (Developing country context only)	Time for inefficiencies and infrastructure problems, costs for building extra infrastructure.	Medium-High	Subsidy	Revenue

[8]Ibid., Table modified. Assumes cost structure after start up phase is complete.

TYPE OF SOCIAL COST	DEFINITION	MAGNITUDE OF COST	SUBSIDY OR INVESTMENT	FUNDED BY (AFTER INITIAL INVESTMENT)
SOCIAL PROGRAM COSTS[9]	**Integrated social programs aimed at assisting clients or requirments of parent organization.**			
Donor/Parent Organization Activities and Fundraising	Time for donor visits, reports, fundraising, parent organization events, meetings that detract from enterprise productivity.	Medium	Subsidy	Grants/parent organization
Counseling, Job Coaching	Costs for on-the-job support and emotional stability.	Medium	Subsidy	Grants/ revenue
Other Vocational or Education Services	Costs for training to enhance clients' employability and independence outside of enterprise program.	High	Subsidy	Grants/parent organization
Food, Housing, Clothing, Health Care	Costs that meet basic/special needs of clients other than economic ones.	High	Subsidy	Grants/parent organization

[9]TARTINA does not integrate business and social programs within its enterprise structure, and therefore does not incur the "Social Program Costs" given in this chart. Thus, information on the magnitude of costs, whether it is a subsidy or an investment, and who underwrites these costs are given generically—based on average expenses of integrated social enterprise programs.

Financial Tools

An essential part of the social enterprise's financial plan is preparation of four key financial tools, namely:

- **Budget—**details anticipated enterprise expenses and income.
- **Profit/loss statement—**measures the profitability of an enterprise over a period of time.
- **Balance sheet—** provides a "snapshot" of the enterprise's financial position at a given point in time.
- **Cash flow statement—**explains how cash was both generated and spent over a period of time.

Financial Control

Financial statements are an important control mechanism and should be produced regularly. They should not just be viewed as something that is produced once a year for audit and registration purposes. The different parts of financial statements are intrinsically linked. For example, if you see your receivables increase, you might expect your cash to decrease and vice versa. If you see your inventory and receivables increase drastically, you are probably about to have significant cash flow problems. The effects of good or weak internal control systems will show up in your financial statements. As a social enterprise you must be strict about collection of receivables or you will have no cash left. There's no quicker way to destroy an enterprise than to be slack in collecting what is owed to you. And pay everything you owe to others early! You must know each week what is due from credit sales and take firm action. Every dollar tied up in receivables (or excessive inventory) is a dollar that cannot be used to expand or maintain your enterprise. Be strict on controls around cash. Imagine that it's your own money. You wouldn't allow your personal debts to go uncollected, or pay too much for supplies because you didn't have time to walk 200 meters farther to a cheaper shop, or leave your own money lying around in an unlocked drawer rather than in a safe. But people frequently do these things with money that belongs to an enterprise.

The last three tools are also referred to as financial statements in accounting and financial literature.

Financial tools represent the financial strength and performance of a social enterprise and are used for planning, evaluation, and control purposes by the various enterprise actors. There is some debate about which financial tools are most important. Proponents of balance sheets advocate their use over other financial tools because they represent the true value of the enterprise. Others prefer profit and loss statements, as they indicate whether your enterprise is making or losing money. Our experience shows that social enterprises most often falter in cash management, hence significant explanation is given to the subject of cash flow.

All financial tools are linked and should be used together in order to fully understand the financial position of the enterprise (exhibit 8K: Interrelationship between Financial Statements for Social Enterprises). Without these tools, you will not be able to prepare the enterprise's financial targets or measure its progress against these targets. Exhibit 8J, Financially Statement Overview, gives an overview, of the purpose, time frame, and main users for each financial tool.

EXHIBIT 8J: FINANCIAL STATE OVERVIEW

Tool	What It Tells You	Time Frame for: Planning	Time Frame for: Evaluation	Who Uses It
Profit/Loss Statement	How much the enterprise is making or losing.	Annually	Monthly Quarterly Annually	Shareholders, Public donors, PO Business Advisor, Enterprise Manager, Entrepreneurs
Balance Sheet	Financial picture of the enterprise as of a specific date. Lists assets, liabilities, and equity.	Annually	Quarterly Annually	Shareholders, Public donors, PO Business Advisor, Enterprise Manager
Budget	All of the expenses of the social enterprise (profit/loss statement) and all relevant expenses of the PO.	Annually	Quarterly Annually	Public donors, PO Business Advisor
Cash Flow Statement	Indicates cash surplus or shortage for enterprise operations. Shows all inflows and outflows of cash in the enterprise.	Annually	Weekly Monthly Quarterly Annually	PO Business Advisor, Enterprise Manager

Profit and loss statement—financial statement that summarizes the amount of revenue earned and expenses incurred by a business entity over a period of time; also called an ***income statement***. In nonprofit accounting, the profit and loss statement is sometimes referred to as the *statement of activity*.

Balance sheet—a financial statement that shows assets on the left side and liabilities on the right. A balance sheet gives an overview of a company's financial position at any given point.

Budget—a financial plan based on estimates of expenditures and revenues for a period of time.

Cash flow statement—a financial document that reports information about cash receipts and cash payments during an accounting period. The cash flow statement segments cash sources and uses into "operating", "investing" and financing" categories. It is generally prepared for the same period as the profit and loss statement.

Costs of goods (COGs) sold— Costs of inventory sold during an accounting period by the selling enterprise. COGs include all costs to make a product or render a service: labor, raw materials, operations, factory overhead, etc. It is important for social enterprises to list costs of goods sold in their income statement.

Gross profit—shows the value that an enterprise is earning over the cost of the merchandise sold **(costs of goods sold)**. Gross profit is calculated by subtracting costs of goods sold from total sales. It is called gross profit because other expenses still need to be deducted in order to arrive at net profit.

Operating expenses—the costs of the selling and administrative activities of a business. Operating expenses are reported in the income statement and are usually categorized as selling and general administrative expenses.

Net profit—what remains after all expenses have been subtracted from revenue; also referred to as *net income.*

Net worth—also called owner's equity, net worth is equal to assets minus liabilities. It represents the value of the enterprise.

Fund Accounting—a concept particular to nonprofit organizations and government agencies. Financial records must be maintained for each program that receives contributions (in the form of grants and donations) designated to support a specific program. Each set of records is called a "fund" and is considered a separate accounting entity with its own financial statements.

Pro forma—a projection or estimate of what may result in the future from actions in the present. Pro forma budgets and financial statements estimate business performance results based on certain assumptions.

Exhibit 8K: Interrelationship Between Financial Statements for Social Enterprises

Profit/Loss Statement	**Change in Balance Sheet**
Sales	Increase in accounts receivable; decrease in inventory
Less: ***Costs of goods sold***	Decrease in inventory
Equals: ***Gross profit***	No change
Less: ***Operating expenses***	Increase in accounts payable, decrease in cash, or decrease in prepaid expenses
Equals: ***Net profit*** (or loss)	Increase in retained earnings for profit, or decrease in retained earnings for losses
Plus: ***Subsidy***	Increase in donor contribution (net worth)
Balance Sheet	**Change in Cash Flow Statement**
Increase in assets (use)	Decrease in cash
Decrease in assets (source)	Increase in cash
Increase in liabilities (source)	Increase in cash
Decrease in liabilities (use)	Decrease in cash
Decrease in ***net worth*** (use)	Decrease in cash
Increase in net worth (source)	Increase in cash

Rationale:

A good accounting system and financial statements are the basis of a sound enterprise. Do not rely on donor program reports or ***fund accounting***, which only tell you in cash terms how much you have spent on a particular line item during a month, quarter, or year. Donor project reports will tell you almost nothing about the overall health of your enterprise, nor will they assist you in making key decisions. For this you need standard financial statements as used in the business world. They will enable you to compare your enterprise with other enterprises. You are also far more likely to be well received by the local bank manager when your enterprise one day needs a cash-flow loan.

Guidelines for Preparing Financial Tools

- **Begin with projected financial statements and budgets.** Projected, also called ***pro forma***, financial statements, forecast future expenses and income. Pro forma financial tools provide the starting point for your social enterprise based on educated estimates.

- **Base projections on historical information or actual costs.** Use cost information either from past experience (if yours is an existing enterprise) or from research on market prices.

- **Clearly state the assumptions behind your projections.** This helps you think through the logic and basis for your projections, and if you discover that your projections are off, you can revisit the assumptions to verify whether they are still valid. Some examples for TARTINA include 12 gourdes per marmite for peanuts (based on last year's average prices plus a minor adjustment consistent with inflation) and $15,758 in annual pay for a Marketing Manager based on low-end competitive rates for the same job in the private sector.

- **Use the appropriate level of detail in your financial statements.** "Appropriate" refers to information that is important for users of financial statements for analytic and decision-making purposes. This may mean preparing consolidated statements that give financial information in summary form for external users, such as donors and investors, and more detailed statements for internal use by enterprise managers.

Accrual Accounting—a practice of accounting whereby revenues are accounted for in the period in which they occur and expenses recognized when they are incurred, rather than when a cash payment is made or received. Accrual accounting gives a realistic picture of the enterprise's financial position by recording the effects of financial transactions on the social enterprise regardless of when cash is received or paid.

- **Reconcile projected financial statements with actual performance.** Report projections against actual performance. Reconciling differences quarterly or monthly not only helps enterprise managers verify whether they are on track with their estimates but signals problem areas before they become catastrophic. Finally, using this approach systematically should increase accuracy of projections as the enterprise matures.

- **Set up a standard accounting system.**[10] Whether it's an accrual or a cash system (see box), a social enterprise should use an accounting system that generates the same financial reports as those used in the private sector. Often nonprofits use simplified cash systems or structure their accounting to respond to donor reporting requirements, which may leave out information essential for financial analysis.

Accrual and Non-accrual (Cash) Accounting Systems

One of the tensions between the business and nonprofit worlds is which accounting system to use. The nonprofit world tends to use ***cash accounting***. The advantage of this is simplicity: Your financial statements reflect exactly what you have paid out in cash or by check. Some donors also require cash accounting. The business world generally uses ***accrual accounting***, which in fact is a legal requirement in most countries. Why? Well, consider a social enterprise that paid its rent of $2,000 for calendar year 1998 on Jan. 1, 1998, and that paid its rent of $2,000 for calendar year 1999 on Dec. 31, 1998. Accrual accounting would show rent of $2,000 in both the 1998 and 1999 financial statements because that is the correct amount relating to each year. Cash accounting would show a rental expense of $4,000 in the 1998 financial statement and nothing in 1999—a clear distortion of the picture. The only accurate way to evaluate financial performance month by month or year by year is to use accrual accounting.

Cash Accounting—a practice of accounting whereby revenues and expenses are recorded when cash is paid and received. Cash accounting is straightforward and is often used by very small businesses; however, it can overstate or understate financial position of the enterprise depending on when a cash payment is made or received.

[10] The topic of social enterprise accounting systems is complex, particularly as it relates to the relationship between the enterprise and the parent organization. SC suggests that you consult with a private sector accountant, tax attorney and an MIS specialist before setting up a social enterprise accounting system. Recommended reading on this subject can be found in *Investor Perspectives*, "Accounting Issues in Social Purpose Enterprise," Cynthia Gair, 2000, Roberts Foundation, SF, CA.

Let Technology Be Your Friend

Nowadays there are many good off-the-shelf accounting packages available, so don't reinvent the wheel unless you have to. Try to choose one that has good technical support in the country and, if you have donor grants, one that can deal with fund accounting (separating the funds of different donors). Powerful spreadsheet programs such as Excel can also assist you with various financial tasks. But remember the old adage of garbage in, garbage out. Technology is no substitute for having a good, solid manual system underneath that feeds accurate information to your computer.

There are also more specialized accounting/financial management software packages that automate a number of functions, such as inventory management and ordering. Spreadsheet or software macros should link to financial statements.

- **Use technology to prepare financial statements.** The days of the abacus are long gone: Social enterprise managers need to embrace technology to be able to react quickly. Relying solely on a calculator means the enterprise won't have a chance of competing.
- **Be clear on tax implications for your social enterprise.** There are only two certainties in life: death and taxes. Even nonprofits are liable for various taxes, such as property, payroll, etc. The best way to understand what taxes the enterprise does or might owe is to consult a good lawyer and/or accountant. It's money worth paying upfront to avoid huge liabilities later.
- **Inventory valuation.** Select a system for valuing inventory (see box) that is appropriate for the type of business. Inventory valuation has an impact on the bottom line and is frequently overlooked by social enterprise practitioners.
- ***Depreciation method.*** Use a standard method of depreciating fixed assets suitable for your enterprise (see box on next page).

***Average cost*—**a method of inventory valuation that assumes inventory sold during the period was purchased at the average cost of all inventory available for sale.

Inventory Valuation

The valuation of inventory is one of the most important parts of an organization's financial statements, as it has a direct effect on profit (via cost of goods sold). Inventory is usually valued at the lower of cost or net realizable value, i.e., the price you would receive if you sold it. With the exception of a few commodities that increase in value with age (whiskey and wine), the net realizable value of many commodities decreases over time as they become obsolete or their shelf life ends and value may therefore be lower than cost. Finding the exact cost of each unit of a commodity is obviously almost impossible if there are hundreds, so three main methods are used: FIFO, LIFO, and average cost method. FIFO—first in, first out—assumes that the oldest units are sold first and that remaining units are valued at the most recent prices paid or production cost incurred. FIFO is the most commonly used and accurate method of inventory valuation. LIFO—last in, first out—assumes that the most recent additions to inventory were sold first and therefore values inventory at older prices. LIFO is not often used. The ***average cost*** method simply takes an average of purchase prices or production costs for a commodity; its advantage is simplicity. Generally an organization should use FIFO unless there is a good reason not to.

Depreciation

Why depreciate? Let's imagine you purchase a vehicle that has an estimated useful life of five years. It makes sense to spread the cost of the vehicle over the five years it is used in the social enterprise rather than take the whole charge in one year, even though many donors would prefer that it be charged in one year for their accounting purposes. In business accounting, depreciation allows you to match the cost of assets with the revenues produced by them. There are two main methods: declining balance and straight line. Most businesses use straight-line depreciation for its ease. Thus, for the vehicle you would divide the purchase price (say $18,000) by its useful life (say five years or 60 months), and the depreciation charge would be $3,600 per year or $300 per month. However, this may not be that accurate for a vehicle, which typically loses 20 percent of its value the moment it is driven out of the showroom. It might be more accurate to take a depreciation charge of 30 percent of the net value of the vehicle each year. For Year 1 the charge would be $18,000 x 30% = $5,400, and for Year 2 it would be ($18,000 – 5,400) x 30% = $3,780 and so on. The main difference between the methods is that straight line is easier, the asset is fully depreciated in a certain time period, and the charges are equal each year. With declining balance, you have higher charges in earlier years and lower charges in later years. Generally, you should use the straight-line method unless it seems very inaccurate.

Depreciation—the decrease in the value of equipment from wear and tear and the passage of time. Depreciation is recorded as an expense that allocates the cost of the asset over the time it is expected to generate income.

Information Flows

Perhaps you are wondering where financial statement information comes from. This is a good question. Remember that in previous chapters the ($) indicated information you would use in the financial section of your business plan. Exhibit 8L shows how the information you compiled earlier will be used to prepare your financial statements and budget.

Sales planning with sales team.

Exhibit 8L: Financial Information Flows

Information Used in Financial Plan	Represented in Financial Statements	Line Items
Strategic Frameworks, Chapter 4		
Seasonal Factors	Cash flow projections Profit/loss statement	Sales, COGS, operating expenses, sales, marketing
Financial Characteristics	Cash flow projections	Sales, returns, COGS, commissions, salaries
	Profit/loss statement Break-even	Sales, COGS, operating expenses Sales price (not a line item)
Marketing, Chapter 5		
Marketing Vehicles	Cash flow projections	Operating expenses
	Profit/loss statement Marketing budget Cash flow projections	Marketing and advertising All—related to promotion Operating expenses
No/Low-Cost Promotion	Profit/loss statement Marketing budget	Marketing and advertising All—related to promotion
Sales Plan + Structure	Profit/loss statement	COGS, sales or marketing, commissions, gross sales
	Cash flow projections	Cash sales, accounts receivable
Marketing Budget	Social enterprise budget	Marketing costs: salaries, benefits, payroll tax, commissions
Operations, Chapter 6		
Facilities	Profit/loss statement	Rent, utilities, maintenance, depreciation
	Cash flow projections Balance sheet	Operating expenses, other expenses Fixed assets, depreciation
	Social enterprise budget	Rent, building maintenance
Production	Profit/loss statement	COGS (inventory), salaries, benefits, payroll tax
	Cash flow projections	Operating expenses
	Production budget	All production expenses
	Break-even Social enterprise budget	Variable & fixed costs of production Raw materials, factory overhead, labor, salaries, benefits, payroll tax
Equipment	Profit/loss statement	Depreciation, equipment rental, furniture and equipment
	Balance sheet	Fixed assets, depreciation
	Cash flow projections	Operating expenses, equipment purchase
	Social enterprise budget	Fixed assets: production equipment

Cash flow projection—a forecast of the cash a business anticipates receiving and disbursing over a given span of time, frequently one month. It is useful in anticipating the cash portion of a business at specific times during the period projected.

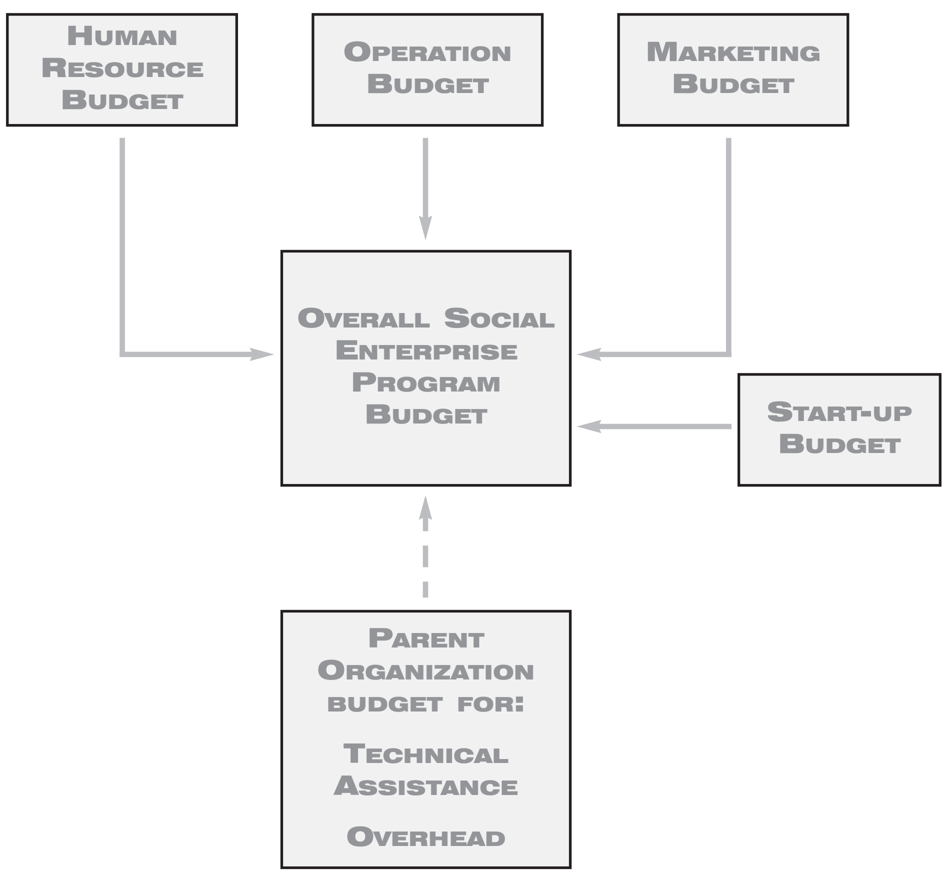
Information Used in Financial Plan	Represented in Financial Statements	Line Items
Research & Development	Profit/loss statement	Operating expenses, allocated salaries, or R&D
	Social enterprise budget	R&D, consultants, materials
Human Resource Plan, Chapter 7		
PVO Staff	Social enterprise budget	Salaries, benefits, payroll tax
Enterprise Staff	Social enterprise budget	Salaries, benefits, payroll tax
	Income statement	Salaries, benefits, payroll tax
	Cash flow projections	Operating expenses
Recruitment Plan	Income statement	Salaries, benefits, payroll tax
	Cash flow projections	Salaries (projections for new hires)
Incentive Programs	Income statement	Sales commission
	Cash flow projections	Operating expenses
Capacity Building	Income statement	Training materials and services, legal and professional services
	Cash flow projections	Operating expenses
Financial Plan, Chapter 8		
Start-up Costs	Profit/loss statement	First month's operating expenses allocated to relative lines
	Balance sheet	Current assets, fixed assets, current and long-term liabilities (for debt secured to pay costs) or net worth (for subsidies or contributions)
	Cash flow	First month's operating expenses and term payments for future months

Budget

The social enterprise starts out as a program. Therefore, prior to addressing financial statements—balance sheets, profit and loss statements, and cash flow statements—we begin this section with a budget, the financial management planning instrument most development practitioners are already familiar with. A budget projects all expenses of the social enterprise as well as any additional expenses of the PO that are charged to the social enterprise program, usually on an annual basis. Normally, quarterly assessments are made of actual expenditures relative to those that have been planned.

Much of the budget is drawn from financial information completed in previous business plan chapters, such as marketing, operations, and human resources budgets (exhibits 8L and 8M). What has not been discussed in detail—other than PO salaries in the human resource chapter—is the parent organization's budget for staff, capacity building, and overhead as well as social enterprise operating overhead.

Exhibit 8M: Budget Information Flows



BUDGETING START-UP COSTS

New social enterprises will need to prepare a budget for first-month start-up costs to determine total capital requirements needed for fixed assets and working capital. Start-up costs, or ***sunk costs***, are the nonrecoverable costs of launching a business. Unlike many businesses, social enterprises have the luxury of having these paid by donors and are not required to recover this original investment. Considered pre-operating expenses, start-up costs are included in the financial needs section or budget of your social enterprise program proposal, as well as in the financial statements in your business plan.

Sunk Costs—a cost that has been incurred and cannot be affected by present or future business decisions.

▲ Begin by looking over budgets completed in earlier sections of the business plan (operations, marketing, and human resources). Which expenses will you have to pay out prior to opening your doors? Which expenses will you have to pay in the first 30 days of operations?

▲ Partial payments for assets, or those made on credit, are deferred payments and will need to be included in your cash flow projections (discussed later in this chapter).

▲ Don't forget to include cash on hand for accrued salaries and working capital for the first month of operations.

▲ Use the Projected Start-up Costs template found in *The Workbook* or create your own. An example for TARTINA is given in exhibit 8N. Use it as a guide to projecting start-up costs for your social enterprise. Add additional line items or omit them as they pertain to your business.

Start-up cost projections are included in the Business Plan appendix.

Production team meets with Save the Children's advisor from headquarters.

Exhibit 8N: Projected Enterprise Start-up Costs

		Amount
Facilities	First rent/purchase	328
	Deposits (security, water, utility, other hookups)	600
	Improvements/refurbishing/fixtures	16,000
	Other	875
Equipment	Vehicles	30,000
	Production machines/equipment	12,000
	Computers/software	7,500
	Furniture	550
	Telephones	70
	Other	1,000
Materials/Supplies	Starting inventory (or raw materials/work in progress)	1,200
	Production inputs	800
	Office and packing supplies	450
	Promotional materials (brochures, displays, etc.)	1,250
	Training supplies	400
	Other	-0-
Professional Services	Legal (tax, etc.)	800
and Fees	Management/marketing/production consultants	1,200
	Accounting	-0-
	Insurance	780
	Design/graphic arts	250
	Promotion and advertising	1,200
	Licenses/permits/registration	650
	Membership or association fees	200
Pre-operations	Technical assistance or training consultants	2,400
Training	Tuition or fees (workshops, seminars, classes, etc.)	-0-
	Per diem and costs associated with training (room rental)	-0-
	Other	-0-
Cash	For salaries (first month)	4,900
(First 30 Days)	Reserves—operating expenses	2,500
	Reserves—unanticipated costs	2,000
	Other	-0-
Total Start-up Costs		**89,903**

TARTINA needed $89,903 to open its doors and run its operations for the first 30 days. The largest expenses were for vehicles, equipment and improvements to the production facility which included building a storage silo. Fair amounts were also spent on marketing and promotions as well as for technical and mangagement consultations.

Social Enterprise Program Budget

The budget for your social enterprise itemizes all the expenses projected for your program. In other financial statements you may want to consolidate financial information into broad categories, but your budget should be detailed. Exhibit 8P provides an example of a one-year budget for TARTINA Enterprise.

Exhibit 8P: TARTINA Budget: April 1999—April 2000

	% of Staff Time	$ Amount*	Q1	Q2	Q3	Q4
I - PERSONNEL						
Salaries						
Field/HR Manager (ADE Staff)	25%	3,939				
Production Manager	100%	10,909				
Business Manager	50%	7,758				
Marketing Manager	100%	13,758				
Financial Manager (ADE Staff)	30%	2,955				
Accountant	100%	6,909				
Inventory Manager	50%	1,891				
Production Workers	100%	10,879				
Production Agents	100%	5,727				
Secretary (ADE Staff)	40%	1,576				
Driver	100%	1,970				
Guard & Stock Keeper	100%	1,182				
Guard	100%	1,733				
Subtotal		**$71,185**				
13th Month		5,932				
Subtotal Salaries		**$77,117**				
Fringe Benefits						
Retirement Plan (ONA) 6% Salaries		4,330				
Medical Insurance (4%)		2,887				
Subtotal Fringe Benefits		**$7,217**				
TOTAL PERSONNEL		**$84,334**				
II - OPERATING COSTS						
Rent		3,939				
Assets:						
Motorcycle & Accessories		6,000				
Production Equipment		4,000				
Grinder (for sweetened peanut butter)		970				
Peanut Storage Instruments:						
Humidity Meter		400				
Thermometer		200				
Fan		1,000				

*Values given in US dollars

	$ Amount*	Q1	Q2	Q3	Q4
Insecticide	551				
Grinder Maintenance	121				
Building Maintenance	1,970				
Vehicle Depreciation	5,000				
Vehicle Maintenance	394				
Fuel	1,182				
Travel	788				
Office Supplies	788				
Training Materials	1,182				
Total Overhead	***$29,984***				
Technical Assistance:					
Consultants in Production Technique	5,666				
Materials (for study on improving raw materials production & quality)	1,500				
Research & Development	1,300				
Miscellaneous Expenses	1,450				
Total Technical Assistance	***$8,616***				
TOTAL OPERATING COSTS	**$38,400**				
III - MARKETING COSTS					
Promotion and advertising	***$10,145***				
Sale Agents: Base Salary					
3 agents x 1 month x Gdes 3000	545				
3 agents x 2 months x Gdes 3000 x 1/2	545				
3 agents x 10 mos. x Gdes 3000 x 1/2	1,363				
PAP/Institutional Sales Agent	2,364				
PG/Sales Agent	1,182				
Subtotal Base Salary	***$5,999***				
Commission					
Mamba (18300 Jrs x Gdes 25) x 15%	4,159				
Chadèque (12600 Jrs x Gdes 26) x 15%	2,978				
Grenadia (1200 Jrs x Gdes 30) x 15%	327				
Karapinia (8500 scs x Gdes 5) x 15%	386				
Subtotal Commission	***$7,851***				
Total Sale Agents	***$13,850***				
TOTAL MARKETING COSTS	**$23,995**				
SUBTOTAL	**$146,729**				
Less: Revenues	(14,922)				
TOTAL OPERATING COSTS	**$131,807**				

Preparing the Social Enterprise Budget

- ▲ Draw from institutional experience by having a qualified accounting staff professional prepare program budgets.
- ▲ Prepare a projected (pro forma) budget for one year, and include empty columns to reconcile actual expenses quarterly.
- ▲ Feed in budget information completed in earlier sections of the business plan (operations, marketing, and human resources) to develop your overall program budgets.

The social enterprise budget is included in the Business Plan appendix.

PARENT ORGANIZATIONS PROGRAM BUDGET

Most development practitioners have ample experience developing budgets for their programs. Use the human resources information in chapter 7 to help you prepare a program budget for the parent organization that will be providing technical support and acting as a financial conduit. Exhibit 8Q provides an example of Save the Children's budget to support capacity building of TARTINA Enterprise; the actual figures have been excluded for the sake of privacy.

EXHIBIT 8Q: SAVE THE CHILDREN SOCIAL ENTERPRISE PROGRAM BUDGET APRIL 1999—APRIL 2000

I - Salaries	% of Staff Time	Amount	Q1	Q2	Q3	Q4	Y-T-D
Headquarters: (U.S.)							
Technical Advisor*	10%	5,000					
Field Based: (Haiti)							
Country Director	10%	4,935					
Business Advisor	100%	43,776					
Program Manager	25%	12,660					
Director of Finance	15%	9,684					
Driver	25%	5,914					
Total Fringe		43,514					
Total Salaries Fringe		**125,483**					
Travel:							
Domestic		3,939					
International		3,723					
Total Travel Costs		**7,662**					
Overhead:							
Rent (based on space allocation)		3,100					
Utilities		197					
Building maintenance		394					
Computer + office equipment		2,313					

*No fringe benefit cost covered for HQ.

Chapter 8 The Financial Plan

	Amount	Q1	Q2	Q3	Q4	Y-T-D
Equipment maintenance	2,200					
Office supplies	3,939					
Assets less than $5,000	3,000					
Vehicle (fuel/maintenance)	4,727					
Telecommunications	2,364					
Postage	45					
Miscellaneous	1,970					
Total Overhead	24,249					
Technical Assistance:						
Training materials	800					
Installation of MIS	5,400					
Marketing training	3,400					
Quality control	2,700					
Business management	2,500					
Food/production technology	4,400					
Market research	4,400					
Consultants	10,966					
Evaluation/Audit	5,000					
Total Technical Assitance	39,566					
TOTAL SC EXPENSES	**196,960**					

Preparing the Lead Organization (PVO) Budget

▲ Follow the instructions for preparing a social enterprise budget (previous section).

▲ Use the TARTINA example in exhibit 8M for reference. A blank form can be found in *The Workbook*.

▲ Lead organization budgets are not included in the social enterprise business plan.

PO budget is included in the Business Plan appendix.

Profit/Loss Statement

The profit and loss statement is a summary of the revenue and expenses of a company for a period of time. Sometimes called the income statement, the term profit and loss is preferable because it embodies the business reality that enterprises can lose as well as make money. The last line in the profit and loss statement indicates the net profit or loss of the enterprise, hence the reference to the "the bottom line." The profit and loss statement is used for purposes of planning, evaluation, and control. It is usually prepared for one-year increments and included in annual reports, etc. Profit and loss statements, however, should be produced monthly for internal management purposes.

Profit and loss statements are broken into a few sections:

Income

That which comes from sales of a product or service, as well as nonsales sources.

Costs of Goods Sold

Is made of all the costs allocated to inventory sold during a certain period.* The equation for calculating costs of goods sold is as follows:

Beginning Inventory
Add: Purchases or production costs
Equals: Costs of goods available for sale
Less: Ending inventory
Equals: Costs of goods sold

Deducting the costs of goods sold from income gives you gross profit, which represents the contribution that revenues make toward coverage of expenses not tied to production and toward net profit/(loss).

*Cost of goods sold is applicable only to production companies; services industries simply itemize their income, then deduct expenses in their income statements.

Operating Expenses

Also referred to as *general and administrative and selling expenses*, these are the expenses necessary to keep daily business operations running even if no goods are produced or services rendered. The general and administrative expenses include management and administrative salaries, communications, utilities, vehicles, equipment—such as computers used for administrative support—and other costs *not associated* with production. Selling expenses include marketing and promotional costs such as paid advertising and sales commissions.

General and administrative expenses—the expenses of running a business that are not directly allocated to the cost of making a product or rendering a service.

Exhibit 8R: Profit and Loss Statement Explained

INCOME	
1. Gross sales	Total sales from product/service line categories.
2. Returns and allowances	Products returned; credit or discounts given to customers.
3. (1 - 2) Net sales	Total sales minus returns and allowances.
4. Other income	Revenues not associated with product or service “sales” such as rental, commissions, interest income, services that are not included in sales.
5. **(3 + 4) Income**	Total income from sales and non-sales activities.
Costs of Goods Sold	
6. Beginning inventory	Finished goods inventory on hand at the beginning of the period.
7. Plus: Purchases or production costs	Merchandise purchased for resale or costs incurred during production: inputs, raw materials, direct labor, depreciation on equipment used in produc tion, factory overhead (see operations budget in chapter 6).
8. (6 + 7) Costs of goods available for sale	Total costs of all goods for sale.
9. Ending inventory	Actual value of inventory left on hand at end of period.
10. **(8 - 9) Costs of Goods Sold**	Costs of inventory sold during an accounting period that includes the expenses incurred to make a product.

GROSS PROFIT	
12. (5 - 10) Gross profit	The value that an enterprise is earning over the cost of the merchandise sold (costs of goods sold). Operating expenses still need to be deducted from gross profit to arrive at net profit.
OPERATING EXPENSES	
12. Salaries	Salaries of management and administrative staff not directly connected to production.
13. Employee benefits	Paid vacation and leave, health insurance, 13th month, etc.
14. Payroll taxes	Self-explanatory (laws are country specific).
15. Rent	Non-factory real-estate expenses—rent or mortgage payments.
16. Repairs & maintenance	Cleaning services, repairs to property.
17. Equipment rental	Leased equipment for nonproduction usage.
18. Furniture and equipment purchase	Self-explanatory.
19. Vehicle(s)	Purchase (moped, truck, car, etc.), mileage.
20. Vehicle maintenance & repairs	Service and repairs.
21. Depreciation	Value of fixed assets (depreciation).
22. Insurance	Liability, vehicle, theft, fire, equipment, etc.
23. Interest expense	Interest owed on borrowed capital.
24. Utilities	Water, heat, power, light not used in production.
25. Telephone	Self-explanatory.
26. Office supplies	Usual business supplies (pens, staplers, paper, white boards, etc.) as opposed to production inputs.
27. Dues, subscriptions, licenses	Membership dues for affiliations or trade associations; fees for operating/product licenses, trademarks, or patents.
28. Training materials + services	Supplies and materials; contracted technical assistance.
29. Postage and freight	Self-explanatory.
30. Marketing and promotion	Advertising, design, premiums, samples, displays,etc.
31. Sales commission	Self-explanatory plus bonuses.
32. Legal and professional services	Any nontraining outside services (attorneys, consultants, auditors, accountants, technical specialists, etc.).
33. Travel	Self-explanatory.
34. Miscellaneous	Self-explanatory.
35. Other	Additional category pertinent to enterprise, but not captured in itemized list.
36. (sum of 12 through 35) Operating Expenses before Taxes	All operating expenses.

37. (11 minus 36)	Net profit/loss before tax
38. Provision for taxes	Tax on profits. Country-specific requirements often related to legal status of enterprise (see chapter 9).
39. (37 minus 38) NET PROFIT/LOSS (from operations)	The "bottom line"—how much the social enterprise is either earning or losing from operations.
40. SUBSIDY	Income from government and foundation grants or private funds.
(39 plus 40) TOTAL NET PROFIT/LOSS (after subsidy)	

PO business advisor, business manager, qualified staff accountants and the financial manager or director

Preparing the Profit and Loss Statement

- ▲ If yours is an existing social enterprise you may have already prepared profit and loss statements from past years of operation. **If not**, use this exercise to help you **prepare both** historic (previous year) and pro forma profit and loss statements.
- ▲ Use the explanation of the profit and loss statement in exhibit 8R for reference and use additional financial and accounting resources as desired.
- ▲ Prepare a projected (pro forma) profit and loss statement for each year covered in your business plan, and include empty columns to reconcile profit and loss, income and expenses. Copy our example or use the Profit and Loss Statement Worksheet, which can be found in *The Workbook*.
- ▲ Be sure to list the assumptions behind your profit and loss projections.

The proforma profit and loss statements are included in the Business Plan appendix.

Exhibit 8S: Pro Forma Profit and Loss Statement

TARTINA ENTERPRISE Profit and Loss Statement	Projections (in $)	ACTUALS				
	Year 1	Q1	Q2	Q3	Q4	Y-T-D
INCOME						
Gross Sales	58,271					
Less Cost of Goods Sold	43,349					
Gross Profit	**$14,922**					
OPERATING EXPENSES						
Salaries	77,117					
Fringe Benefits (+ Taxes)	7,217					
Total Personnel	**$84,334**					
Rent	3,939					
Assets $5,000 or Less	17,570					
Building Maintenance	1,970					
Vehicle Maintenance	394					
Fuel	1,182					
Travel	788					
Office Supplies	788					
Training Materials	1,182					
Consultants in Production Technique	5,666					
Marketing Consultants /Sales Agent	13,850					
Miscellaneous Expenses	1,450					
Equipment Maintenance	120					
Insecticide	551					
Materials for Raw Materials Production & Quality Improvement Study	1,500					
Research & Development	1,300					
Promotion & Advertising	10,145					
Operating Expenses before Taxes	**$146,729**					
Net Profit/Loss (before tax)[1]	**($131,807)**					
Subsidy	**$131,807**					
Net Profit/Loss (after subsidy)	**0**					

Results: *Comparing the projected profit and loss figures with TARTINA's financial objectives for profit/loss (exhibit 8B), it is easy to see their relationship. The financial objectives projected total expenses of $150,000 and net loss of $135,000, whereas the profit and loss statement projected expenses are very close at $146,729 with losses of $131,807. Similarly, projected profit and loss revenues of $14,922 are just shy of financial objectives set at $15,000.*

Note that the figure for total operating expenses of $146,729 is also the same as total fixed costs used in the break-even analysis in chapter 5.

TARTINA, under its current legal structure as an NGO business, is not required to pay taxes at this point. It receives a subsidy to offset its net loss of $131,807.

[1]TARTINA is a registered nonprofit organization and therefore does not pay tax.

Adjusting the Profit and Loss Statement to Include Social Costs[11]

Rationale

Once you have determined which social costs are significant to your enterprise and developed a methodology to calculate them, both bottom lines should be quantified in the profit and loss statement to capture the productivity of the business and the social costs of working with a particular disadvantaged target population. The first, "net income before social costs" reflects true business costs and provides a picture of how the social enterprise performs as a business. The second, "net income after social costs" indicates the program costs of providing assistance to the target population and how well the enterprise is meeting its social mission.[12] (exhibit 8T Double Bottom Line Profit and Loss Statement.)

The objective of this exercise is to delineate existing social costs that the business is currently subsidizing in its operating expenses using figures derived from methodologies developed in the exercise Quantifying Social Costs. Conducting a social cost assessment should not be viewed by managers as a way to carry inefficiencies in the business operations not stemming from the social mission, or "bury" costs since the total costs are still part of the overall performance of the enterprise.[13] Double bottom line profit and loss statements are essential tools for internal management decision-making that may or may not be required by donors and investors.

Business manager, accountants and finance staff, PO business advisor

- ▲ Return to the social costs figures you calculated in the exercise **Quantifying Social Costs**.
- ▲ Sum the total amount of social costs in dollar values or local currency. International donors of development programs usually ask for financial statements in dollar terms.
- ▲ Be careful not to double count. Subtract each social cost from the expense line item as it appears in the profit and loss statement. For example, if 30% of the enterprise manager's overall salary and benefits is dedicated to "extra" nonbusiness activities arising from the disadvantaged labor, be sure to deduct this amount from the line item total for the manager's salary and benefits in the operations expenses portion of the profit and loss statement.
- ▲ Sum total operating costs less total social costs in line item "net profit/loss before social costs." This is your first bottom line, denoting business performance.
- ▲ Then record total social costs in following line item "less social costs"
- ▲ Subtract total social costs to derive "net profit/loss after social costs." This is your second bottom line, denoting overall social enterprise performance including costs incurred to the carry out social mission.
- ▲ An example for TARTINA is included in exhibit 8T.

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[11]Ibid. This concept was originally introduced in *New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation* in its chapter on "True Cost Accounting," Jed Emerson and Fay Twersky, 1996, Roberts Foundation, SF, CA.
[12]*Investor Perspectives*, "Quantifying Social Costs: A Case Example from Rubicon's Buildings and Grounds Business," Kim Starkey, 2000, Roberts Foundation, SF, CA.
[13]Ibid.

EXHIBIT 8T: DOUBLE BOTTOM LINE PROFIT AND LOSS STATEMENT

TARTINA DOUBLE BOTTOM LINE Profit and Loss Statement	5/99-4/00	
Total Operating Expenses	**$146,729**	
Total Gross Revenue	**$14,922**	
NET PROFIT/LOSS BEFORE SOCIAL COSTS	**($82,395)**	**= Financial Bottom Line**
Less Social Costs	**($49,412)**	**= Social Bottom Line**
NET PROFIT/LOSS AFTER SOCIAL COSTS	**($131,807)**	**= Double Bottom Line**

TARTINA managers concluded that it costs an additional $49,412 in extra supervision, capacity-building, piece rate premium and loss in productivity due to inefficiency and illness to run TARTINA as a social enterprise rather than a for-profit business in year 1. TARTINA's operating deficit of $82,395 is considered normal for a similar production business in its first year.

Balance Sheet

The balance sheet is a snapshot of a social enterprise's financial position—what it owns (assets) and what it owes (liabilities and net worth)—at a given point in time. The liabilities and net worth on the balance sheet represent the business' sources of funds, whereas assets represent its use of funds. Liabilities and net worth derive from creditors and donors (or investors) who have provided cash or its equivalent to the enterprise or from earnings generated by the enterprise. As a source of funds, they enable the enterprise to continue in business or expand operations. Assets include all holdings of value that are owned or due to the business. Assets are either purchased with assets on hand, such as cash, or financed by liabilities (debt) or net worth (contributions or profit). Therefore, values represented in these categories reveal how efficiently an enterprise manages resources and finances its operations and, finally, the extent to which it is viable.

As the name implies, a balance sheet must balance. The relationship between the three sections of a balance sheet are shown in the following equations:

Assets = liabilities + net worth

Assets – liabilities = net worth

Rationale:
Sound financial management of an enterprise involves matching the sources and uses of cash so that obligations come due as assets mature into cash. The balance sheet is a financial tool that monitors the enterprise's ability to collect revenues and manage inventory as well as assesses its ability to satisfy creditors, donors, and investors. Although individual line items and category values change on a daily basis, reflecting financial transactions and business activities, the balance captures the financial picture at one moment in time, usually at the end of an accounting period (exhibit 8V). Analyzing the changes in the balance sheet over several reporting periods informs enterprise trends.

Exhibit 8U: Balance Sheet Explanation

ASSETS	Assets are shown at net ***book value*** rather than appreciated value.
Current Assets	Assets that mature in less than one year.
Cash	Cash on hand: checking, money-market and short-term savings accounts.
Accounts receivable	Money owed from customers who receive goods or services in advance of payment. Inventory is sold and shipped, an invoice is sent to the customer, and later cash is collected.
Inventory Prepaid expenses	Finished goods for sale, work in progress, raw materials on hand Goods, benefits, or services an enterprise buys or rents in advance of use—i.e., office supplies and insurance premiums.
Other current assets	Interest- or dividend-yielding holdings expected to be converted into cash within a year—i.e., marketable securities, time deposits, etc.
Total Current Assets	Self-explanatory.
Noncurrent Assets	Assets that will not mature into cash within the next 12 months.
Fixed Assets	Resources an enterprise owns or acquires for use in operations; not intended for resale. Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year.
Land	Listed at original purchase price with no allowance for appreciation or depreciation.
Building	Property owned and used by the enterprise.
Machinery & equipment	Used by the enterprise; listed at original purchase price.
Furniture & fixtures	Furniture used by the enterprise or permanent installations, remodel ing, or refurbishing of the premises.
Vehicles	Used by the business and listed at their original purchase price.
Less accumulated depreciation	Total assets (except land) lose their value through age and wear and tear. The enterprise claims this loss of value as an expense of doing business and deducts it from total assets. Accumulated depreciation is the cumulative sum of all the years' worth of wearing out that have occurred in the asset.
Net Fixed Assets	Gross fixed assets (purchase price) – accumulated depreciation (not including land) = net fixed assets (also known as book value).
Other assets	Enterprise resources not listed in above asset categories—i.e., scrap value of obsolete equipment or intangible assets such as trademarks, patents, ***goodwill***.
TOTAL ASSETS	Net fixed assets + other assets (scrap value) – ***amortization*** (for intangible assets) = TOTAL ASSETS.
LIABILITIES	All monetary obligations of an enterprise and all claims creditors have on its assets.
Current Liabilities	All debts and obligations payable within one year.
Accounts payable	Amount owed to suppliers.
Short-term notes	Balance of principal on loans with terms of one year or less.
Interest payable	Balance of interest due at period end but not yet paid on long-term and short-term borrowing.
Accrued payroll	Salaries and wages currently owed.
Taxes payable	Amounts owed for real estate, Social Security, and income tax.
Total Current Liabilities	Self-explanatory.
Long-Term Liabilities	Debts such as mortgage and loan principal due in more than one year.

Book value—the value of an asset whose historical cost has been adjusted for **depreciation** or **amortization**. Book value is also referred to as **net fixed asset value** and is reflected in the **balance sheet** of an enterprise.

Goodwill—Excess value of asset over market value (or book value). Goodwill appears in financial statements when a business is valued above it assets shown on its books.

Amortization—costs of an intangible asset are allocated over its useful life.

Mortgage payable	Balance owed on property.
Long-term notes	Outstanding balance on loans payable in more than one year.
Total Long-Term Liabilities	
TOTAL LIABILITIES	Total current liabilities + total long-term liabilities.
NET WORTH	Also called owners' equity, net worth is equal to assets less liabilities. It represents the value of the enterprise. Net worth includes subsidies, investors' or owners' contributions, retained earnings, and revenue surpluses.[14]
Donor contributions	Donor grants or private PO nonprofit partner funds used to subsidize operations.
Owner contributions	PO partner or individual resources allocated as an ownership stake.
Reserves for bad debt	Provision against loss for uncollectible loans.
Shareholder equity	Value of investor stakes for social enterprises that have formalized into business entities.
Retained earnings (Losses) prior years	Amount of income (or loss) accumulated since the beginning of the enterprise[15] and reinvested (for profit).
Net surplus/(deficit)	Amount of income (or loss) generated in the current year.[16]
TOTAL NET WORTH	Total value of the enterprise.

PO business advisor, business manager, qualified staff accountants and a financial manager or director

Preparing a Social Enterprise Balance Sheet

- ▲ If yours is an existing social enterprise you may have already prepared balance sheets from past years of operation. **If not**, use this exercise to help you **prepare both** historic (previous year) and pro forma balance sheets.
- ▲ Use the balance sheet explanations in exhibit 8U for reference and additional financial and accounting resources as required.
- ▲ Prepare a projected (pro forma) balance sheet for each year covered by the business plan, and include empty columns to reconcile actual balance sheet assets, liabilities, and net worth. Copy our example or use a the **Balance Sheet Worksheet**, which can be found in *The Workbook*.
- ▲ Be sure to list the assumptions behind your balance sheet projections.

The historic and pro forma balance sheets are included in the Business Plan appendix.

[14] Adapted from SEEP Network Financial Servicew Working Group, 1995. *Financial Ratio Analysis of Microfinancial Institutions.* New York: Pact Publications.
[15] Ibid.
[16] Ibid.

EXHIBIT 8V: PRO FORMA BALANCE SHEET

TARTINA ENTERPRISE Projected Balance Sheet	Projections Year 1	Q1	Q2	Q3	Q4	Y-T-D
ASSETS						
Current Assets						
Cash on Hand	17,482					
Savings Account						
Accounts Receivable	15,742					
Inventory						
Raw Materials	1,950					
Finished Products	9,276					
Total Current Assets	44,450					
Fixed Assets						
Property, Plant, Equipment	33,524					
Office Equipment	3,351					
Land and Buildings	15,500					
Vehicles	34,000					
Less Accumulated Depreciation	(526)					
Total Fixed Assets	85,849					
TOTAL ASSETS	**$130,299**					
LIABILITIES						
Current Liabilities						
Accounts Payable	15,114					
Accrued Payroll	6,487					
Short-Term Notes Payable	11,738					
Noncurrent Liabilities	0					
Long-Term Notes Payable	0					
TOTAL LIABILITIES	33,339					
NET WORTH						
Reserves for Bad Debts	25,000					
Donor Contributions	203,767					
Retained Earnings (Losses)	0					
Net Surplus/Loss	(131,807)					
TOTAL NET WORTH	96,960					
TOTAL LIABILITIES & NET WORTH	**$130,299**					

Explanation: *TARTINA's projections assume a net loss of $131,807 in its first year of operations. Donor subsidies of $203,000 from ASSIST will be used to cover start-up costs for fixed assets as well as bridge TARTINA's operating deficit. TARTINA's current value is $90,299, roughly two-thirds of which is represented by fixed assets and the other one-third by current assets, cash, and inventory. In this example it is easy to see*

Cash Flow

Cash is money in the bank, plain and simple. It is not merchandise, inventory, money owed to you from credit sales (accounts receivable), and it is certainly not property or equipment. Although these assets may eventually be converted into cash, they don't take the place of cash—meaning that you can't pay your rent with a sewing machine or moped. Invariably social entrepreneurs and business people alike must have cash to pay their suppliers, utilities, payroll, etc. Balancing expenses against revenues is challenging and requires careful management as cash enters and leaves the business.

Too often, financially viable businesses fail because of cash flow problems. Managers are unable to manage receipts and payments of cash within a business, causing critical cash shortages. In most enterprises, the inflow of cash revenue from product or service sales lags behind the outflow of expenses needed to produce those goods or run the business. A **cash flow statement** is a financial statement that reconciles accrual revenue and expenses in the profit and loss statement to net cash collected or paid. It tells social enterprise managers where the money went and where it came from and gives a picture of the cash position—or amount of money in the bank. Of course cash on hand does not equal profit if expenses are outstanding but not yet paid. Accrual accounting was developed because profit is considered a better measure of business performance than net cash received; nonetheless, projecting and recording cash flows is an essential part of good business operations.

A **cash flow projection** is a financial tool used for forecasting potential cash shortages so that the social enterprise can make plans to address these shortages. Likewise, it also indicates the happy case of excess cash, when the enterprise may choose to invest this cash instead of leaving it idle. For a new or growing business, the cash flow projection can mean the difference between success and failure. For an ongoing business, it can mean the difference between growth and stagnation. Social enterprise managers need to be diligent about projecting cash flow regularly—at least monthly.

The cash flow projection enables you to predict and plan cash outlays in order to:

- ▲ Ensure that you have enough cash to purchase sufficient inventory or raw materials to weather seasonal cycles;
- ▲ Plan your purchases of new equipment or building;
- ▲ Benefit from special offers and discounts that require advance or bulk purchase;
- ▲ Arrange for financing and identify the type of financing and duration—i.e. bank credit line to relieve short-term overruns and shortages; working capital to absorb ebbs and flows of the business cycle, or capital asset or debt financing for major purchase of equipment, land or facilities); and
- ▲ Establish a history of credit worthiness for future lenders and investors.

Savvy social enterprise managers develop both short-term cash flow projections to help them manage daily cash and long-term cash flow projections to help them develop the necessary financing strategies to meet their business needs.

EXHIBIT 8W: USES FOR CASH FLOW PROJECTIONS

Time Period	Use
Short term (monthly)	Determine immediate and short-term cash balance. Estimate working capital requirements to finance daily operations. Plan current asset investments such as savings deposits, money market accounts and CDs.
Annual	Determine cash needs for business operations during the year. Identify sources of cash, including revenue and financing. Ascertain determine seasonal fluctuations and related impact on cash flow. Estimate annual financing needs and the ability to make repayments on borrowed money.
Three to five years	Augment strategic and business planning. Determine long-term equity needs, including raising equity capital. Estimate long-term borrowing requirements for capital investments relating to growth and capital asset purchase.

Preparing the Cash Flow Projections

Rationale

Liquidity can be a killer for a social enterprise—or any business. A lack of profits will not put you out of business as fast as a lack of cash to pay your creditors. The irony is that profits can be negative when cash flow is positive and vice versa. Cash, however, is what you must have to keep your social enterprise running while you are trying to make a profit. This requires careful cash management. At times when no money is in the till, the business needs an extra boost of cash. Or when your enterprise is flush, idle cash should be invested to make more money. Projecting cash flow, somewhere between balancing a checkbook and preparing a budget, is an excellent way to forecast cash shortages and surpluses and plan for them.

TARTINA found that commercial customers expected to either purchase products on credit or sell them on commission. Both instances demanded that TARTINA finance costs for as much as a few months before receiving payment from its supermarket customers. TARTINA management used cash flow projections to estimate when these credit sales would be converted into cash. In addition, the availability of peanuts and fruits for TARTINA products is seasonal. TARTINA buys its raw materials in bulk during growing seasons in January, March and December then stores them in silos for processing throughout the year. These bulk purchases require large outlays of cash up front, tying up this money until goods are finished and sold. Preparing a cash flow projection helped TARTINA determine its cash needs to purchase raw materials and secure sources of credit to finance them.

The template for a cash flow projection looks similar to a profit and loss statement, yet certain changes can be captured in a cash flow that are not reflected well in a profit and loss statement, such as:

- Large inventory purchases;
- An increase in accounts receivable;
- A decrease in credit by suppliers;
- Liquidation of obsolete inventory;
- Grant closure or loan recall;
- Receipt of large payment of debt.

Exhibit: 8X: Cash Flow Projection Explained

Cash Flows In	MONTHLY RECEIPTS FROM:
1. Beginning Cash Balance	**Cash on hand at the beginning of the month**
Cash receipts:	
2. Cash from sales	All cash from sales **only**; omit credit sales receipts
3. Accounts receivable & collected	Cash collected for credit sales
4. Subsidy and loans	injections from grants, PO subsidies, lenders, etc.
5. Investment and interest	Cash earned on investment
6. (2+3+4+5) Total Cash In	**Total amount of cash received in month**
7. (1+6) Total Cash Available	**Total cash on hand**
Cash Flows Out	**MONTHLY PAYMENTS FOR:**
8. Purchases	Raw materials, production inputs, or merchandise for resale
9. Salaries	Permanent management and staff
10. Wages	Base pay plus overtime and bonuses for labor
11. Payroll expenses	Vacation and leave, health insurance, 13th month, employment taxes, etc.
12. Sales commission	Commissions and bonuses awarded to sales staff
13. Sales tax	Tax paid on sales, exercise tax, etc.
14. Rent	Real estate rent only (factory, storage, and administration)
15. Repairs & maintenance	Property and facilities (factory and administration)
16. Equipment rental	Equipment leasing (for production and administration)
17. Furniture and equipment purchase	Furniture leasing (for production and administration)
18. Vehicle(s)	Purchase of vehicle (moped, truck, car, etc.) + mileage
19. Vehicle maintenance & repairs	Service and repair vehicles.
20. Insurance	Liability, vehicle, theft, fire, equipment, etc. (coverage on factory and administration)

21. Interest expense	Interest payments on borrowed capital (loans)
22. Utilities	Water, heat, power, light used in production and administration
23. Telephone	Phone, fax, electronic communications
24. Office supplies	Business supplies (pens, staplers, paper, white boards, etc.) as opposed to production inputs
25. Dues, subscriptions, licenses	Membership dues for affiliations or trade associations; fees for operating/product licenses, trademarks, or patents
26. Training materials + services	Supplies and materials; contracted technical assistance
27. Postage and freight	Self-explanatory
28. Marketing and promotion	Advertising, design, premiums, samples, displays, trade fairs fees, brochures, etc.
29. Legal and professional services	Any nontraining outside services (attorneys, consultants, auditors, accountants, technical specialists, etc.)
30. Travel	Business travel
31. Miscellaneous	Additional category pertinent to enterprise, but not captured in itemized list
32. Other	
33. (Add 8 through 32) Cash Out	**Total Cash Out**
34. Loan principal	Amount of principal payments on all loans
35. Owners withdrawal	Payments made in lieu of salary to cover owner's expenses (generally only in sole proprietorships and partnerships) include insurance
36. (33 + 34 + 35) Cash Paid	**Total Cash Paid Out**
37. (7 - 36) ENDING CASH BALANCE	**Total cash at the end of the month**

PO business advisor, business manager, accounting and finance staff

Cash Flow Projections

The first part of the cash flow projection forecasts cash coming into the enterprise; the second part projects cash going out. When used for internal management purposes cash flows should be projected on a monthly basis; however, as a financial statement for donor-investors cash flows are generally consolidated and projected by quarter or over a year.

▲ Locate the blank table **Cash Flow Projections Worksheet** provided in *The Workbook*, or create your own template.

▲ Add line items where necessary to accurately reflect the cash flows in your business. The level of detail needed in your cash flow projection will vary depending on the complexity of your business. In our example TARTINA combines the rent, utility, equipment leasing, repairs and insurance expenses for both its production and administrative facilities in its cash flow projection.

- ▲ Always start with "Beginning Balance" (the first line item); this is your cash on hand at the start of the month.
- ▲ Fill in the worksheet using historic records (if you have been in business for a while), market research and price quotes to project **monthly** income and expenses.
- ▲ Use the cash flow projection explanation in exhibit 8X for reference and supplementary financial and accounting resources if necessary.
- ▲ Follow directions, adding and subtracting columns to derive **ending cash balance. Remember this figure is the beginning balance for the following month.**
- ▲ Prepare quarterly cash flow projections (four months or one worksheet) for one year.
- ▲ Be sure to list the assumptions behind your cash flow projections.
- ▲ Eventually you should set up your cash flow projections using a PC spreadsheet. After the initial setup, this will make the process much faster. You can enter formulas for the subtotals and totals to eliminate addition/subtraction errors.
- ▲ Similar to methods used for preparing other financial tools, this one can be applied first to *projecting* your cash flow, which is then reconciled against *actual* cash expenses in a cash flow statement at the end of the period.

The cash flow projections are included in the appendix section of your Business Plan.

Explanation of TARTINA example: *On the following page is a cash flow statement for a 12-month period for the TARTINA social enterprise. This particular cash flow statement highlights two other benefits of this financial tool. First, it highlights the variability of TARTINA's cash needs due to the seasonality of the business. Second, because TARTINA planned its cash flow requirements in advance, it was able to determine when it could outlay cash for bulk purchases of key production materials, such as peanuts, fruits, containers and labels. This translated into cost savings for TARTINA.*

TARTINA display in supermarket

Production agent with four client-producers

TARTINA CASH FLOW STATEMENT

	APRIL 1999	MAY 1999	JUNE 1999	JULY 1999	AUGUST 1999	SEPT 1999	OCT 1999
REVENUE							
OPENING BALANCE		43,765	58,530	54,767	10,365	42,869	16,438
CASH SALES	27,200	35,600	22,325	26,875	28,000	38,475	38,800
ACCOUNTS RECEIVABLE	9,067	20,933	28,375	28,267	25,733	31,117	35,092
CASH NOT AVAILABLE UNTIL END OF MONTH	(36,267)	(20,267)	5,833	(4,442)	1,408	(15,858)	(4,300)
TOTAL REVENUE IN LOCAL CRRCY	**-**	**80,032**	**115,063**	**105,467**	**65,507**	**96,602**	**86,030**
TOTAL REVENUE IN U.S.$	**$ -**	**$ 4,850**	**$ 6,974**	**$ 6,392**	**$ 3,970**	**$ 5,855**	**$ 5,214**
SUBSIDY	$ 11,279	$ 18,709	$ 8,709	$ 8,709	$ 8,709	$ 8,709	$ 8,709
TOTAL FUNDS AVAILABLE BEGINNING OF MTH	**$ 11,279**	**$ 23,559**	**$ 15,683**	**$ 15,101**	**$ 12,679**	**$ 14,564**	**$ 13,923**
EXPENSES							
PRODUCTION COSTS							
Mamba (Peanut) : Peanuts	36,605			49,267			
Spices	660	660	587	587	587	697	697
Labor	5,280	5,280	4,692	4,692	4,692	5,572	5,572
Other	1,452	1,452	1,290	1,290	1,290	1,532	1,532
Confitures (Jam): Chadeque & Spices						1,380	1,380
Sugar						2,820	2,820
Labor						1,020	1,020
Other						840	840
Grenadia & Lemon				1,440	2,520	3,888	4,248
Sugar				1,880	3,290	5,076	5,546
Labor				520	910	1,404	1,534
Other				200	350	540	590
Apricot & Lemon		1,600	1,600	1,600			
Sugar		1,880	1,880	1,880			
Labor		360	360	360			
Other		200	200	200			
Gelee (Jelly) : Sour Fruit & Lemon		360	360	360			
Sugar		2,520	2,520	2,520			
Labor		200	200	200			
Other		600	600	600			
Karapinia : Peanuts	9,880			10,660			
Spices	280	280	200	200	220	200	200
Sugar	3,360	3,360	2,400	2,400	2,640	2,400	2,400
Labor	560	560	400	400	440	400	400
Other	840	840	600	600	660	600	600
Containers : Mamba (Peanut Butter)	33,000					27,390	
Confitures (Jam)	64,890					64,890	
Gelee (Jelly)	13,440						
Karapinia	2,400			2,400			2,400
Labels : Mamba (Peanut Butter)	10,000					8,300	
Confitures (Jam)	6,300					6,300	
Gelee (Jelly)	1,200						
Karapinia	800			800			800
TOTAL PRODUCTION COSTS IN LCL CRRCY	**190,947**	**20,152**	**17,889**	**85,056**	**17,599**	**135,249**	**32,579**
TOTAL PRODUCTION COSTS IN US$	**$ 11,573**	**$ 1,221**	**$ 1,084**	**$ 5,155**	**$ 1,067**	**$ 8,197**	**$ 1,974**
M.E. Profit (6.70% of Production Costs) ((3.165% of Sales)	**$ 775**	**$ 82**	**$ 73**	**$ 345**	**$ 71**	**$ 549**	**$ 132**
TOTAL PROD. COSTS & M.E. PROFIT IN US CRRCY	**$ 12,348**	**$ 1,303**	**$ 1,157**	**$ 5,500**	**$ 1,138**	**$ 8,746**	**$ 2,107**
APV OPERATIONAL COSTS IN U.S.$							
AID Funded Costs	$ 11,279	$ 18,709	$ 8,709	$ 8,709	$ 8,709	$ 8,709	$ 8,709
APV Fees (21.5818% of Production Costs) ((10.196% of Sales)			$ 2,498	$ 264	$ 234	$ 1,113	$ 230
TOTAL APV OPERATIONAL COSTS IN U.S.$	**11,279**	**18,709**	**11,207**	**8,973**	**8,943**	**9,822**	**8,939**
TOTAL EXPENSES	**$ 23,627**	**$ 20,012**	**$ 12,363**	**$ 14,473**	**$ 10,081**	**$ 18,567**	**$ 11,046**
END OF MONTH SURPLUS/DFICIT IN U.S.$	(12,348)	3,547	3,319	628	2,598	(4,004)	2,877
CREDIT	$ 15,000					$ 5,000	
END OF MONTH NET BALANCE IN U.S.$	**2,652**	**3,547**	**3,319**	**628**	**2,598**	**996**	**2,877**
END OF MONTH NET BALANCE IN LCL CRRCY	**43,765**	**58,530**	**54,767**	**10,365**	**42,869**	**16,438**	**47,471**

NOV 1999	DEC 1999	JAN 2000	FEB 2000	MARCH 2000	APRIL 2000	TOTAL	MAY 2000	JUNE 2000	GRAND TOTAL
47,471	22,787	24,408	13,496	54,504	98,179		24,020	156,669	
39,925	40,600	40,600	42,350	52,900	52,900	486,550			486,550
39,067	39,775	40,375	41,183	45,283	49,383	433,650	35,267	17,633	486,550
(5,100)	(1,383)	(600)	(2,558)	(14,650)	(4,100)	(94,917)	102,283		7,366
121,363	**101,779**	**104,783**	**94,471**	**138,038**	**196,363**	**825,283**	**161,570**	**174,302**	**980,466**
$ 7,355	**$ 6,168**	**$ 6,351**	**$ 5,725**	**$ 8,366**	**$ 11,901**	**$ 50,017**	**$ 9,792**	**$ 10,564**	**$ 59,422**
$ 8,709	$ 14,723	$ 8,709	$ 8,709	$ 13,715	$ 8,709	$ 136,807			$ 136,807
$ 16,064	**$ 20,891**	**$ 15,060**	**$ 14,434**	**$ 22,081**	**$ 20,610**	**$ 186,824**	**$ 9,792**	**$ 10,564**	**$ 196,229**
29,933	29,933	29,942				175,680			175,680
697	899	899	899	989	297	9,150			9,150
5,572	7,188	7,188	7,188	7,908	2,376	73,200			73,200
1,532	1,977	1,977	1,977	2,175	653	20,130			20,130
1,380	1,380	2,300	2,300	1,380		11,500			11,500
2,820	2,820	4,700	4,700	2,820		23,500			23,500
1,020	1,020	1,700	1,700	1,020		8,500			8,500
840	840	1,400	1,400	840		7,000			7,000
3,888	3,528	3,528				23,040			23,040
5,076	4,606	4,606				30,080			30,080
1,404	1,274	1,274				8,320			8,320
540	490	490				3,200			3,200
						4,800			4,800
						5,640			5,640
						1,080			1,080
						600			600
						1,080			1,080
						7,560			7,560
						600			600
						1,800			1,800
6,370	6,370	6,240				39,520			39,520
220	200	200	220	310	310	3,040			3,040
2,640	2,400	2,400	2,640	3,720	3,720	36,480			36,480
440	400	400	440	620	620	6,080			6,080
660	600	600	660	930	930	9,120			9,120
						60,390			60,390
						129,780			129,780
						13,440			13,440
		1,920				9,120			9,120
						18,300			18,300
						12,600			12,600
						1,200			1,200
		640				3,040			3,040
65,032	**65,924**	**72,404**	**24,123**	**22,711**	**8,906**	**758,570**	**-**	**-**	**758,570**
$ 3,941	**$ 3,995**	**$ 4,388**	**$ 1,462**	**$ 1,376**	**$ 540**	**$ 45,974**	**$ -**	**$ -**	**$ 45,974**
$ 264	**$ 268**	**$ 294**	**$ 98**	**$ 92**	**$ 36**	**$ 3,079**	**$ -**	**$ -**	**$ 3,079**
$ 4,205	**$ 4,263**	**$ 4,682**	**$ 1,560**	**$ 1,469**	**$ 576**	**$ 49,053**	**$ -**	**$ -**	**$ 49,053**
									-
									-
$ 8,709	$ 14,723	$ 8,709	$ 8,709	$ 13,715	$ 8,709	$ 136,807			$ 136,807
$ 1,769	$ 426	$ 851	$ 862	$ 947	$ 316	9,508	$ 297	$ 116	9,922
10,478	**15,149**	**9,560**	**9,571**	**14,662**	**9,025**	**146,315**	**297**	**116**	**146,729**
$ 14,683	**$ 19,412**	**$ 14,242**	**$ 11,131**	**$ 16,131**	**$ 9,600**	**$ 195,368**	**$ 297**	**$ 116**	**$ 195,782**
									-
1,381	1,479	818	3,303	5,950	11,009	(8,544)	9,495	10,447	447
					$ (10,000)	$ 10,000		$ (10,000)	$ -
1,381	**1,479**	**818**	**3,303**	**5,950**	**1,009**	**1,456**	**9,495**	**447**	**447**
22,787	**24,408**	**13,496**	**54,504**	**98,179**	**16,654**	**24,020**	**156,669**	**7,380**	**7,380**

Preparing the Cash Flow Statement

Rationale

Cash flow statements made a relatively late appearance in the world of required financial statements. The widespread recognition that cash flow problems often result in the premature death of a business is the reason why more and more lenders, donors and stakeholders are requiring social enterprises and business to remit cash flow statements along with balance sheets and profit and loss statements.

Cash flow statements classify cash receipts and payments into three categories: operating, investing and financing.

- **Operating cash flow—**is sometimes called working capital; it flows from cash internally generated from operations such as sales—and to expenses that sustain operations such as salaries, rent materials and supplies.
- **Investing cash flow—**flows from internally generated nonoperating activities, such as sales of long-term investments—and to investments such as purchase of property or equipment.
- **Financing cash flow—**flows from and to external sources, such as donors, lenders, investors, and shareholders in the form of a disbursement or payment of a grant or loan.

Marketable securities—short-term investments with well-defined dollar value such as bonds, treasury bills, or stocks that are easily convertible into cash.

Equity—monetary value that represents an ownership stake or net worth in an enterprise. Issuing stock or selling equity stakes raises capital for a business. For example if a PO takes equity in its social enterprise it purchased partial ownership of the enterprise. In publicly traded companies, issuance of stock signifies selling very small pieces of the company.

Exhibit 8Y: Classification of Cash Inflows and Outflows

Cash inflows	Activity	Cash Outflows
From sales of products and services	**OPERATING**	To employee salaries and wages To suppliers for inventory
From interest or dividends on loans or investments		To creditors for interest
		To other operating expenses (rent, utilities, equipment, etc.)
From sale of plant, property, equipment or other capital asset	**INVESTING**	To purchase new plant, property, equipment or capital asset
From sale of long- or short-term ***marketable securities***		To purchase long or short term marketable securities
From collection of loans		To make loans
From grant or subsidy	**FINANCING**	To repay loans
From borrowed capital (loan)		To pay dividends
From the sale of stock/***equity***		To purchase stock

There are two methods for preparing a cash flow statement. The first, the direct method, involves making adjustments to convert income and expense items from accrual to cash basis. The indirect method starts with net income (or loss) before non-cash expenses, then makes adjustments for inflows and outflows of cash that were not included in the net income/loss calculation. This method is simpler because 90% of the cash flow calculation is completed in the net income calculation, which is in fact an estimate of your cash flow. This book teaches the indirect method for preparing a cash flow statement; if you are interested in learning the direct method ask your accountant, or check other accounting resources.

Exhibit 8Z is a conceptual example of a consolidated cash flow statement using the indirect method. It illustrates the three basic steps required to complete a cash flow statement: 1) Begin with net income; 2) add in non-cash expenses (this is because your net income can be reduced by expenses such as depreciation that were never disbursed); and 3) adjust for inflows and outflows of cash for investing and financing activities not recorded in the net income calculation (but reflected in the balance sheet).

Exhibit 8Z: Example of Indirect Cash Flow Method

Net Income before non-cash expenses		
Begin with	Net Income (loss)	$800,000
Add in	Depreciation	100,000
		$900,000
Adjustments to cash from operating activities		
Flows in (add)	Decrease in accounts payable	$200,000
Flows out (subtract)	Increase in accounts receivable	(300,000)
	Increase in inventory	(150,000)
	Increase operating expenses	(250,000)
Net Cash from Operating activities		$400,000
Adjustment to cash flow from investing activities		
Flows in (add)	Decrease in notes receivable	$100,000
Flows out (subtract)	Purchases: equipment, land, plant	(250,000)
Adjustment to cash flow from financing activities		
Flows in (add)	Grants and subsidy received	200,000
Flows out (subtract)	Repayment on loan (long-term debt)	(100,000)
Net Cash provided (used)		**$350,000**

Cash Flow Statement

- ▲ Locate the blank **Cash Flow Statement** in worksheet in The Workbook, or create your own.
- ▲ **!!! It is important to note that the cash flow statement begins with net income as if all expenses were paid in cash and all income was received in cash.** The formula then makes adjustments to reconcile net income to net cash flow from operating, investing and financing activities.

- ▲ Calculate net income before non-cash expenses.
- ▲ Add back non-cash expenses that did not result in inflows or outflows of cash. Depreciation is the most common non-cash expense.
- ▲ Identity operating cash flows. Refer to exhibit 8Y: Classification of Cash Inflows and Outflows for help identifying receipts and payments classified as operating activities.
- ▲ Subtract out flows and add inflows. Be careful not to confuse inflows with outflows; receipts (added) and payments (subtracted). Follow the example in exhibit 8Z: Example of Indirect Cash Flow Method.
- ▲ Repeat steps for investing cash flow and financing cash flow.

The cash flow statement is included in the appendix section of your Business Plan.

the balance sheet equation at work.

Risk/Sensitivity Analysis and Contingency Planning

It is essential to know the financially vulnerable points of your social enterprise (which are often in the categories where the largest expenditures occur). What happens to social enterprise profitability if raw material costs increase by 10 percent? If inflation goes up to 15 percent or 20 percent? What if the sales forecast is realized only at 80 percent? What happens to cash flow if a major piece of equipment conks out before its projected usable life?

Projecting financial statements and budgets requires troubleshooting different potential scenarios that can impact your bottom line. Playing out "what if" scenarios enables you to see that financial impact and allows for ***contingency planning***, so that you are ready with plan B if necessary. Most changes in the operating environment do not drop from the sky but can be predicted to some degree if enterprise managers continually appraise the strategic environment, and the enterprise's strengths and weaknesses (chapter 4). For example, TARTINA's peanut butter and jam production is mainly a variable-cost business highly susceptible to changes in the price of raw materials. Bad weather affects crop yields, causing peanut prices to go up. Seasonality is another factor; when peanuts or fruits are out of season, their prices increase. Therefore, TARTINA management makes its financial projections at different peanut costs, beginning as low as 10 gourdes per marmite and going up to as much as 16 gourdes, to see how price fluctuations impact the bottom line and think through decisions it will need to make based on different peanut price levels.

Sensitivity analysis—a tool used to project expense and income levels by manipulating cost and revenue variables in a company, such as changes to production level, costs of inputs (fixed or variable), or prices.

Contingency planning—Preparing alternative strategies and plans that correspond to a liable risk occurring, which threatens the plausibility of the chosen plan.

PO business advisor, business manager, financial manager, accountant, program manager, other relevant functional managers

Preparing a Sensitivity Analysis and Contingency Plans

▲ Use a PC spreadsheet or other software program that generates your financial statements. After the initial formulas are set up, computer programs make sensitivity analysis much faster and more reliable.

▲ Isolate the largest expenditures of your social enterprise, and use these as the variables in your sensitivity analysis to develop two or three "what if" scenarios by changing variable values, and then review the impact of these changes on financial statements.

▲ Now select key variables reflected in anticipated or likely changes to the operating environment based on your market research (i.e., inflation); plug these numbers into your sensitivity analysis and repeat the previous step.

▲ Analysis: What decisions will you make based on the sensitivity analysis results? How will these decisions affect business operations? For example, will you have to lay people off, enter a market more rapidly than expected, forsake a fixed-asset purchase for several months, invest in new-product development to remain competitive, take a short-term loan for operations to bridge income lags, etc.?

▲ Contingency plans explaining how management plans to respond to certain risk exposure in a given industry, market, or strategic environment strengthen a business plan by increasing the perception of the social enterprise management's credibility and capacity.

Contingency plans are included in Business Plan.

Resource Acquisition

Rationale:
Several elements shape the resource acquisition strategy: investor-donor landscape, reputation of the parent organization, management competence and development stage of the enterprise. Most donors and investors have specific criteria that must be met by applicants in order to receive their money (exhibit 8DD: Donor-Investor Criteria and Applications). Another important aspect is captured in the adage "people give money to people"; leveraging the brand equity of the parent organization or the expertise of your management team can attract investment funds. The maturity of the enterprise, the strength of its financial position, and its ability to generate revenue will also dictate the type of funds required and most suitable source for them (see box: Enterprise Development Stage).

Just as savvy financial investing involves balancing risk by diversifying the investment portfolio, in resource acquisition it is unwise to depend solely on a single donor or investor for all the financial needs of the enterprise. During startup it is difficult to find investors willing to assume risk for the novice. In this case, small, short-term (i.e. one year or less) funding is cobbled together from various sources including the parent organization and grants until the enterprise pilot can demonstrate some success. Once a track record is establish and the enterprise program enters growth stage, mezzanine level funds, which are easier to obtain, are sought. The startup funding is usually awarded as an investor vote of confidence based on the reputation of the parent organization. On the other hand, if the social enterprise is mature, at or near break-even and has significant assets reflected in its balance sheet, the enterprise may be able to leverage borrowed funds. As a social enterprise develops it needs to professionalize and diversify its funding base from typical nonprofit donors to seeking money from quasi-formal and formal sources that will introduce financial rigor and accountability. Once the enterprise has reached a certain scale, working capital and fixed asset requirements exceed the reserves of the parent organization and fall outside the parameters of traditional donor funding.

Commercial banks in general are dubious about lending to social enterprises, yet venture philanthropists, development banks, community development funds, municipal governments and progressive donors are increasingly making soft loans to social enterprises. These may be either interest-free loans or subsidized loans at below market interest rates. Nonetheless, for bank borrowing low debt to equity ratios and break-even are usually requirements. Banks also scrutinize cash flow statements to ensure that the social enterprise has the capacity to repay the loan on a regular schedule. Capital assets such as building and land can also serve as collateral to secure a loan or line of credit at market rates. Traditional nonprofit donors on the other hand, may cover capital assets for equipment, operating costs, parent organization overhead related to the enterprise program and technical assistance costs during startup and growth stages. And though many will not directly support the operating costs of a business beyond early phases, they will often contribute to social costs, either for capacity building or social programming. (exhibit 8I: Quantifying Social Costs). Enterprise revenue is an internal fundraising mechanism and must be allocated to costs of business operations and social costs not covered by grants. Understanding these intricacies in the funding landscape requires a considerable amount of research.

Enterprise Development Stages

Like product life cycles (chapter 5), a social enterprise passes through discrete stages of development from startup to profitable business. The stage of development is characterized by enterprise sophistication and ability to cover its costs. Conversely, it determines the type of financing the enterprise is able to secure. The table below shows this relationship.

Development Stage	Startup	Growth	Break-even+ Operating Costs	Break-even † Operating + Social Costs	Profitable
Timeline*	**0 - 1 year**	**1- 3 years**	**3-5 years**	**5-7 years**	**Over 7 years**
Characteristics	Small-scale enterprise pilot; testing business concept/ products in market; little or no revenue; dependence on PO for technical support; low capacity.	Success in limited market, demonstrates potential viability, research and expansion into new markets, operating loss, heavy technical support needs for capacity building and TA; PO dependence.	Established track record; proven business model; operates in several markets-still growing; income covers cost of business operations including inefficiencies and loss; social costs subsidized; PO role diminished; TA for specific constraints; capacity fairly solid.	Solid social enterprise model, sufficient income to cover operating and social costs, diversified and sophisticated, competitive business, may spin off from PO, competent staff, contracts expert TA for specific needs.	Able to cover operating and social costs plus realize a profit with internally generated revenue; professional staff and management. Often separate entity with PO members on board.
Funding Needs	PO overhead & salaries related to program; sunk costs for equipment, facilities, raw materials, cash, etc.; enterprise operations; TA; social programs; inefficiencies and loss.	PO overhead & salaries related to program; TA and capacity building; operating deficit; investment $ for: market research R&D, product development; social program costs and inefficiencies and loss.	Limited PO indirect costs; social program costs; capital assets (technology, equipment) purchases for expansion; working capital credit needs; specific TA and targeted capacity building.	Working capital (especially for capital intensive business-i.e. financial services); capital assets (technology, equipment) purchase for expansion; investment capital (new facilities or technology innovations). Limited social costs.	Working capital; capital assets purchase for expansion; possible investment financing.
Funders	PO, risk taking nonprofit donors with exiting PO or management relationship; grants are generally small and short term.	Foundations or government agencies larger size grants for multiple years. Some VPs.	Small- to mid-size foundation and government grants for social programs; in-kind TA; quasi-formal sources of soft money; VPs.	Investors, banks, quasi-formal and financial institutions, professional in-kind TA. Foundation/PO small grants for social programs not expected to cover costs.	Investors, banks, financial institutions.

*The timeline is given as a guide based upon averages from financial service businesses; country context and type of business may determine how quickly a given social enterprise passes through development stages.

+Enterprise covers business operating costs with revenue.

†Enterprise covers business operating costs (including financial costs of borrowed capital) and social cost (or specified social costs) with revenue.

Taking this "big picture" investment approach to social enterprise financing can be a huge departure in thinking for nonprofit professionals. Most are accustomed to tapering organizational needs to donor priorities or thinking in "grant-size" boxes-meaning that the social enterprise's financial needs are dictated by specified grant amounts rather than actual costs. SC refers to this as being donor-driven rather than market-driven. Social enterprise managers need to learn to think like for-profit managers who analyze their businesses' financial needs by using actual and realistic projected cost and then seek resources accordingly.

Securing funding is a time consuming venture requiring a significant amount of research and planning. The following three-part exercise will guide you through this process by: 1) determining the mix of funding sources in your enterprise and the uses of those funds; 2) identifying future funding sources; and 3) developing a resource acquisition plan.

Same for all three parts of* Resource Acquisition *section: business manager, accountants and finance professionals, PO business advisor and development director (and/or PO or implementing organization executive director).

Financing Mix

The first step to developing your resource acquisition strategy is to identify your uses of funds (financial needs) and their sources to determine your financing mix.

- ▲ Using historic donor records and financial statements determine the sources and uses of enterprise funds. Begin by indicating in which category funds were spent in the previous year as well as the sources of those funds (by category rather than by donor). If your venture is a startup you will have no historic records.
- ▲ Prepare a “**Financing Mix Table**,” like the one in our example (exhibit AA) or use the template provided in *The Workbook*. **Financing Mix Table** should include all years covered in your business plan. **!!! Hint:** If your plan is only for one to two years, it is prudent to include an additional year or two in projections.
- ▲ From the projected, or pro forma, budget and profit and loss statements, you should have a good sense of what funds will be needed and how you will use these funds.
- ▲ Fill out the “Uses” section of the table.
- ▲ Total the amount of funds needed identified in the "uses" categories.
- ▲ Next, discern sources that are **obligated** for the current period (in our example funding is committed for business plan year 1 and how you plan to use these funds. Depending on your current funding situation **non-obligated** sources other than projected income sources (from pro forma and profit and loss statement) may be less obvious than uses.
- ▲ Fill out the “sources” section of the table as completely as you can. Gaps will indicate what you will need to find money for, and how much you need. Additionally, it will help you identify potential funding sources.
- ▲ Total the funding gaps. Once you have completed the following exercise, **Identifying Funding Sources**, you will return to the table.

Sources and uses of funds information is included in the Business Plan.

EXHIBIT 8AA: TARTINA ENTERPRISE'S FINANCING MIX

Sources/Uses of Funds	Historic (Previous Year)	Year 1 (Business Plan)	Year 2 (Post B-Plan Period)
Uses:			
HQ/Parent Overhead (+ internal TA-salaries)	$102,390	$155,184	$80,560
Technical Assistance (external contractual)	15,828	41,766	57,800
SE Operating Costs (+ salaries; w/out TA)	40,639	62,809	88,652
Capital Equipment	116,000	10,970	15,600
Working Capital	-0-	25,000	70,000
Financial Costs (borrowed capital)	-0-	-0-	-0-
Capacity Building	6,037	8,616	11,320
Social Program Costs & Loss Compensation†	61,270	49,412	36,040
Total Resources Needed	**$342,164**	**$328,757**	**$359,972**
Sources:	**(obligated)**	**(obligated)**	**(non-obligated)**
Income	-0-	$15,922	$48,678
Grants	$280,000	220,000	116,500
PO Match	62,164	47,835	-0-
In-Kind*	-0-	20,000	40,000
Soft Loans	-0-	25,000	50,000
Investment Funds	-0-	-0-	75,000
Commercial Loans	-0-	-0-	-0-
Total Sources Identified	**$342,164**	**$328,757**	**$338,678**
Funding Gap	**-0-**	**-0-**	**$29,794**

†In TARTINA's example loss compensation and social program costs are combined. Normally these costs should be segregated.

*Estimated value for in-kind contributions for services or assets.

Donor-Investor Research

Nonprofit organization development professionals are generally competent in identifying traditional funding sources within the donor community, such as private and corporate foundations, government agencies and multilateral organizations. They are, however, largely ignorant of nontraditional sources of funds.

Some examples include: community banks (or those with a portion of their portfolios dedicated to community reinvestment), venture philanthropists (VPs), development banks, economic development funds, HUD loans, Small Business Administration (SBA) loans, municipal government programs, donor venture or social investment funds, universities and corporations (often fund or donate in-kind support for R&D, market research, product development, technical assistance), etc. Appropriateness of these different sources depends upon enterprise location, type of business and development stage. The research period may take several weeks. Information can be gathered through networking with other social entrepreneurs, annual reports of similar programs; libraries, foundation centers and donor directories; attending industry conferences; contacting lenders, venture philanthropists and foundations regarding their funding or other sources they know. The development department of the parent organization along with board members should supply entrees to individual donors. Small business services (SCORE, Women's Business Development Centers, etc.), provide information on how and where to seek enterprise financing. Review social fund prospectuses (Calvert, New Profit, development banks, etc.) for sources of soft funds. Contact nonprofit organizations and universities that provide assistance (in-kind). And of course don't forget the Internet, which has become a valuable and efficient research tool available in many countries.

Same as previous exercise

Identify Funding Sources

In the previous exercise you determined how much money you will need and what you will need it for to finance your enterprise for the period covered by your business plan. In this exercise you will identify potential funding sources to meet these financial needs.

!!! Hint: *If your business plan is less than five years it helps to look beyond the business plan period when identifying future donor and investors. Remember "money begets money." Donors and investors want to know that their funding will terminate. Donors especially feel more confident giving money when they know other funding prospects exist beyond their grant period and that the enterprise is graduating to more formal sources.*

▲ Mostly, this is a research exercise into particular funding sources. Refer to exhibit DD: Donor - Investor Criteria and Applications to guide your research agenda.

- ▲ For each potential source find out the funding criteria, the approximate financial size of the support, the purpose or specified use of the funds they provide, the type of funds (grant, in-kind, loans, etc.), the potential (your chances) for receiving funds through this source. Be realistic!
- ▲ Keep notes on the preferences and interests of your prospective donors. This information has important strategic relevance for planning future resource acquisition.
- ▲ Prepare a "Funding Source List," like the one in our example (exhibit BB) or use the template provided in The Workbook.
- ▲ When you have prepared your resource list, return to the non-obligated sources section of your **Financing Mix Table** and complete the exercise based on your projections.

Be sure you are clear about investor funding preferences and terms. Most donor-investors expect the social enterprise to generate sufficient revenue to cover its social costs. They regard their investment as a limited and efficient use of funds. On the other hand, some donor-investors may award grants to subsidize social costs over the long term, accepting double bottom line profit and loss statements as a standard part of reporting. Thorough research on the funding landscape informs business planning and can help shape the design of your social enterprise. For example, Save the Children does not integrate its business programs with nonbusiness social services, in part because funding is more difficult to obtain. If SC wants to render both types of services to the same target population it runs parallel programs, seeking funding for each.

Exhibit 8BB: Funding Source List

Type of Funds	Source	Criteria	Approx. Size	Purpose	Potential
Grants	ASSIST International current funder	Provided current funding to TARTINA; no continuation funds beyond next year.	$220,000; total grant $500,000 for 2 years.	Increase impact; capacity of social enterprise to be sustainable.	None; will not give repeat funding.
	ASSIST/Haiti Continuation grant	Evidence progression toward break-even and sustainable business model; 25% match.	Up to 150,000 for three years; discretionary money 30,000.	Operating cost deficit; capacity of social enterprise to be sustainable.	High for $150,000; low for $30,000 discretionary (competitive).

Type of Funds	Source	Criteria	Approx. Size	Purpose	Potential
	French Embassy	Intention to export to France/EU.	$15,000.	Market research for exportation of products to France.	Medium; unlikely will export products in near term.
	Dutch Aid	Locally operated business, evidence of positive business trends.	$150,000; $50,000 per year for three years.	Training and capacity building of indigenous staff.	High.
	HELP2U Foundation	TARTINA is registered as Haitian business; existence of local board.	Up to $100,000 over three years.	Support development of local Haitian economy through local business creation.	Low-disorganized; slow moving; possibility for next year.
Investors	SC	49% equity stake in TARTINA; must be registered as a separate business; moving toward self-sufficiency.	Up to $75,000 interest free, repayment schedule after break-even.	Operating cost deficit; capacity building.	Medium-requires approval by SC legal department.
	TARTINA Board	Board member with financial capability to donate.	$16,500, not including SC.	Unspecified. Can be used for operations.	High, committed
In-kind donations	Farmer to Farmer	Product development of Mamba.	$15,000	Cover professional consulting fees/travel to train staff on emulsification process.	High.
	U of NM	Development of sustainable environment program for agricultural cultivation	$25K	Cover professional consulting fees/travel to train peanut and fruit farmers in environmentally sound cultivation.	High, but deviates from program focus; adds to mission creep.

Type of Funds	Source	Criteria	Approx. Size	Purpose	Potential
	Tyler Graduate School of Management UM	Must be locally operated (but does not need to be separate legal entity form PO); good experience for MBA students.	Up to $25,000.	Cover professional consulting fees for 3 graduate management students to assist with any business needs (must be predefined).	High. Excellent source.
Soft Loans	BFI Social Fund	Loan guaranteed by PO assets.	Up to $150,000 interest free for three years.	Working capital and fixed asset loans.	High, legal approval for SC to assume risk (difficult).
	Carib Development Bank	Break-even; solid cash flow projection of revenue	Up to $200,000 at 3% interest for three years.	Working capital, business expansion can be used for capacity building.	Low, insufficient revenue; high risk.
	SC/Haiti	Cash flow constraints	$50,000 interest free.	Working capital credit line only.	High; HQ must approve
Commercial sources	First International Bank	Borrowed against SC assets in Haiti.	$200,000 at 27%.	Business expansion and fixed asset loans.	Low; too risky for SC/Haiti.

Same as previous exercise

Resource Acquisition Plan

In this exercise you will plan your fundraising, drawing on information from the two previous exercises: how much money you need to run your social enterprise and confirmed and potential sources to meet those financial obligations.

- ▲ Follow TARTINA's example (exhibit 8CC: TARTINA Resource Acquisition Plan).
- ▲ Use research findings to support your resource acquisition plan and to convince business plan readers that you can raise the necessary funds.

Resource Acquisition Plan is included in the Business Plan.

Exhibit 8CC: TARTINA Resource Acquisition Plan

Year 1

TARTINA Enterprise needs a total of $328,757 in Year 1. $312,835 of these funds are obligated through a comprehensive central grant from ASSIST/International. Under the terms of this grant, Save the Children has committed a 30% match for $72,835, split between operations ($47,835) and a working capital soft loan ($25,000). In-kind support from Farmer to Farmer program for peanut processing and storage technology is equivalent to $20,000. The remainder will be met by projected sales revenues of $15,922.

Year 2

TARTINA Enterprise needs a total of $359,972 in Year 2. TARTINA anticipates $50,000 funding from ASSIST/Haiti for a three-year continuation grant totaling $150,000. ASSIST/International will have invested $500,000 in TARTINA and therefore continuation from its Haiti branch is probable. Dutch Aid, which has viewed SC's work favorably, is expected to fund TARTINA's capacity building and technical assistance needs, $50,000 a year for three years ($150,000). Consistent with Save the Children's social enterprise program strategy, SC/HQ will become a minority shareholder in TARTINA and provide $75,000 investment funding. Other TARTINA board members have committed a total of $16,500 for operating expenses. SC/Haiti will also plans to open an interest free $50,000 credit line to ease TARTINA's cash flow constraints. In-kind technical assistance valued at $40,000 is expected from Farmer to Farmer ($15,000) and Tyler Graduate Management School ($25,000). TARTINA has an established relationship with these service providers and is confident about securing their continued support. Moderate growth targets project TARTINA sales revenues of $48,678.

A funding gap of **$29,794** remains. TARTINA plans to pursue secondary grant sources such as HELP2U, seek discretionary monies, borrow soft funds, or trim planned activities in year 2 to bridge financial needs with available funds.

Exhibit 8DD: Donor-Investor Criteria and Applications

	Funding Criteria	Advantages	Disadvantages	Good For	Bad For
Venture philanthropists	Investment opportunities in their area of interest; innovation of project/idea; viability of business model; management expertise and skills, competitive positioning; respected board member/PO executive.	Potentially large sums available; can disburse any time; private money—flexibility; will pay overhead and start up; high accountability for results; can bring expertise to enterprise.	Emerging funder, competitive, difficult to obtain resources; can intervene/control management; funding is often given only for one year at a time. May required right connections.	Pilot programs, startup and growth funding; sophisticated or innovative enterprise, competent human resources with private sector savvy.	Inexperienced social enterprise with typical nonprofit management, or enterprise not committed to viability.
Foundations	Funding opportunities in mandated area of interest (or defined by trustees). Social impact, appropriateness of enterprise to meet needs of target population; viability of business model; management expertise and skills; reputation of PO/past funding relationship; competitive positioning.	Small to large amounts, fairly forgiving funder when results are not achieved; pays overhead and indirect costs of PO; one- to multiple-year grants; will underwrite or buy one part of program—i.e. client training.	Few foundations see funding social enterprises as a priority; competitive, difficult to obtain resources; difficult for a new social enterprise without established PO behind it. Fairly long lead time between application and disbursement.	Pilot programs, startup and growth funding; technical assistance and capacity building at any stage, will often subsidize social programs and services—i.e., job counseling and coaching.	Immediate funding needs; continuation funding for capital intensive businesses—i.e., complex manufacturing or financial services; capital assets such as heavy machinery or technology.
Government Agencies & Multilaterals	Funding opportunities in mandated area; social impact; break-even within specific period, potential sustainability, often a match on resources is required; (business income usually-counts), solid reputation of PO, fundraising plan if viability is not to be achieved in grant period; not duplicating efforts of another organization.	Large amounts often for multiple years; pays overhead and indirect costs of PO; no cost extension if underspent; forgiving funder when results are not achieved; partnership based.	Complicated application process; turnaround slow, infrequent funding cycle; reporting can be cumbersome; often based on PO reputation; low understanding of SEs; finding match money can be problematic for some organizations.	Growth to break-even level I stage of enterprise development; often will fund for long term (multiple years); excellent for PO overhead; comprehensive grants with ample resources for capacity building and social objectives; and capital intensive businesses—i.e., financial services.	Immediate funding needs; new, unknown or resource-poor organizations.

	Funding Criteria	Advantages	Disadvantages	Good For	Bad For
In-kind Contributions	Interesting learning/training opportunities for students or professionals; chances to further research agenda; none (purely altruistic)	Free! Can obtain high quality assistance or resources.	Little monetary value; low priority for donor, difficult to hold accountable for deadlines/product quality; hard to change product once complete; mixed agenda for making contribution.	Specific technical expertise; general management assistance for specific, well-defined projects;—that are not too time sensitive.	On-going technical needs, projects with tight deadlines; assignments that require revision—i.e., MIS, publications, Web sites.
Private Individuals	Good "feel good" opportunity for donor; knows executive director, or board member. Generally interested in recognition and/or appreciation.	Unrestricted money with few strings attached in terms of results, expectations or reporting.	Executive director, or board must be well-connected to people with money. Cultivation can be time consuming. Donor may have agenda—usually want to "buy" something concrete. Low amounts.	Underwriting expenses difficult to secure other monies for—i.e., market research; defined projects with visible results—i.e., equipment or facility improvement.	An immediate need if cultivation process has not started; project that requires significant capital. Intangibles like working capital or overhead.
Investors	Good business opportunities with higher return than other investment options–i.e., stock market; or (for benevolent investor) opportunity to "do good" for shared or lesser return.	Possible to get sizable amounts, in early stages may be easier to secure than from other sources providing that strong connections to investors exist. More flexible than banks or financial institutions.	Must be well connected, can be time consuming to negotiate deal, may want equity in business or to participate in decision-making, nervous investor can recall investment. Can jeopardize personal relationships. Risky.	Small to medium social enterprise to underwrite business expenses, rather than social costs; nice complement to traditional donor funding.	Social enterprises in startup or that take a long time before showing a profit.
Parent Organization	Project with high social impact, possibility to attract large-scale funding (i.e., central grants that support PO overhead).	Amounts can be sizable. Easier to secure than grants; risk is low and is not firmly hinged on results (very forgiving); if equity funding is provided will take equity stake.	Lots of internal competition for undesignated funds, release can be slow for political reasons. Repeat funding usually difficult, unless becomes PO sacred cow. Must be careful of hidden PO agendas.	High risk investments or for pilot social enterprise program in order to develop track record and attract funds. Match funds. Bridge money or equity funding for mature enterprises.	Startup or pilot stage of future large enterprise programs, capital intensive business, or enterprises that are slow to show results.

	Funding Criteria	Advantages	Disadvantages	Good For	Bad For
Quasi-Formal Lenders (soft loans)	Ability to repay loan; break-even or near break-even; loan backed by PO assets.	Introduces financial rigor and accountability in enterprise; helps establish history of credit worthiness for later bank borrowing. Semi-forgiving; subsidized interest rates.	Can spark internal wars in PO about assuming social enterprise's risk for borrowed capital; must pay interest; process can be time consuming and bureaucratic.	Working capital; capital for on-lending for financial service businesses; financing high return growth components (new processing machine).	Social enterprises prior to break-even; risky enterprises or those requiring a long time before becoming profitable.
Commercial Lending Institutions	Ability to repay loan; strong financial position, realistic cash/revenue projections; collateral; solid business model; management expertise and skills, low risk	Does not require equity stake or decision-making authority in business, no obligation for an on-going relationship once loan is repaid; definitive amount to repay.	Difficult to secure bank loans for new social enterprises, must secure with collateral; interest rate can be high; no flexibility on repayment schedule.	Established social enterprises that need credit line to fund short term cash flow, specific activities or for capital asset purchases.	Startup, on-going operating expenses, social enterprises with inexperienced management.

Lessons Learned

Chapter 9

Chapter 9

"Good [organizations] are good because they've come to wisdom through failure. We get very little wisdom through success, you know."

— William Saroyan
Writer

Historical Overview

Save the Children's social enterprise methodology evolved from its experience in a type of programming called business development services (BDS) beginning in 1993 in the Philippines. The program targeted poor, self-employed women in metropolitan Manila working in the remnant subsector of the garment industry. A second, similar program, launched in 1997, served clients who were rural self-employed women in Haiti engaged in the transformation of agricultural products. These programs expanded on subsector approaches and analysis techniques, adding a substantial focus on women and pioneering an approach called women's microenterprise networks (WMEN).

Save the Children's first business program architects used what little documented industry experience was available as the basis from which to blaze the methodological trail of WMEN programming. In brief, the WMEN concept envisioned enabling poor self-employed women to increase their economic opportunities and income through services that would alleviate or minimize constraints they faced in their businesses. The objective was to make women's activities more profitable without increasing their workload. Thus, the methodology emphasized augmenting women's existing economic activities with services that would improve their terms of trade, link them to markets, enhance their products, or give technical support. These services would be provided through an intermediary that would organize women working in the same subsector to help them increase their collective influence over power structures and discrimination within the subsector. The program was conceived to become a viable venture through various fee structures incorporated in its design. Scale would be realized by serving large numbers of poor self-employed women through a "network"—hence the name women's microenterprise networks.

WMEN program trials in the Philippines' fabric remnant industry and in Haiti's agricultural food-processing sector sought to "lead the drive toward effective, large-scale, and sustainable [business development services programs] and help define standards for cost-effectiveness, cost recovery or profitability, and scale in [the] BDS sector."[1] At that time, proclamations of this type were prevalent in development-speak, yet just how these goals could be achieved in the business development services sector remained uncertain. The WMEN programs were launched to test and develop the network methodology's ability to achieve the objectives of scale and

[1] WMEN Program Haiti proposal.

viability through services with mass-market appeal for paying self-employed customers. The hope was that the WMEN programs would be experimental cases that would answer many pending questions for business programming.

Over the past six years, Save the Children's experience has yielded many lessons; unfortunately, none has proved to be the Holy Grail of business development services programs. Neither pilot simultaneously achieved financial viability and large scale. In retrospect, SC has concluded that the main shortcoming of the WMEN approach was its lack of application of business modalities and market research. The WMEN program design gave justifiable consideration to socioeconomic development needs of the target population and donor expectations, yet it underemphasized business elements—the "B" of BDS—in its formula. SC learned that to achieve cost recovery and meet targets, the interventions would have to adopt a market orientation and operate like businesses.

Today, the original precepts and principles of WMEN remain valid, though Save the Children's BDS programming methodology has evolved. The approach metamorphosed into a new methodology called **Social Enterprises for Women**, which builds on the work of the Save the Children BDS forerunners, adding tools and methods adapted from private-sector business disciplines. Save the Children has chronicled several of the lessons learned, which served to shape the new programming methodology. They are detailed in the following case study.[2]

WMEN's Guiding Precepts and Principles

The WMEN methodology was based on the following precepts:

- Poor women work in a variety of economic activities; they manage resources and make a significant financial contribution to the household, directly benefiting their children.
- They provide valuable products and services to the marketplace; however, they face considerable constraints on realizing maximum profits from their economic activities.
- In addition, many of these women face discrimination based on gender, social or economic status, making it difficult for them to conduct their business activities.
- Self-employed women have limited time because they must balance multiple roles.
- Because poor women are economically insecure, they tend to be risk averse.
- Many subsectors have an inherent infrastructure to support a third-party intervention.
- Economic systems are based on both competition (lower prices, superior products, etc.) and power (economic connections and social status).

The WMEN approach was founded on these guiding principles:

- Focus on poor women
- Gender equity
- Empowerment
- Scale
- Participation
- Sustainability
- Measurable impact

[2] The WMEN program in Haiti is the only example provided in this manual. For internal reasons, documentation of the WMEN program in the Philippines is not included. The "lessons learned," however, are based on SC's experience in both the Philippines and Haiti.

Case Study: WMEN Program "TOPLA" from Haiti[3]

Program Background

Prior to initiating a WMEN program in Haiti, designers used subsector analysis techniques to study the economic activities of poor self-employed women. They observed that many were engaged in food transformation activities to generate income for their families. In the citrus fruit and peanut agricultural subsectors, rural Haitian women purchased raw materials from local producers and made peanut butter and jam, which they sold in their communities. These women were unable to realize maximum profits, however, because of market saturation and the low purchasing power of their rural customers. Designers noticed that in large urban markets such as Port-au-Prince, in contrast, consumers ate peanut butter and jam purchased from retail outlets. Rural self-employed women were unable to reach these urban markets with their products because of a lack of transportation, marketing knowledge, and retail contacts. Save the Children designers concluded, therefore, that they could substantially increase economic opportunities for these poor women through an intervention aimed at bridging this market gap.

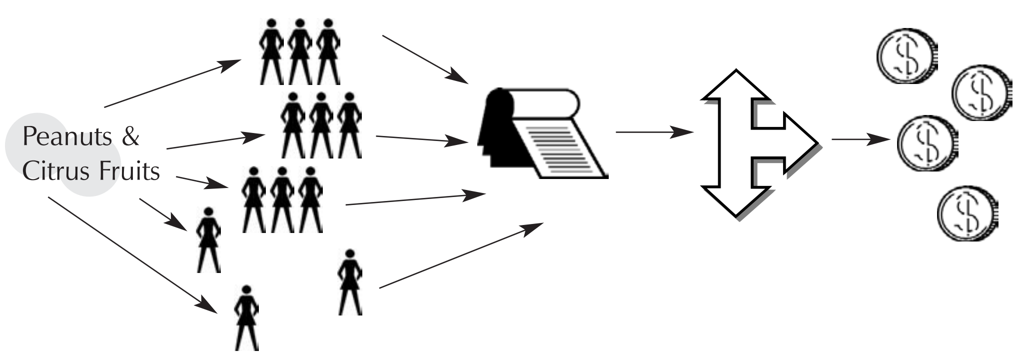
A marketing intervention that sought to link rural self-employed women to urban markets was the first incarnation of the SC/Haiti program. The design itself was based on the WMEN premise of adding value to existing food transformation activities of poor self-employed women. It called for a decentralized approach whereby clients obtained their own raw materials and produced their own goods at the household level, while the Association des Paysans de Vallue (APV), SC/Haiti's local partner, managed the centralized marketing, sales, and distribution functions—using the brand name TOPLA—and SC/Haiti provided oversight and technical assistance to the program.

[3] Major contributions to the TOPLA case study were made by Heather Shapter, Save the Children technical advisor in Haiti, and the APV and SC/Haiti program team. Additional contributions are courtesy of Kellogg Corp. volunteer management consultants from the J.L. Kellogg Graduate School of Management, Northwestern University.

Exhibit 9A: Haiti WMEN Network Model

Function

Raw Materials Sourcing | Production | Marketing | Distribution | Sales



Self-Employed Women — **Decentralized**

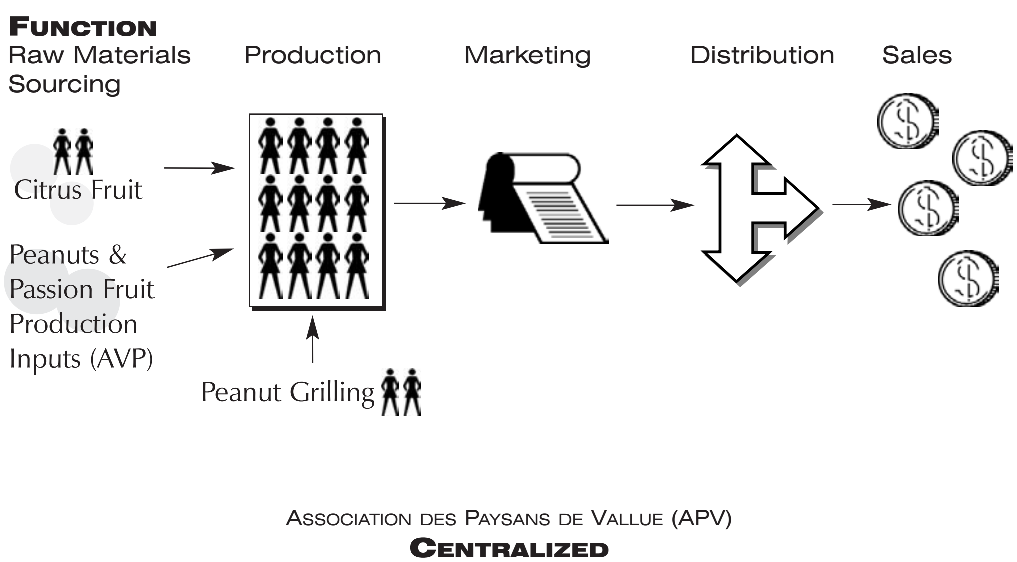
Association des Paysans de Vallue (APV) — **Centralized**

What Happened

The WMEN model was founded on several assumptions that proved to be false. A key assumption, that processing of peanut butter, jam, and other foods is a traditional activity of poor entrepreneurs in Haiti, was flawed. Most of the target population did not actually have experience in peanut butter and jam food processing. As it turned out, training, supervision, and product development were required to produce standard TOPLA products. The second assumption was that clients, self-employed women, would source their own raw material inputs. This was false on three counts: Poor entrepreneurs faced constraints on acquiring some key inputs to production, notably containers and labels; they lacked the means to realize cost savings by purchasing in bulk, which elevated unit costs beyond the break-even point; and finally, this model did not account for the seasonality of raw materials. The third false assumption was that an adequate market for a variable product existed. In fact, SC/US and APV discovered that TOPLA customers demanded a highly standardized product. But WMEN's decentralized approach to production did not support the manufacturing of consistent products, despite the merits of the network concept and its ability to achieve scale. These oversights resulted in additional management burdens and program costs.

This "market test" had a forceful impact on the WMEN program. Save the Children and APV sought to steer the program toward viability by first concentrating on producing a salable product. Although they supported an outstanding effort to adapt the program to market realities, the result was a slow, unintended shift from a loose, decentralized network structure to a centralized manufacturing facility. Investments were made in a production site plant and equipment, and functions were *vertically integrated* one by one without attention to a business strategy. Although these proved to be legitimate business decisions aimed at producing higher quality, standardizing products, and reducing constraints on access to raw materials, their consequence was to shift the WMEN client-focused model to a more classical enterprise model. Acquisition of citrus fruit for raw material inputs and the home-based peanut-roasting stage of production are the only remaining decentralized functions (exhibit 9B).

Exhibit 9B: TOPLA Social Enterprise Model



In Year 2, the program underwent a strategic realignment. Partners reassessed the original social and economic goals and objectives and reached a consensus on the mission. A business plan was developed that articulated new targets, with intermediate benchmarks to measure progress and social impact and concrete steps to achieve them. Targets for scale were also adapted to more realistic levels and to capture TOPLA's target population, which extends beyond poor self-employed women to include small producers.

During the strategic planning period, APV and Save the Children unanimously decided to abandon the WMEN methodology in favor of the more market-based social enterprise approach. The program has since taken on a business orientation, and its structure has become more like an enterprise than a development program.

The WMEN program in Haiti was restructured, and though it remains a "program" under the auspices of APV, the nonprofit intermediary, it has been segregated from APV's other activities and operates as an enterprise (exhibit 9C). The WMEN program has its own guiding mission and objectives, maintains its own accounting system, and shares few personnel functions with APV. The bulk of the food processing for all products in the TOPLA line takes place in one production center, which has been outfitted with basic, semi-industrial equipment to improve productivity and enhance product standardization. Although final questions of structure and ownership are yet to be resolved, the program has evolved into a viable enterprise. This Save the Children considers notable.

EXHIBIT 9C: SC HAITI WMEN PROGRAM

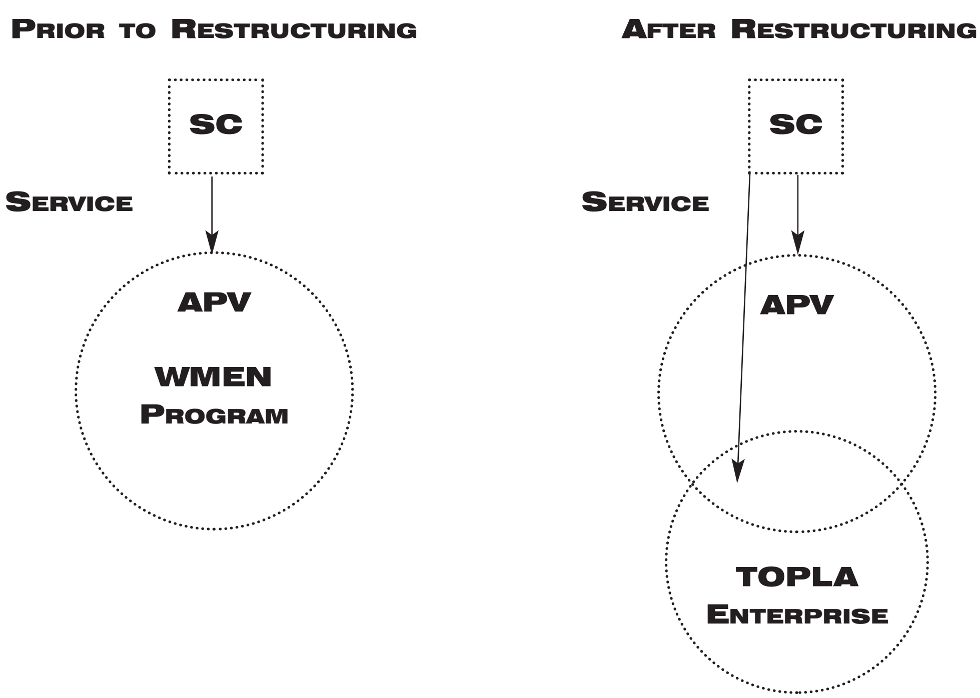


Exhibit 9D: Excerpt From the TOPLA Business Plan

Experience of the past two years has shown that the original decentralized program design is not appropriate to meet the WMEN program's long-term goal and targets. The primary reasons for this are:

- **Customers demand a highly standardized product.** The best way to achieve a high volume of sales in a cost-effective manner is to serve urban markets, the closest of which is Port-au-Prince. This places the products (brand name TOPLA) in the competitive, formal market with high standards for product quality and consistency. The demand for product standardization and quality control cannot be met through a home-based production model.

- **The assumption of traditional knowledge** of the transformation process of a number of the products has proved to be false. Centralized training, follow-up, and continuous supervision by production agents have been required.

- **Bottlenecks to raw material acquisition.** In the decentralized model, the WMEN program loses needed cost savings that can be gained through centralized bulk purchases of production inputs. As well, some key inputs are not easily accessible to the poor women clientele, most notably containers and labels. The customer preference for product standardization also extends to the need for tight quality control and standardization at the raw material purchasing stage.

A Closer Look

The following excerpts chronicle specific challenges TOPLA Enterprise encountered in the early part of the program (and to some extent continues to face) and the strategies it used to overcome them. This section is intended to give the reader an in-depth look at issues that drove the evolution of the current social enterprise approach from the previous WMEN program. Italics denote excerpts taken from Haiti program reports between Year 1 and 2.

Management and Human Resources

To keep pace with the many challenges the WMEN program has faced, SC/Haiti and APV have fallen prey to reactionary management practices. There is an acute need to invest time in setting up systems for systematic planning and for prioritizing decisions. Management is also plagued by a poor definition of program roles, responsibilities, and accountability. Moreover, program management personnel are just that—those with experience in program management but with little experience in running a business or in the techniques of food processing. Also, marketing continues to be one of the principal areas requiring immediate strengthening. Despite its attempts, APV has been unable to attract a qualified candidate for marketing manager at the designated salary.

These issues were addressed by reallocating the budget and recruiting a half-time business manager and a marketing manager at a higher salary. Technical assistance in food processing has been and will continue to be contracted for as required. Roles and responsibilities were clearly delineated in a program organizational chart, and job descriptions were created.

Product Selection

The TOPLA products peanut butter and grapefruit jam are in the mature phase of their life cycles, a stage characterized by brand recognition, stable and high sales levels, numerous competitors, declining profit margins, stiff price competition, and market saturation.

> *Peanut butter and grapefruit jam's entrance into the decline stage of the product life cycle were postponed by introducing product modifications—new packaging, new flavors, etc. This approach served to differentiate the product from its competitors and temporarily escape the heat from direct competition. The WMEN program has identified a market niche for sweetened peanut butter. This flavor is not offered by the competition and will serve to more directly target the tastes of children.*

TOPLA also inaugurated new products, passion fruit jam and Karapinia (a sugar- and spice-coated peanut snack), which in contrast to peanut butter and grapefruit jam are in the introductory stage of their life cycles, a stage characterized by little direct competition, low sales volume, limited distribution, low revenue levels, and increased risk. The feasibility test and market research pointed to great potential for these products, making the risk of introducing them into the market a worthwhile one.

Product Line

Twenty-three products make up the TOPLA product line. With such a long list, product specialization is very difficult to achieve, creating problems of standardization and quality control. Similarly, preparing a cohesive marketing strategy for such a sprawling line of products within the framework of a small enterprise is not possible. Potential economies of scale through bulk purchases are also being lost with the addition of every new product size. A wide-ranging product line significantly complicates enterprise management of inventory control, accounting, and sales and production reporting.

The product strategy has been reformulated, by reducing product line from 23 to seven, to balance the need for focus with that of offering a large enough variety of products to decrease fixed costs per product. Focus is needed to build expertise, especially in the areas of food processing and marketing. Seven complementary products, with synergistic value have been retained in the TOPLA product line. Simply put, peanut butter and jam belong together.

Raw Materials

The inconsistent availability of raw materials remains the main production constraint. The self-employed women clients are unable to find the necessary raw materials or are not able to afford them because of insufficient planning or lack of cash.

During the first year, APV began centrally purchasing and stockpiling peanuts, a key raw material, before their price increased in the off-season. This eased some of the constraints for the clients. Unfortunately, no technical assistance was available to advise the WMEN program staff on proper preservation or storage techniques. As a result, almost 30 percent of the original stock either spoiled or was stolen, negating most of the cost advantage of the bulk purchase.

Production planning was incorporated in the business to minimize situations in which raw materials sit in storage for long periods of time. Purchasing, originally left to the clients, is now centralized under the direction of the TOPLA production center. Economies of bulk purchase are realized when prices of seasonal raw materials are most favorable. Assistance in proper preservation and storage techniques was acquired through Partners of the Americas' Farmer to Farmer Program.

Procurement of Other Inputs

The WMEN program has faced a continuing shortage of jars (plastic and glass), having had only one supplier of the containers. Other suppliers have not been willing to sell to APV because of the small order size. Last year, the supplier was unable to provide stock, which resulted in suspension of production for an extended period. To reduce dependency on a single supplier, APV searched for other sources of supply, including the Dominican Republic, a neighboring country. Of the three types of packaging required, APV was successful in identifying two in the DR, but the cost of one of those two appears prohibitive.

Also, by covering a longer production period, APV has increased its order size for suppliers in Haiti who will only accept larger orders. As well, APV is in the process of assessing the possibility of procuring the containers from nearby Miami or from Venezuela.

Quality Control

Since the shift from an individual to a centralized production model, quality control (QC) has improved significantly. However, each product type still requires QC improvements, especially if the products are to continue to be sold in the competitive, sophisticated market of Port-au-Prince.

One particular quality control problem has resulted in product returns. TOPLA's peanut butter is 100 percent natural, with no additives or preservatives. With this all-natural recipe, the peanut oil separates and rises to the top after a certain period of time. Supermarket owners have been unable to sell TOPLA peanut butter when this occurs. The WMEN program is considering several options to address this urgent issue: Educate the customer on the characteristics of all-natural peanut butter, add the necessary chemicals to reduce oil separation, or tighten up distribution and inventory control to get peanut butter on grocery shelves and sold before the product separates. APV has already received a sample of a chemical fixing agent from the United States, which will be tested during the coming reporting period. Channels are also being analyzed for more efficient distribution and sales turnaround.

> *Local technical assistance organizations specializing in food processing were contracted to provide training to the clients and production staff to ensure that a high level of quality in production is maintained.*

Step-by-step quality control improvements were identified by production agents for peanut butter and jam products, and a "Quality Control Program" was developed. To augment quality control, certain clients are trained as specialists to champion QC, and QC has become a standard part of clients' training.

Financial Outlook

The WMEN program has been unable to meet its cost-recovery targets because of the costs of implementing the centralized production model and other unanticipated expenditures. Although this model requires more initial investment, the long-term return should be higher than that of the individual production model.

The program budget was revised to reflect the activities of the new business plan. Some of the current budget line items will be reallocated to cover the new financial requirements. The new target is to break even by TOPLA's seventh year of operation.

Enterprise Model

The feasibility test and the business planning processes confirmed that the original decentralized WMEN program design could not respond to the Haitian consumer market demands of high standards of quality control and competitive pricing. A centralized food processing model, however, does translate into a potentially successful business concept. The biggest drawback to the centralized model is that it cannot impact the thousands of entrepreneurs originally targeted. In particular, the analysis that laid the groundwork for the business plan showed that the centralized model could support 120 part-time clients for the coming year and 358 by the end of seven years, at which time the enterprise is projected to be financially viable.

> *Peanut farmers should also be included in the beneficiary count. The program will need to take a more active role in ensuring timely access to the required quantity and quality of supply. Peanut farmers in the production region will need technical support to improve productivity yields and the quality of peanut varieties currently under cultivation.*

Conclusion

Save the Children's redesigned Haiti program marked its transition from the WMEN approach to adopting a broader social enterprise methodology in its business interventions (BDS and microfinance programs). Detailed in the following section are the lessons learned from SC's experiences in Haiti and the Phillipines. The vocabulary used in describing these lessons is generic, referring to the social enterprise discipline rather than specifically to BDS programs.

Lessons Learned

The Need for a Focused Strategic Direction and Clear Objectives

The heart and soul of social enterprise programs are its "double bottom line"—the social and business objectives it seeks to achieve. Understanding the delicate balance between the two is the ultimate challenge for social entrepreneurs; it requires a focused strategic direction and clearly stated objectives.

Sustainability of the Enterprise as the Overriding Goal

Save the Children believes an enterprise built on sound business practices is the best vehicle for achieving social objectives. The goal of viability drives strategic direction and decision-making. Without that goal, social enterprise pursuits will have limited benefit and life span.

Avoid Mission Dissonance

It is crucial to begin an enterprise program with a clearly articulated vision and a mission statement ratified by all social enterprise program stakeholders. Doing so will help to define the strategic direction of the enterprise and ensure that stakeholders are behind it. Business programs are not appropriate for all Private Voluntary Organizations (PVOs) nonprofits or NGOs; they can challenge the core of an institution's conceptual and practical framework, presenting serious dilemmas. If all stakeholders are not on board at the start, resources will be squandered fighting institutional resistance.

Set "SMART" Targets

Social enterprise programs cannot be the panacea for all social and economic ills. Setting goals to change the human condition or eradicate poverty is grandiose and unrealistic. Even targets such as clients' accumulating assets or increasing self-esteem are slippery and hard to measure. Two types of targets are appropriate to set, however: first, objectives for each business function, including a viability goal; and second, social impact. Set "SMART" targets—those that are **S**pecific, **M**easurable, **A**chievable, **R**elevant, and **T**imebound.

CITED AS THE NO. 1 REASON WHY SOCIAL ENTREPRENEURS FAIL:

"BUT WE ARE A NONPROFIT! WE'RE NOT SUPPOSED TO MAKE MONEY!"

"[Socially oriented practitioners] (and their sympathizers) are raised by experience and training to distrust money, business, and capital. We develop a mind-set that views money as evil. Grow up. Money is valueless; it's what people do with money that counts. Your job is to get as much of it as you can so you can stay in business, hire people in need, pay a good wage, contribute funds to your program, and stabilize your community. Greed may not be good, but money is. After all, there is no glamour in poverty. Go out there and get your piece of the pie and then feed it to the masses. If you aren't comfortable with that idea, don't start the game."

— *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation* by Jed Emerson and Fay Twersky

Write a Business Plan

A concrete business plan is the road map to accomplishing social enterprise program goals and objectives. Simply put, you will be lost without one.

CONDUCT A THOROUGH MARKET ANALYSIS

Although subsectors were examined in excruciating detail for Haiti and the Philippines, relatively little attention was given to studying the larger markets. Subsector analysis, though an important tool, is not a sufficient measure of the market potential for a specific industry to justify launching a social enterprise program. A thorough market analysis must be done on two levels: the market environment and the enterprise. The first analysis examines external factors that influence the operating environment and industry forces, and the second analysis focuses on industry trends, customers, costs, and competitors. Finally, a market test must be conducted to verify solidity of the business concept and potential for financial viability.

Understand Market Demand

To sell a product or service, there must be a market for it. Simple market and pricing research helps to clarify who the customers are, what their needs are, and whether they have the ability to pay for the services or products. A customer's willingness to pay for a product or service is a good real-world indication of demand.

Analyze Viability Potential

Financial viability hinges on selling a product or service that customers want. To be viable, a program must be cost-effective, i.e., offer a demanded product or service at a price and volume that cover costs without continued external subsidy or assistance. Banking financial viability, yet overlooking the final customer, could be the epitaph of a social enterprise program.

Market Test Products and Business Concept

Before investing in a social enterprise program, and after analyzing the market, conduct a feasibility test. Use market-driven criteria to evaluate how products and ideas actually fare in the marketplace on a small scale. Find out if the target customer buys product or services at the price projected to achieve financial viability. A market test determines which products, services or business concepts are feasible to support a social enterprise.

Do Not Try to Outmaster Subsector Players

In the short term, a donor or parent organization-backed enterprise can wield awesome power, but it cannot endure the pressures of a free market once heavy subsidies cease. Competition and traders are part of the market mosaic, and a business intervention must be designed according to this reality.

Study the Industry

Understanding the attractiveness of a particular industry largely shapes the structure of the program: the design of the intervention, the number of clients who can be served, and ultimately the viability of the program. Market research probes essential questions to determine if an industry is attractive enough to realize healthy revenues and sustain its comparable advantage while still assisting the poor.

Be Market Driven

The market should drive the business intervention, not the target population. Even if these two are the same, Save the Children advocates first conducting market research that leads to selection of a target population based on a business that can compete in the marketplace. This approach by no means dismisses working with the poor; it merely encourages identifying poor populations in subsectors, industries, and markets that offer a healthy potential for viability. If the market leads, the enterprise will be better positioned to serve its target population.

Create a Dynamic Model

A successful social enterprise model has the ability to maneuver in the marketplace by identifying and entering new markets. The only constant in business is change. Program models cannot be based on fixed designs and left to stagnate; they must be dynamic and flexible, responding to new opportunities and circumventing arising threats, if they are to survive in the long run. Dynamic models build in a feedback loop whereby practitioners' eyes and ears are constantly attuned to what is happening in the strategic and operating environment. Processes and products are continually retooled based on information transported back to the enterprise.

The Intervention as a Business Entity

The structure of enterprise interventions can vary dramatically. Whether the program remains an nonprofit enterprise or formalizes into a business, Save the Children takes the perspective that the intervention should be recognized as an *enterprise* that is distinctly separate from other programs and activities. Cost recovery, return on investment, cost per client, management capacity, etc. are quantified using this entity as the measure.

Clearly Define Ownership

Ownership status of the social enterprise program and assets at the close of external funding and support should be stated in the beginning and factored into program design. This has been an issue of hot debate in Haiti, where SC has attempted to set up shared ownership of TOPLA Enterprise by the clients and APV, the local implementing nonprofit, whose visions for TOPLA are divergent. Although APV, as a social organization, in theory has the clients' best interests at heart, it also sees itself as benefiting from enterprise returns in the future, which is an unsettling temptation for any nonprofit hard-pressed for funds.

Include External Audits

External audits should be a de facto practice to develop enterprise professionalism. Audits evaluate the capacity of enterprise management and staff from an objective, nonemotional vantage point. When incorporated into a performance-based plan, audits can be constructive tools. Their results serve as benchmarks to appraise progress and can be linked to either "sticks" or "carrots" to encourage continued proficiency.

Keep the "Entrepreneur" in Microentrepreneur-Based Enterprise Models

The centralized enterprise model has to some extent presented a challenge to the preservation of entrepreneurial integrity. To avoid slipping into a "job creation" mode that moves simply to employ poor people as laborers, Save the Children is in the process of building, entrepreneurial components into the program. The key is for microentrepreneurs to be stakeholders in the enterprise. Profit sharing, bonuses, piece rate pay are some mechanisms that motivate microentrepreneurs' performance and gives them control over income generation, rather than relegating them to being wage laborers. Developing technical competence or specializations in production tasks places microentrepreneurs in the role of team leaders and puts the onus on them to achieve targets. Equity or ownership stakes in the social enterprise are another means of elevating the poor to the rank of entrepreneurs. Finally, electing microentrepreneur representatives to the governing board gives them a voice in management, oversight, and decision-making.

Design for Risk Aversion

Risk aversion, although a known characteristic of the target population, was not appreciably factored into the WMEN design. Living on the fringes of society and many competing financial priorities compound clients' risk aversion, making them extremely reluctant to reinvest their earnings in the business and consequently making it infinitely more difficult to give them ownership of the enterprise. Two ways to mitigate this problem are 1) to build a savings component into the program that can serve as a financial buffer in emergencies (illness, death, natural disaster) and 2) to establish criteria for selecting clients who are willing to take risks.

Plan for "Comparative Disadvantages" and Capacity Building

Although the goal is to create a social enterprise that can compete in the free market, this must be done within a realistic time frame and with technical and financial support. Social enterprise programs need time for capacity building, which is one distinction between such programs and the private sector. The fragile nature of the target population as customers, owners, or laborers; the low skills and business acumen of the social enterprise management; and the developing-country environment are costs of doing business—or "comparative disadvantages"—unique to social enterprises. Long learning curves, poor infrastructure, limited expertise, and the general frailty of clients must be considered in capacity-building plans and viability forecasts.

"Delight the Customer"

The famous words of Philip Kotler, the grandfather of marketing, are worth remembering for their wisdom. Social enterprises must set high standards of professionalism and be directed by a vision to render the best possible services and products to their customers. "Underpromise and overdeliver" should be their mantra, not only as it applies to customers but also as it applies to investors (the donor). Giving customers or investors more than they expect engenders loyalty (repeat patronage) and a good reputation.

Market Research Is a Continuous Process

Market research should not end when the social enterprise begins; it must be a constant part of the feedback loop. Customer satisfaction, derived through market research, is a barometer that indicates whether the enterprise continues to meet its customers' wants and needs. Market research also acts as a watchful eye on the changing environment—so the enterprise can stay ahead of the curve and respond to changes rather than get crushed by them.

Have an Exit Strategy

Plan the parent organization's departure at the start of the social enterprise program. Issues related to type of structure—i.e., nonprofit business, subsidiary, local enterprise, nonprofit program, franchise, etc.—and ownership of assets and revenue often are sticking points for social enterprise programs. Next steps can be sketched at a program's outset, framing an unambiguous vision for the future of the enterprise.

Install Good Management and Human Resources

Select a Business-Oriented Partner

The right partner (implementing organization)—one with common values—is essential. For social enterprise programs this usually means a business-oriented partner. At this juncture, SC favors teaming with private businesses or operating without a conduit and directly creating a local enterprise. Before embarking on any partnership agreement, thoroughly screen potential partners to ensure that they are committed to a business strategy and understand the rigors it entails and are not just looking for cash. Multisector or charity-oriented organizations without strong business acumen generally have limited capacity and lack the business values necessary to develop their programs into sustainable enterprises. Much unnecessary grief on the part of the partner and the parent organization can be avoided by teaming with organizations that share core values.

Use Performance Contracts

Sign contracts that outline performance expectations and specific targets or deliverables and detail how the partnership will be conducted. Performance contracts serve four purposes. First, they set concrete results that advance larger goals. Second, targets and expectations specified in the contract function as a program management tool, reducing the need for the parent organizations to micromanage partners. This system promotes partners' integrity, enabling them to "opt out" of the relationship through nonperformance if they so choose. Third, performance contracts can be used as an evaluation tool or incentive if renewed funding is linked to them. Finally, performance targets define boundaries and deter potentially emotive relationships that can deteriorate to the level of parent-child interaction.

Clearly Delineate Roles and Responsibilities

Most social enterprise programs serve a multitude of players, including the donor, the parent organization, the technical assistance provider, the implementing organization, the enterprise, and the target population. Save the Children has discovered that a lack of clarity about roles and responsibilities complicates the social enterprise, decreases efficiency, creates tension, and muddles objectives. It is important to clearly delineate the role of all players in the social enterprise program and their respective reporting lines.

Hire the Right People

Social enterprise programs require human resource skills that are not typically available within nonprofits. Unlike in the private sector, where a shortage of capital often leads to business failure, in social enterprises poor management is usually the reason for failure. Weak management has been one of the main pitfalls of the program in the Philippines. And in Haiti, TOPLA Enterprise had to hire a business and marketing manager from the private sector and contract for technical assistance in marketing and food processing. Sales agents were also hired externally. Only the production and inventory managers were brought through APV's staff ranks and trained for their jobs. External hiring may unsettle nonprofit leaders who hope to underwrite salaries of existing staff with the social enterprise program budget.

Accounting for human resource needs during the design phase dispels any misconceptions the local institution may have about money for salary allocations. It also improves budget estimations, since private-sector personnel may be more expensive. Social enterprises need both development practitioners and business professionals. To be successful, they need a marriage of skills.

Build Local Capacity

The crux of a *social* enterprise program is building local capacity to sustain business operations in the absence of third-party assistance. This requires well-targeted technical assistance and training and the appropriate resource allocation to underwrite these activities. Capacity building can also be managed structurally, through a human resource plan that supports professional development and skills transfer.

Incorporate Monetary Incentives

Monetary incentives are one of the best ways to dramatically shift a "program mentality" to an "enterprise mentality." Incorporating incentives for both enterprise staff and clients motivates performance and helps self select entrepreneurs who are not risk averse.

Select Product/Service Mix Carefully

Aside from analyzing market conditions for products or services, designers should be cognizant of certain product/service characteristics that might present complexities that could threaten the enterprise's viability. A product or service that is highly vulnerable to seasonality, spoilage, or technological change may be beyond the enterprise's capacity to manage or may require cash in excess of the social enterprise's resources (i.e., high technology). To some extent, all products or services face these market challenges. Designers must determine which ones are navigable and which ones pose imminent peril.

Specify and Budget for R&D

Businesses are under constant pressure to improve their products and services and to develop new ones that respond to changing market forces and customer desires. To this end, investments in research and development should not be overlooked. In the original SC/Haiti program budget, ample resources were earmarked for client training but none for product development. Although R&D needs vary depending on the industry, social enterprises should include a specific plan for R&D, including budget allocations for technical expertise, personnel, equipment, product testing, etc.

Choose Viable Products/Services and Markets

Income is a function of price, volume, and efficient operations. One challenge in this equation is to select products or services that offer sufficient margin potential to sustain the enterprise. The products in both SC's social enterprise programs, peanut butter (Haiti) and cleaning rags (Philippines), have extremely narrow margins, which makes viability difficult. Social enterprises that sell products or services directly to clients face the additional challenge of finding products with mass-market appeal that they can sell for a low price while still recovering their costs. The financial service industry has been able to meet these criteria, but business service programs have yet to arrive at a magic formula.

Save the Children is not convinced that selling products and services to clients should be the focus of social enterprises. "Market" denotes customers who are "willing and able" to purchase a product or service. Poor or disadvantaged people rarely constitute a feasible market, despite the assistance they may need. Based on its experience, SC/US believes that social enterprise programs are more aptly suited to assist the poor and disadvantaged, and achieve viability by focusing on markets for client-made products (see chapter 1, exhibit 1A, model 2, "Market-led," for further explanation) than by selling services directly to clients. This approach not only works to provide much-needed technical assistance to poor clients but also allows for greater cost-recovery flexibility for the social enterprise (through price markups, income percentages, commissions, etc., rather than income from fees for services paid by poor and disadvantaged clients), and creation of wealth in the community.

FINANCIALS

Plan for Capital Requirements

As much as social enterprise programs have tried to set themselves apart from microfinance programs, capital, particularly as it relates to cash flow, is a social enterprise reality. Money for both fixed assets and working capital is needed to run a business program, and like credit the latter usually increases relative to growth. Financing for SC's programs was on a typical percentage disbursement schedule that did not correspond with the ebbs and flows of the business cycles.

Manage Cash Flow

Poor ***cash flow*** management is one of the principal reasons micro and small businesses all over the world go under. Ironically, a good product or service and a well-targeted market are not enough to ensure success; unforeseen cash shortages for even relatively short periods can render a crushing blow to these fragile businesses. Building capacity of social enterprise management to manage cash flow is a critical element of sustainability.

APPENDIX A: USING WEIGHTED AVERAGES

Rationale:

A simple ranking system helps in weighing the pros and cons of each subsector. The objective of the ranking system is to determine the "real" value of each subsector. A weight is assigned to each criterion, and each subsector is ranked in respect to each criterion. This allows different programs to decide the importance of each criterion according to their individual goals and priorities as well as the external environment.

Directions:

- ▲ The example below demonstrates the use of this method for the retaso and food transformation subsectors. It can be used as a reference in completing the following exercise.
- ▲ Assign a weight to each criterion according to its importance. The sum of all assigned weights should equal 1. The weights chosen for Country X are in the table below.
- ▲ Next, rank the subsector according to how well or poorly it meets the criterion, on a scale from 1 (does not meet criterion) to 10 (closely meets criterion). In this example, the retaso sector was given a 10 for the first criterion because it serves a large population of women, which was a high priority for the program. However, because of strict government regulations in the textile industry, the retaso sector received a rank of only 1 for government interest.

W = assigned weight R = assigned rank

EXHIBIT A1: SUBSECTOR RANKING

Potential Subsector	# of Women Micro-entrepreneurs	Market Demand/Growth	Government Interest	Strategic Environment: Threats/ Opportunities
	W = .50	W = .25	W = .05	W = .20
Retaso	R = 10	R = 6	R = 1	R = 3
Food transformation	R = 3	R = 10	R = 3	R = 10

Result:

The textile industry faces strict government regulation while food-related industries do not face many regulatory obstacles. Therefore retaso ranks lower than food transformation on the criterion of government interest.

- ▲ Next, determine the weighted score for each criterion using the following formula: weighted score (WS) = W x R

Retaso sector

# of Women Microentrepreneurs:	WS = .5 x 10 = 5.0
Market Demand	WS = .25 x 6 = 1.5
Opportunities:	WS = .10 x 3 = .30
Threats:	WS = .10 x 3 = .30
Government Interest:	WS = .05 x 1 = .05
Total score:	**7.15**

Food transformation sector

# of Women Microentrepreneurs:	WS = .5 x 3 = 1.5
Market Demand:	WS = .25 x 10 = 2.5
Opportunities/Threats	WS = .20 x 10 = 2.0
Government Interest:	WS = .05 x 3 = .15
Total score:	**6.15**

Final result:
A sum of the weighted scores gives the two subsectors' overall scores across all criteria. Although the food transformation sector received higher rankings on some criteria, the greater weight assigned to the number of women microentrepreneurs resulted in a higher overall score for the retaso subsector.

Glossary of Terms

Accounts receivable – money due from customers for products or services sold.

Accounts receivable collection period – number of days it takes for an enterprise to collect its accounts receivable. It is calculated as follows: number of days = (accounts receivable/sales) x number of days in the reporting period.

Accrual accounting – a practice of accounting whereby revenues are accounted for in the period in which they occur and expenses recognized when they are incurred, rather than when a cash payment is made or received. Accrual accounting gives a realistic picture of the enterprise's financial position by recording the effects of financial transactions on the social enterprise regardless of when cash is received or paid.

Amortization – costs of an intangible asset are allocated of over its useful life.

Assets – items owned by a company that are expected to generate cash. Examples include accounts receivable, inventory, and equipment.

Average cost – a method of inventory valuation that assumes inventory sold during the period was purchased at the average cost of all inventory available for sale.

Average performing assets (APA)[1] – only the part of the assets used to support the business program.[2] Using APA is an appropriate measure when an enterprise is an early program phase under the auspices of the parent organization or implementing partner, or if after maturity it continues to share assets with another organization- i.e. building and land.

Average total assets (ATA)[2] – calculated by summing the total assets in the balance sheet. ATA is an appropriate measure when all assets are used by the enterprise for its business activities.[3] It is the case when the enterprise is single purpose and assets are distinctly separate from another organization (parent organization, implementing partner, nonprofit).

Backward integration – a strategy in which a company takes over control of the supply of its raw materials or parts, or the suppliers themselves. See also **vertical integration**.

Balance sheet – a financial statement that shows assets on the left side and liabilities on the right. A balance sheet gives an overview of a company's financial position at any given point.

Barrier to entry – any factor, tangible or intangible, that prevents or deters a social enterprise from entering a market or industry.

Book value – the value of an asset whose historical cost has been adjusted for **depreciation** or **amortization**. Book value is also referred to as **net fixed asset value** and is reflected in the **balance sheet** of an enterprise.

Brand – product group identified by the name of a company or manufacturer.

Break-even point – the point at which revenues from sales equal costs.

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[1]SEEP Financial Services Working Group, *Financial Ratio Analysis of Micro-Finance Institutions*,1995, PACT Publications, NY.
[2]Ibid

Budget – a financial plan based on estimates of expenditures and revenues for a period of time.

Business development services (BDS) – development service interventions that aim to reduce barriers faced by microentrepreneurs such as market access, restrictive regulations, and poor infrastructure, all of which impede microentrepreneurs' productivity, profits, and income. BDS programs may also seek to leverage opportunities for the purpose of profit maximization. Through addressing barriers, business development services not only increase the profitability of enterprises but transform them as well as the environment in which they operate. Business development services fall into a number of categories: linkages to markets, technology, referral services, business skills development, common service facilities, organizing, and advocacy. (Nelson, 1996).

Buyer power – the ability of customers to pressure a firm to reduce its prices for products or services.

Capacity – a measure of an organization's or company's facility or power to produce, perform, or deploy an output. (Merriam-Webster)

Capacity building – the act of transferring skills or management knowledge through training, technical assistance and applied learning. Capacity building occurs on two levels. **Client capacity building** refers to hard and soft skills development aimed to increase clients' employability, economic security and self-esteem. In some cases, clients are also trained in management. **Institutional capacity building** transpires at the level of the social enterprise. It is the supported process of transforming a nonprofit program into a business. Management capability of nonprofit and business professionals is developed to simultaneously achieve the enterprise's financial and social objectives.

Cash accounting – a practice of accounting whereby revenues and expenses are recorded when cash is paid and received. Cash accounting is straightforward and is often used by very small businesses; however, it can overstate or understate financial position of the enterprise depending on when a cash payment is made or received.

Cash flow – the actual movement of cash; used to measure cash inflow minus cash outflow.

Cash flow projection – a forecast of the cash a business anticipates receiving and disbursing over a given span of time, frequently one month. It is useful in anticipating the cash portion of a business at specific times during the period projected.

Cash flow statement – a financial document that reports information about cash receipts and cash payments during an accounting period. The cash flow statement segments cash sources and uses into "operating", "investing" and financing" categories. It is generally prepared for the same period as the profit and loss statement.

Client population – the poor microentrepreneurs whose income or economic opportunity BDS programs seek to improve (also called Target Population).

Comparative advantage – factors within an enterprise that give it an edge over its competitors. These factors can include a business' internal strengths or potential opportunities it has in the marketplace with respect to its competition. In the private sector, firms use the term "competitive advantage" to describe the same phenomenon.

Comparative disadvantage – factors within a social enterprise such as expensive capacity building, compensation for loss in productivity and materials, and costs of social programs that make it difficult to compete with private sector competitors due to substantially higher costs.

Complementary products – products that can or must be used together, such as cameras and film. Neither product can be substituted for the other, and the sale of one increases the sale of the other.

Contingency planning – Preparing alternative strategies and plans that correspond to a liable risk occurring, thus threatening the plausibility of the chosen plan.

Contra account – an account whose balance is subtracted from a related account in financial statements—i.e., accumulated depreciation.

Core competency – a skill or aptitude, or a collection of skills, that enables an organization to integrate business processes in the creation and delivery of true benefits for customers and to distinguish itself from its competitors as well as block their attempts at imitation.

Costs of goods – Expenses associated with producing and making a specific sale. Companies differ as to which expenses they attribute to costs of goods, but generally included are direct labor, raw materials, factory overhead, sales commission, and freight.

Costs of goods (COGs) sold – Costs of inventory sold during an accounting period by the selling enterprise. COGs include all costs to make a product or render a service: labor, raw materials, operations, factory overhead, etc. It is important for social enterprises to list costs of goods sold in their income statement.

Cross-selling – a marketing strategy for selling several products across a product line or brand by placing them together in display or using other tactics to encourage purchasers to buy more than one item in the line or brand. Cross-selling is a strategy that leverages marketing synergies.

Current assets – assets that are expected to be turned into cash within one year through the company's normal operations.

Current liabilities – liabilities due for payment in one year.

Current Ratio – a measure of liquidity used as an indicator of a social enterprise's ability to pay short-term debts. The formula for Current Ratio is current assets divided by current liabilities.

Demand – the willingness and ability of buyers to purchase different quantities of a good at different prices during a specific time period.

Depreciation – the decrease in the value of equipment from wear and tear and the passage of time. Depreciation is recorded as an expense that allocates the cost of the asset over the time it is expected to generate income.

Differentiation – an emphasis a company puts on the specific benefits of its products or services, thus creating value for the customer and setting the company apart from competitors. A company might emphasize service, innovation, donation of a percentage of the sale price to a social cause, etc. as part of a differentiation strategy.

Distribution channels – the various routes that products and services take as they travel from the manufacturer or producer to the consumer. Distribution channels include all intermediaries, such as transportation, storage, sales representatives, wholesalers, retailers, etc. Each member of the channel seeks to maximize profits, and these costs are passed on to the consumer.

Economies of bulk purchase – realizing cost savings by purchasing in volume.

Economies of scale – lowering costs through the production of higher volume. Economies of scale occur by spreading **fixed costs**—costs that remain constant despite increases or decreases in sales—over a greater number of products. Fixed costs typically include rent, equipment, administration, and salaries. Therefore, if the rent on your factory is the same regardless of how much you produce, by making and selling more you spread the costs of your rent.

Entity – something that has a distinct existence or conceptual reality. (Merriam–Webster)

Equity – monetary value which represents an ownership stake or net worth in an enterprise. Issuing stock or selling equity stakes raises capital for a business. For example if a PO takes equity in its social enterprise they purchased partial ownership of the enterprise. In publicly traded companies, issuance of stock signifies selling very small pieces of the company.

Features – characteristics of a product or service that deliver a benefit.

FIFO – is an acronym for **F**irst **I**n **F**irst **O**ut, and a method of inventory valuation that assumes the cost of inventory sold during the period is the cost of the earliest inventory purchased and available for sale in the period.

Financial statements – the balance sheet, income statement, and cash flow statement (and sometimes owner's equity), which together provide a fair portrayal of a company's financial condition at the end of an accounting period and the result of operations for the accounting period.

Financial viability – a social enterprise is considered financially viable when it no longer requires subsidies. It may still require loans or other investment to support its business operations as many profitable private sector enterprises do. A financially viable social enterprise would be one that is able to secure the necessary funds through regular, unsubsidized financial channels.

Finished goods inventory – completed products stored in inventory and ready for sale.

Fixed costs – costs that remain constant despite increases or decreases in sales.

Flow diagram – a step-by-step map of your operations process. Flow diagrams facilitate identifying bottlenecks, inefficiencies, and information-sharing problems within an enterprise, as well as determining operating and production costs and skill and labor requirements for each stage of the process.

FOB (Free On Board) destination – supplier bears transportation cost.

FOB (Free On Board) shipping point – buyer bears transportation costs from point of origin.

Formalization – the process of shifting the social enterprise from a nonprofit program under auspices of the parent organization to a separate business entity. Formalization requires changes in legal structure and ownership to detach from the parent organization.

Forward integration – a strategy of downstream expansion into new areas of a company's value chain, such as distribution, wholesaling, retailing, etc. See also vertical integration.

Fund accounting – a concept particular to nonprofit organizations and government agencies. Financial records must be maintained for each program that receives contributions (in the form of grants and donations) designated to support a specific program. Each set of records is called a "fund" and is considered a separate accounting entity with its own financial statements.

Fungible – being of such a nature that one part or quantity may be replaced by another equal part or quantity in the satisfaction of an obligation.

General and administrative expenses – expenses of running a business as opposed to those directly allocated to the cost of making a product or rendering a service.

Goodwill – Excess value of asset over market value (or book value). Goodwill appears in financial statements when a business is valued above it assets shown on its books.

Gross income – all revenue before deduction of any expenses.

Gross profit – shows the value that an enterprise is earning over the cost of the merchandise sold **(costs of goods sold)**. Gross profit is calculated by subtracting costs of goods sold from total sales. It is called gross profit because other expenses still need to be deducted in order to arrive at **net profit**.

Gross profit margin – gross profit expressed as a percentage; shows the percentage of return an enterprise earns over the cost of the merchandise sold (costs of goods sold). Gross profit margin is calculated by dividing gross profit by sales.

Horizontal integration – a growth strategy in which a company buys, acquires, or takes over a competitor that performs a similar value-added activity.

Income statement – see **profit and loss statement**.

Industry – a group of firms offering the same products and services, or ones that are close substitutes of one another, and the supply and distribution systems supporting such companies.

Intervention – to come in or between by way of modification. Social enterprises are one type of intervention aimed at economic development, job creation, or poverty alleviation.

Inventory – product that is either completed or in some stage of production and is to be sold in the normal course of the enterprise's business.

Inventory supply ratio – the number of days the inventory will last given the rate of sales.

Liabilities – debts, or the obligations of a company to pay money to others (creditors, suppliers, payroll, etc.).

LIFO – is an acronym for **L**ast **I**n **F**irst **O**ut, and a method of inventory valuation that assumes the cost of inventory sold during the period is the cost of the latest inventory purchased and available for sale in the period.

Margin – the difference between net sales and the cost of merchandise sold, from which expenses are usually met or profit derived.

Market – all the people who have a specific, unsatisfied need or want and are willing and able to purchase a service or product to satisfy that need.

Market conditions – factors in the marketplace—taste and preferences, income, prices of related or similar goods, number of buyers, scarcity of similar items in demand, and future expectations of market price—that cause consumers to re-evaluate the amount they are willing to pay for a product.

Market penetration – using marketing tactics, such as lower prices or special offers, to get new customers to try a product or service. Market penetration is a strategy companies may use to enter a market in which they do not yet have a presence; it can be an important element in building brand awareness and loyalty. A ***penetrated market*** consists of customers who have already purchased a product. Knowing the penetrated market allows marketing managers to gauge their position against competitors.

Market research – systematic, objective gathering of information to support a business' marketing efforts. Market research uses specific methods and tools such as surveys, interviews, focus groups, product tests, etc., to understand the size and scope of certain markets and consumer behavior as it relates to the product or service the company sells.

Market saturation – supplying a market with as much of product or service as it can absorb. At the point of market saturation there is no room for new players to enter without competing directly for existing customers currently buying the product or service from another supplier.

Marketable securities – short-term investments with well-defined dollar value such as bonds, treasury bills, or stocks that are easily convertible into cash.

Market segmentation – dividing the total market into distinctive groups of consumers who share common characteristics.

Market share – the ratio of one company's sales to total sales by all competitors in a given market.

Marketing mix – the components of marketing described as the "four P's": product, the products and services that an enterprise furnishes; price, the amount charged to customers for a product or service; promotion, the awareness created for a product or service in the marketplace; and place (distribution), how products and services are brought together with customers.

Mission statement – a short declaration of the central purpose, strategies, and values of a social enterprise.

Net fixed assets – When a fixed asset is purchased for use in operations of the business it is recorded at cost. As the asset wears out, an amount is charged to expense and accumulated annually in a contra account known as accumulated depreciation. Accumulated depreciation is the cumulative sum of all the years' worth of wearing out that has occurred in the asset. The gross fixed asset (purchase price) less the accumulated depreciation equals the Net Fixed Asset Value (also known as book value).

Net profit – what remains after all expenses have been subtracted from revenue; also referred to as net income.

Net worth – also called owners equity, net worth is equal to assets less liabilities. It represents the value of the enterprise.

Niche market – a small segment of the market. Marketing strategies may specialize in serving a niche market that is of little interest to competitors.

Operating environment – external forces outside a business and beyond its control that constitute the landscape in which it must function. Also called the strategic environment.

Operating expenses – the costs of the selling and administrative activities of a business. Operating expenses are reported in the income statement and are usually categorized as selling and general administrative expenses.

Operations – most closely identified with service businesses; operations are the stages or steps required to provide a service or manage a process.

Opportunities – current or future conditions in an environment that a social enterprise might be able to turn to its advantage.

Outsource – to contract to another company or individual a business function such as assembly, distribution, sales, etc.

Overhead – the costs of operating a business—such as utilities, administrative offices, supervision, insurance, and maintenance—that cannot be linked directly to products or services produced and regardless of any fluctuations in production volume. Overhead can be separated to distinguish between factory overhead, or fixed costs associated with production, and operating overhead, or fixed costs or ***general and administrative expenses*** for operations other than production.

Penetrated market – those customers who have already purchased a product. Knowing the penetrated market allows marketing managers to gauge their position against competitors.

Perceived value – the customers' perception of a product's or service's worth to them; it is a function of the product's or service's benefits to customers.

Price ceiling – the maximum price customers will pay based upon what the product is worth to them.

Price elasticity – measures customers' responsiveness to changes in price via quantities purchased.

Price floor – the lowest price you can offer your customers and still break even.

Pro forma – a projection or estimate of what may result in the future from actions in the present. Pro formas budgets and financial statements estimate business performance results based on certain assumptions.

Product features – the characteristics that describe a good or service. Marketers use product features to attract customers. They must be careful, however, when developing the marketing campaign to create a fit between the product's features and the stated needs of the customer.

Product line – an enterprise's group of products or services that are recognized as having a certain functional coherence and are sold to the same market or marketed through the same outlets.

Production – used in reference to the stages or steps required to manufacture physical goods. Manufacturing companies may also have operations stages associated with the nonproduction side of their business, such as tracking and managing inventories, purchasing raw materials, or selling goods.

Profit and loss statement – a financial statement that summarizes the amount of revenue earned and expenses incurred by a business entity over a period of time; also called an income statement. In nonprofit accounting, the profit and loss statement is sometimes referred to as the statement of activity.

Profit margin – an accounting term that describes the ratio of income to sales.

Profit sharing – a compensation arrangement whereby employees receive additional pay or benefits when the company earns or increases profit.

Psychographics – psychological profiles of potential customers in a market (attitudes, interests, opinions).

Quick ratio – a measure of a social enterprise's liquidity; it is the relationship between the most liquid or current assets (cash, short-term securities, receivables and short-term investments) and current liabilities, used as an indicator of an enterprise's short-term liquidity. The formula for Quick Ratio is current assets minus inventory, then divided by current liabilities.

Return on equity (ROE) – expressed as a percentage that measures the ability of an enterprise to generate sufficient income to be a worthwhile investment. This is calculated by dividing net profit by owner's equity.

Revenue – gross income received prior to deductions for expenses, discounts, returns, taxes, etc.

Seasonality – changes in business, employment, or buying patterns that occur predictably at given times of the year.

Sensitivity analysis – a tool used to project expense and income levels by manipulating cost and revenue variables in a company, such as changes to production level, costs of inputs (fixed or variable), or prices.

Shelf life – length of time before a good spoils or becomes obsolete.

Shrinkage – theft.

Skim the market – take a small piece of the market with a larger profit margin.

Social enterprise – a generic term for a nonprofit enterprise, social-purpose business, or revenue-generating venture founded to support or create economic opportunities for the poor (individuals or small and medium enterprises) while simultaneously operating with reference to the financial bottom line. A social enterprise can take many forms: as a direct employer of at-risk or poor populations; a customer of goods produced by poor entrepreneurs; a seller of products or services to poor or at-risk business owners; a for-profit business whose revenue is used to cross-subsidize social programs; or, the corollary, an income-generating social service program that covers a percentage of its costs

Social impact – a positive effect on the target population as a result of an intervention. Social impact can be measured numerous ways; Save the Children primarily uses increased economic security and its reverberations for children.

Stakeholder – a person entrusted with a stake or an interest; something staked for gain or loss. (Merriam-Webster) A stakeholder is someone vested in—or willing to invest in—a social enterprise, someone willing to take a risk as to its success or failure. Stakeholders can be donors, international PVOs or local NGOs, enterprise staff, board members, microentrepreneurs, etc.

Strategic implication – how certain information impacts or influences a strategy or plan to meet specific goals or objectives.

Strategy – a careful plan or method for achieving ends. In a business plan, these ends are the objectives.

Strengths – skills, aptitudes, and aspects that enable a social enterprise to effectively deliver products or services based on customers' needs.

Subsector analysis – Subsector Analysis offers a framework for rapidly evaluating Micro and Small Enterprise (MSE) dynamics and the prospects for cost-effective intervention. It does not prejudge the nature of intervention. Subsector analysis can lead to projects involving technology development, input supply, marketing, management assistance, or credit. (Haggblade, Gamser, 1991)

Subsector – A subsector is delineated by a particular final product and includes all firms engaged in raw material supply, production, and distribution of that product. In some cases, however, the defining characteristic is a key raw material, with the subsector describing the alternative transformations and distribution systems emanating from it. (Haggblade, Gamser, 1991)

Subsidies – grants or gifts by private individuals, governments, or foundations aimed at assisting a venture reputed to be beneficial to a target population or the public.

Sunk Costs – a cost that has been incurred and cannot be affected by present or future business decisions.

Supplier power – the ability of a supplier to control or influence buyers.

Supply chain – a network of facilities that procure raw materials, transform them into intermediate products and then finished goods, and transport them through the distribution system. It spans procurement, manufacturing, and distribution. A supply chain is sometimes referred to as a ***value chain***.

Switching costs – the financial cost to change from one product to another. Switching costs are typically high for technology products. For example, switching costs from an IBM-compatible computer to an Apple computer are high because costs extend beyond the price of the computer to the systems that support it. The cost for changing peanut butter brands, on the other hand, is limited to the ptice of the product; hence switching costs are low.

SWOT analysis – an acronym for "strengths, weaknesses, opportunities, and threats." It is an analytical tool that helps project managers build a business strategy emphasizing the strengths of the social enterprise and opportunities within the operating environment and diminishes weaknesses and potential threats.

Test marketing – conducting a small-scale promotion or introduction of a good to gather information useful in full-scale product introduction or promotion.

Threats – current or future conditions that might harm a social enterprise. For instance, a drought or a season of heavy rain could pose a threat to products in an agricultural subsector.

Unfinished goods inventory also called *work in progress* – the portion of inventory that is in the production process but is not yet a finished good.

Unit contribution margin – captures the profit margin plus the fixed costs per unit sold. Unit contribution margin is used in the break-even calculation to determine how many units of a product or service must be sold to equal the fixed and variable costs.

Unit costs – the costs to produce one unit of output.

Value chain – see ***Supply chain*** definition.

Vertical integration – expansion by moving forward or backward within an industry. See also ***backward*** and ***forward integration***.

Weaknesses – internal conditions that can lead to poor performance.

Working capital – the excess amount in current assets over current liabilities. Working capital is the money a business uses to run its operations and in accounting is a measure of the enterprise's ability to service its financial obligations.

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"A journey of a thousand miles
begins with a single step."

—Chinese proverb