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Managing the Double Bottom Line:

A Business Planning Guide for Social Enterprises

By Sutia Kim Alter
Save the Children Federation

Save the Children.

Save the Children.

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. EO 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 Economic Opportunities Technical Unit.

About the Author

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

- Hubert H. Humphrey

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

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Acknowledgments

" 'Cause you never can tell what goes on down below,

this pool might be bigger than you or I know."

— *Dr. Seuss, McElligot's Pool*

This manual was conceived as a result of re-engineering 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 BDS practitioners. 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 Trudy Sharpe, who managed the grant and instigated the rebirth of this project. 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 and the Financial Plan chapter; without her, this manual quite simply could not have been written.

Additional words of thanks are due to Michal Keeley, a wizard at her editing craft and a good sport, who handled frenzied directives in unbroken stride; Cynthia Wokas, whose creative talent brought life to theses pages; and Alexandra Overy-Miehlbradt and Kim Berman, former Save the Children employees, for having the foresight and courage to forge the unbeaten path of BDS programming. I am also very grateful to Jed Emerson of the Roberts Foundation for inspiration, introducing

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Considerable appreciation is owed to Development Alternatives Inc. and the Small Enterprise Education add Promotion (SEEP) Network for selecting Save the Children as a Best Practice Grant recipient and awarding us the opportunity and means to publish this manual. Jimmy Harris, in particular, is remembered for his flexibility, undying patience, willingness to laugh at my jokes, and promise of a beer at the end.

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 contained in this document remains my own.

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Sutia Kim Alter
Save the Children Federation

About This Manual

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"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 business development services (BDS) practitioners 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 BDS 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 defines its social enterprises as "founded to afford economic opportunities to women microentrepreneurs in developing countries."

Save the Children's BDS Philosophy

Enterprise Perspective

Save the Children believes in creating "businesslike organizations."[2] To this end, the BDS program is viewed as an enterprise and is separated from nonbusiness activities of the lead or implementing organization. The BDS 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.

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

[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.

Sustainability

Save the Children stresses the sustainability of the local 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 (also referred to as demand 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 a mind to the benefits enterprise customers seek.

Social Impact Objectives

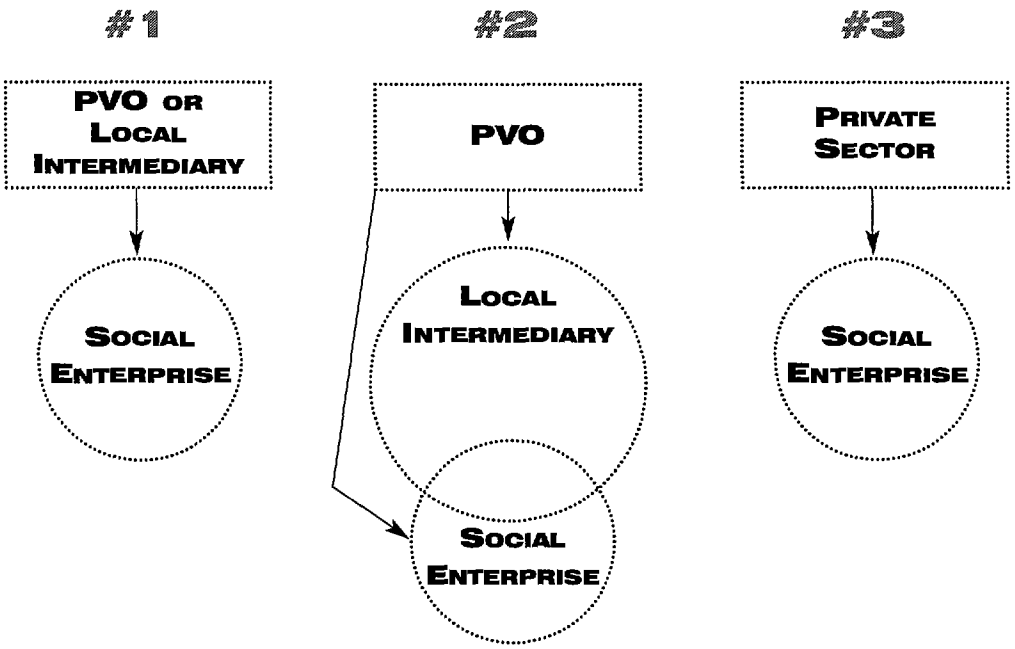
The mission, and cornerstone, of the social enterprise are its commitment to serve the poor, which is ultimately what separates a social enterprise from private business.

Women Focused

Save the Children is a child-centered agency whose mission includes improving 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.

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. Social enterprises are what the donor committee refers to as a BDS meso-level intervention. Below are some examples of the forms such an intervention can take. Save the Children's business planning methodology has been field-tested in programs in several countries.



Audience

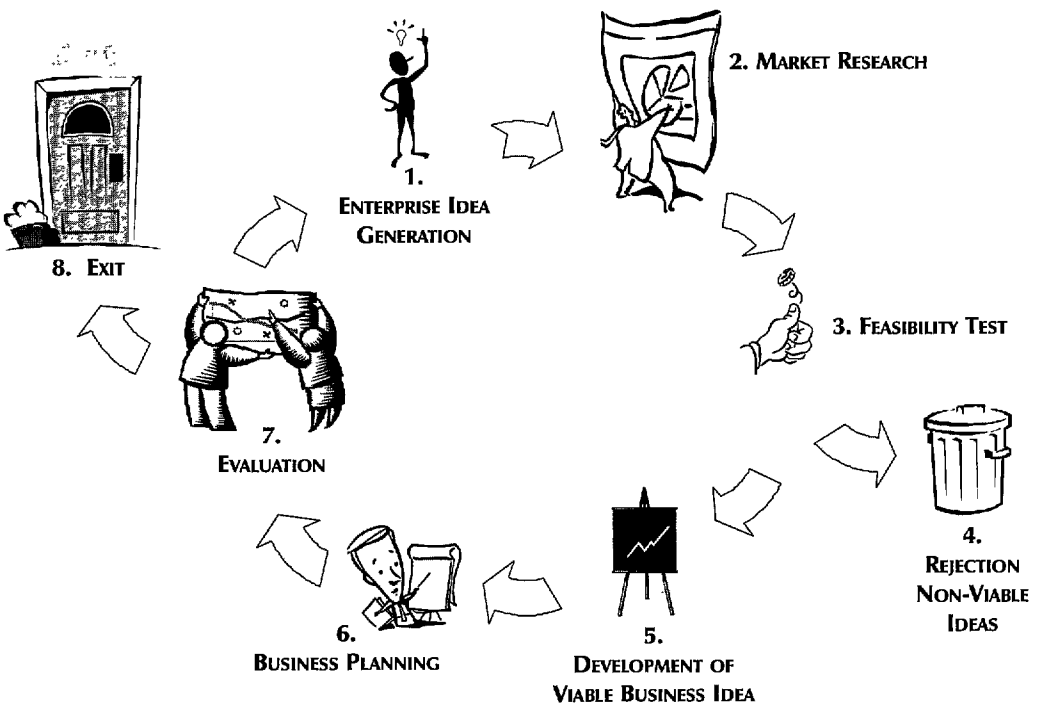
As a business planning guide for social enterprises, this manual is meant to be used by whomever is concerned with supporting these efforts (see exhibit "Business Planning Methodology").

- Foremost, it is intended for BDS practitioners and technical staff at the international PVO, local intermediary, or social enterprise management levels.
- Second, it can also be a useful reference for organizational leaders and donors to help them better understand the nature and requirements of social enterprise programs.

Manual Contents

Save the Children's approach distinguishes eight 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 six, *business planning*. Exit strategy is also treated superficially and information on market research as it relates to creating business plans is included in two chapters.

Social Enterprise Development Cycle



Thusly, 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; market research and business planning guides have previously been exploited. Indeed, the author felt some reluctance about reinventing business planning for the BDS 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 international development disciplines by setting business planning in the context of development, an approach that may be more palatable to development practitioners. 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 BDS program performance by:

- Sharing Save the Children's stories from the trenches, including lessons learned that lend themselves to developing best-practices BDS 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 BDS intervention.
- Furnishing a guide that can also be used as part of a training curriculum by practitioners providing business education or technical support services to microentrepreneurs (MEs) and Small and Medium Enterprises (SMEs).

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. The preface 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 seven 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 BDS 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 the preface. Nevertheless, 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. As well, 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 we use icons. This what they mean:

= a written exercise.

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

= implications for human resources.

= financial implications.

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

Selected blank forms and tools are provided at the end of the manual and indexed in the annex.

Use of Language

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.

The new manual takes a commercial approach to BDS reflective of experiences gained from the WMEN programs, the present culture of Save the Children's Economic Opportunities Office, and the state of the art today. This new work in no way devalues the foresight and innovation of Save the Children's first BDS architects. Their courageous leadership and valuable contributions laid the foundation for Save the Children's social enterprise programs and helped to move the field significantly forward.

The final result: *Managing the Double Bottom Line: A Business Planning Guide for Social Enterprises* was written under severe time constraints leaving Save the Children to make difficult choices regarding which information could be included in its contents. In addition, Save was faced with the challenge of developing a generic tool for a wildly heterogeneous discipline. Thus, in instances where information is insufficient for a particular type of enterprise, situation or aspect of the business plan, we recommend consulting other sources to augment this resource.

Our hope is that readers will describe this manual as "comprehensive", but some may find it "daunting". Save the Children found similar business planning products for the private sector contained approximately the same volume of information. Developing a solid guiding document—*business plan*—for a social enterprise is a huge task involving immense amounts of time and effort. Rather than feel overwhelmed, it is important to bear in mind that no *one* practitioner should engage in business planning alone. This process should be actively supported by all stakeholders in the enterprise program and, if necessary, with the aid of external assistance.

Finally, unlike many management books, this one was written without the benefit of a team. The work was compiled by a single author with substantial input from colleagues at home office and in the field. Remarks and suggestions by users as to improvements are welcome and will be considered in subsequent revisions or editions of this work. Save the Children also invites readers to send us copies of their completed business plans. We may be contact at:

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Lessons Learned

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Preface

"In a difficult business, no sooner is one problem solved than another surfaces—never is there just one cockroach in the kitchen."

— *Warren Buffett*

Historical Overview

Save the Children's *business development services* (BDS) experience began in 1993 in the Philippines. The program targeted poor women microentrepreneurs in metropolitan Manila working in the remnant subsector of the garment industry. A second BDS program, launched in 1997, centered on rural 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 BDS 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 women microentrepreneurs 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 women microentrepreneurs 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

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).

Subsector Analysis - Subsector Analysis offers a framework for rapidly evaluating Micro and Small Enterprise (MSE) dynamics and the prospects for cost-

[1]WMEN Program Haiti proposal.

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)

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

viability through services with mass-market appeal for paying microentrepreneur customers. The hope was that the WMEN programs would be experimental cases that would answer many pending BDS questions.

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. 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 a business.

WMEN's Guiding Precepts and Principles

The WMEN BDS 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.
- Women microentrepreneurs 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 (connections, economic and social status).

The WMEN approach was founded on these guiding principles:

- Focus on poor women
- Gender equity
- Empowerment
- Scale
- Participation
- Sustainability
- Measurable impact

Today, the original precepts and principles of WMEN remain valid, though Save the Children's BDS programming methodology has evolved. The WMEN 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]

[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]

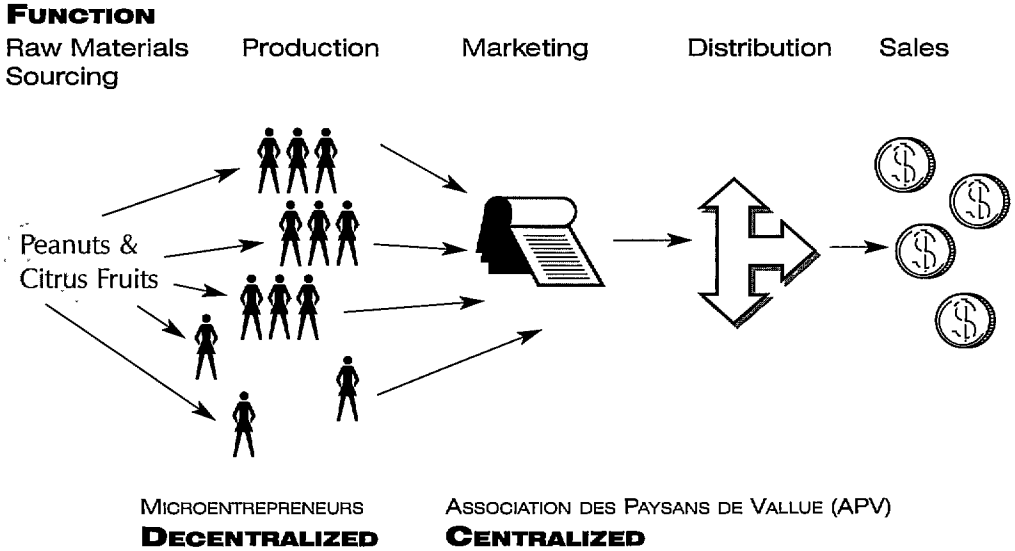
Program Background

Prior to initiating a WMEN program in Haiti, designers used subsector analysis techniques to study the economic activities of poor women microentrepreneurs. 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. BDS 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 microentrepreneurs 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 microentrepreneurs to urban markets was the first incarnation of the SC/Haiti BDS program. The design itself was based on the WMEN premise of adding value to existing food transformation activities of poor women microentrepreneurs. It called for a decentralized approach whereby microentrepreneurs 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 A: Haiti WMEN Network Model



What Happened

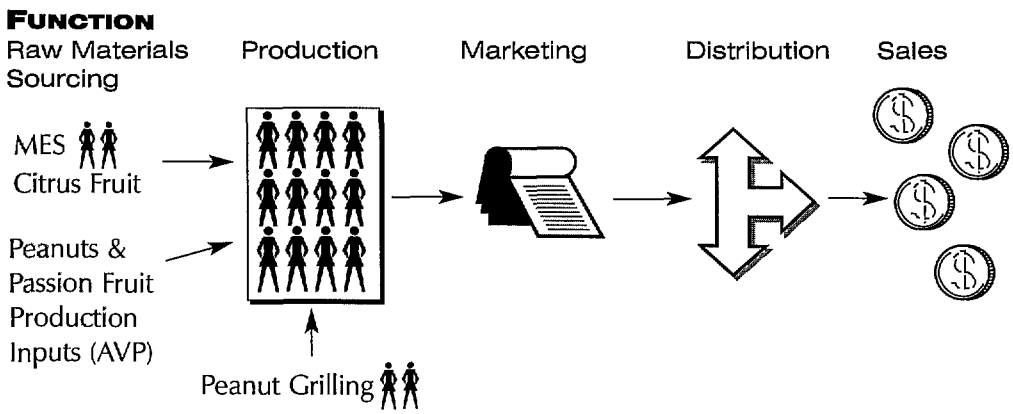
The WMEN model was founded on several assumptions that proved to be false. A key assumption, that processing of peanut butter, jam, and other foods is a traditional activity of poor entrepreneurs in Haiti, was flawed. As it turned out, training, supervision, and product development were required to produce standard TOPLA products. The second assumption was that microentrepreneurs would source their own raw material inputs. This was false on three counts: Microentrepreneurs faced constraints on acquiring some key inputs to production, notably containers and labels; microentrepreneurs 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.

Break-even point - the point at which revenues from sales equal 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 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 microentrepreneur-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 B).

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

Exhibit B: TOPLA Social Enterprise Model



Association des Paysans de Vallue (APV)
Centralized

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 microentrepreneurs 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 NGO intermediary, it has been segregated from APV's other activities and operates as an enterprise (see exhibit 3). 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 transformation process for all products in the TOPLA product 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 C: SC Haiti WMEN Program

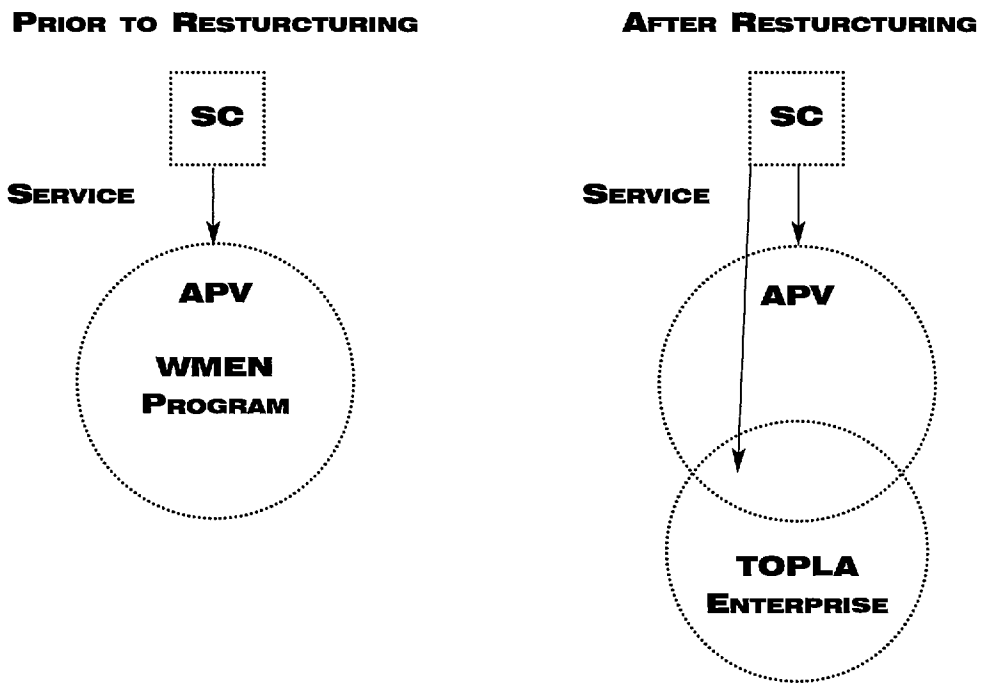


EXHIBIT D

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 microentrepreneurs, most notably containers and labels. The client 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 strategy 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 into 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 transformation. 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 transformation 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 cycle, 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 cycle, 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 7, 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 transformation 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 microentrepreneurs 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 its price increased in the off-season. This eased some of the constraints for the microentrepreneurs. 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 microentrepreneurs, 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 the 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 the 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. As well, channels are being analyzed for more efficient distribution and sales turnaround.

> *Local technical assistance organizations specializing in food processing were contracted to provide training to the microentrepreneurs 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 microentrepreneurs are trained as specialists to champion QC, and QC has become a standard part of microentrepreneurs' 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 transformation 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 entrepreneurs 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.*

Lessons Learned

> "Good [organizations] are good because they've come to wisdom through failure. We get very little wisdom through success, you know."
>
> — *William Saroyan*

The Need for a Focused Strategic Direction and Clear Objectives

The heart and soul of business development services is 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 BDS practitioners; 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, BDS 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 BDS 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) 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

Business development services 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 microentrepreneurs' 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 BDS 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 BDS 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.

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.

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

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

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 BDS 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 fair 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 enough to support a social enterprise.

Do Not Try to Outmaster Subsector Players

In the short term, a donor- or PVO-backed NGO 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 BDS 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 BDS 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 BDS intervention 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.

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.

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. BDS models cannot be based on fixed program 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 siphoned back to the enterprise.

The BDS Intervention as a Business Entity

The structure of BDS interventions can vary dramatically. Whether the program remains an NGO or formalizes into a business, Save the Children takes the perspective that the BDS 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 BDS 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 microentrepreneurs and APV, the local implementing NGO, whose visions for TOPLA are divergent. Although APV, as a social organization, in theory has the microentrepreneurs' best interests at heart, it also sees itself as benefiting from enterprise returns in the future, which is an unsettling temptation for any NGO 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

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 microentrepreneurs' 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 entrepreneurs who are willing to take risks.

Plan for "Comparative Disadvantages"

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. BDS 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 "competitive disadvantages"—unique to social enterprises. Long learning curves, poor infrastructure, limited expertise, and the general frailty of microentrepreneurs 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 departure at the start of the BDS program. Issues related to type of structure—i.e., NGO business, subsidiary, local enterprise, NGO program, franchise, etc.—and ownership of assets and revenue often are sticking points for BDS 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 local partner—one with common values—is essential. For BDS 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 PVO 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 PVOs 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 BDS programs serve a multitude of players, including the donor, the technical assistance provider, the local implementing institution, the enterprise, and the target population. Save the Children has discovered that a lack of clarity about roles and responsibilities complicates the BDS business, decreases efficiency, creates tension, and muddles objectives. It is important to clearly delineate the role of all players in the BDS program and their respective reporting lines.

Hire the Right People

BDS programs require human resource skills that are not typically available within NGOs or PVOs. Unlike in the private sector, where a shortage of capital often leads to business failure, in BDS 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 NGO leaders who hope to underwrite salaries of existing staff with the BDS 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 *meso-level social enterprise intervention* 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.

Meso-level - the level of the BDS intermediary, also referred to as the local partner or counterpart organization. Meso-level interventions aim to develop management and institutional capacity of local partners to render services to small and medium enterprises and microenterprises.

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 microentrepreneurs 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 scope of local 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 microentrepreneur 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 BDS 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 microen-

trepreneurs 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 BDS programs have yet to arrive at a magic formula.

Save the Children is not convinced that selling products and services to microentrepreneurs should be the focus of social enterprises. "Market" denotes customers who are "willing and able" to purchase a product or service. Poor people rarely constitute a feasible market, despite the assistance they may need. Based on its experience, SC/US believes that BDS programs are more aptly suited to assist the poor and achieve viability by focusing on markets for entrepreneur-made products (see chapter 1, exhibit 1A, model 2, "Market-led," for further explanation) than by selling services directly to entrepreneurs. This approach not only works to provide much-needed technical assistance to poor entrepreneurs 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 microentrepreneurs), and creation of wealth in the community.

FINANCIALS

Plan for Capital Requirements

As much as BDS 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 enterprise management to manage cash flow is a critical element of sustainability.

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

Business Planning for the Social Enterprise

Chapter 1

Chapter 1

"I have always thought that one man of tolerable abilities may work great changes, and accomplish great affairs among mankind, if he first forms a good plan, and, cutting off all amusements or other employments that would divert his attention, make the execution of that same plan his sole study and business."

— *Benjamin Franklin*

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 the poor (small enterprises or microenterprises) while simultaneously operating with reference to the financial bottom line[1]. A social enterprise can take many forms: 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.

The Difference Between a Social Enterprise and a BDS Program

A social enterprise is simply one type of business development service (BDS) program. By working through an existing local partner, or by creating a new one, this *meso-level intervention* seeks to achieve the objectives of *social impact* and financial viability through the creation of an enterprise that serves the poor. A Private Voluntary Organization (PVO) or other technical assistance builds local capacity to manage the enterprise in a sustainable way. Save the Children's social enterprise approach 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.*

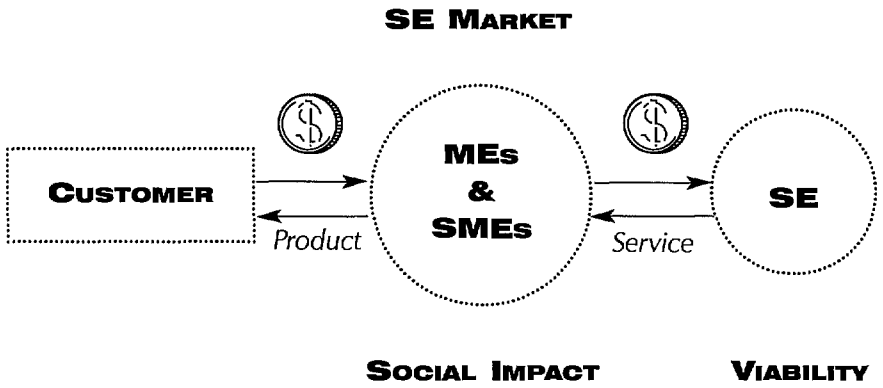
Intervention *- to come in or between by way of modification. Social enterprises are one type of intervention aimed at economic development, job creation, or poverty alleviation.*

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.

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

EXHIBIT 1A:

MODEL 1: ENTREPRENEUR-LED SOCIAL ENTERPRISE



MODEL 2: MARKET-LED SOCIAL ENTERPRISE

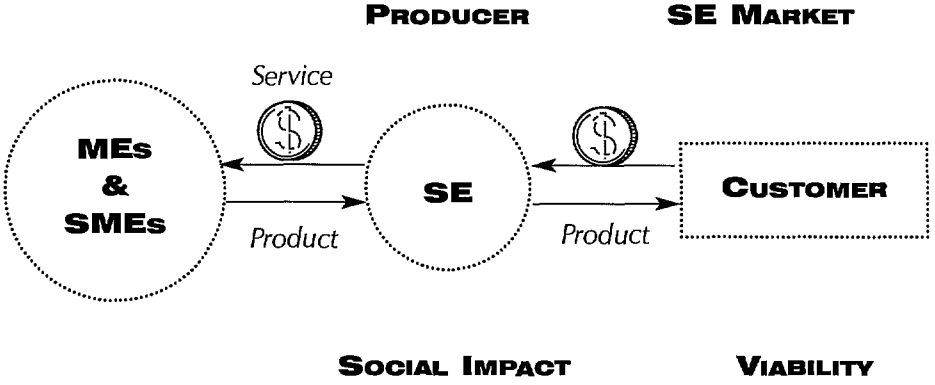


Exhibit 1A shows two possible social enterprise scenarios. Model 1, an entrepreneur-led social enterprise, is also an archetypal BDS program model, where services are rendered to microentrepreneurs (MEs) and small and medium scale enterprises (SMEs). Model 2 illustrates Save the Children's market-led social enterprise model, where the enterprise acts as an intermediary between the entrepreneur and the market and is focused on achieving viability through the sale of entrepreneur-made products to the final customer. It is the later model that is portrayed in the context of this manual.

Business Planning for BDS Social Enterprises

Business development service 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. Nevertheless, a business plan is a standard business tool that can be *applied to most BDS 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 BDS program.

Why a Business Plan?

Development programming is changing. Economic opportunities programs, such as BDS and microfinance, are increasingly part of the development agenda. The inevitable consequence is that "business" is being integrated into development 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 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 also taking this approach. At the same time, we recognize that standard business tools are not necessarily distributed through normal development channels; nor are they translated for use in the development context. Business terminology, corporate case studies, and the single bottom-line focus often act as a smoke screen, barring development 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 development 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 poor women 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.

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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.

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.

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

"Those who fail to plan, plan to fail."

— *George Hewell*

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—lend themselves to examining 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

The financial 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 aligned with human resource plans and can also be used as benchmarks 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.

✱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 BDS programs that we can give our investors. Although we won't venture to guess whether business plans will become a standard requirement for BDS requests for applications (RFAs), 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 and even BDS programs 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. Additionally, start-up enterprises may not have all the information required to complete some of the exercises in this manual.

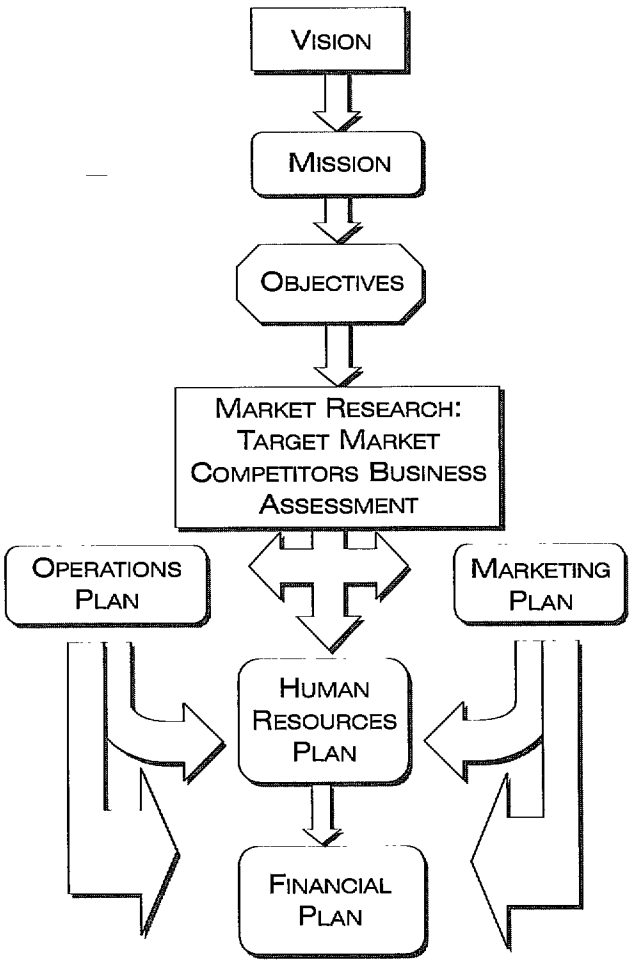
Components of a Business Plan

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
- Exit Plan
- Appendices

EXHIBIT 1B: BUSINESS PLAN INFORMATION FLOWS



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

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 weather 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 for, the income for 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," based on Save the Children's BDS 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 2 1/2 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 BDS marketing intervention by Save the Children/Haiti to link rural food transformers to commercial markets and was funded by a donor called ASSIST. The intervention was initiated as a program through SC's local partner, an Non Governmental Organization (NGO) 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.

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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 "Lessons Learned" in the preface for a summarized overview of Save the Children's experience in Haiti with TOPLA, from which this example is drawn.

Today, 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—poor women entrepreneurs—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 the 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.

The Business Plan Process

PREPARATION TIME: THIS CAN BE BROKEN DOWN INTO TWO SEGMENTS—MARKET RESEARCH AND 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 BDS program failures was inadequate market research prior to launching the program.
- ***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 miniretreats 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

Preprogram 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.

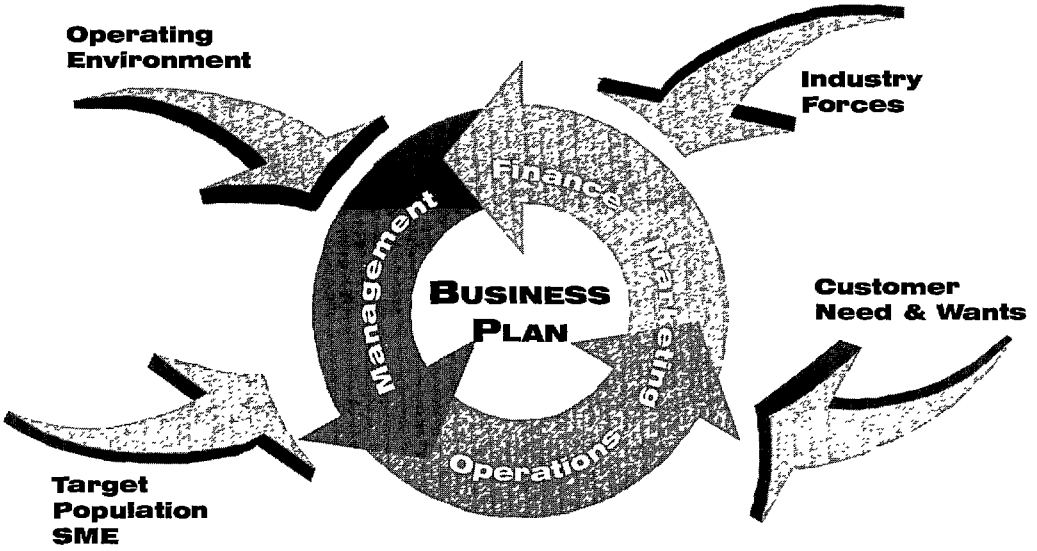
Time period

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, like start-up or expansion. If you are writing a business plan as part of an RFA 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

Business plans are fluid documents, 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, 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 1C: 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 to 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 1D. This example demonstrates how the framework steers the business plan development by addressing key questions in each section of the plan. Individual chapters in this manual correspond to sections of the business plan, providing tools and explanations of how to complete them. The approach is intended to be flexible, enabling practitioners to use a participatory method reflective of their preferred organizational style. In addition, the framework 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 appendix 1-1.
- ▲ 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 tool is intended as a guide; make adjustments where necessary to fit your business planning needs.

TARTINA microentrepreneurs prepare containers prior to packaging Mamba peanut butter

EXHIBIT 1D: 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]/ADE), Business Advisor (SC), Senior Project Staff (ADE/TE), Executive Management (ADE), delegate microentrepreneurs 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. Discussion/workshop on preferred target market: consumer, purchaser, and Actual customer levels.	1. Program Manager (SC), Marketing Manager (TE), Business Manager (TE), sales staff (TE), Business Advisor (SC), Program Manager (ADE)	1. One day
	2. How is the market segmented?	2. Discussion/workshop on market segmentation.	2. Same as 1	2. Half day
	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.	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

[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 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
3		3.D. Conduct focus groups with consumers.	3.D. Sales staff (TE), Marketing Manager (TE), Business Manager (TE)	3.D. 2 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), microentrepreneurs (TE)	1. Half day
	2. What are the opportunities and threats in the external environment that TE faces?	2. Environmental Assessment workshop	2-3. Same as 1	2. Half day
	3. Is the industry hospitable or hostile for TE's business? What aspects of the industry will impact business and profit potential?	3. Industry Analysis workshop		3. One day workshop

EXHIBIT 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
4	**IV. Competition Analysis**			
	1. How are the main competitors and their overall strengths and weaknesses? And per product?	1. Discussions with sales staff, retailers, market resource people. Printed information/reports if available.	1. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), market resource people.	1. One week to hold discussions with various players; do research.
	2. How much market share does the competition have relative to TE's? 3. What the competition will look like in the future?	2.-3. Discussions with sales staff, retailers, market resource people. Printed information/reports if available.	2 -3. Business Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Manager (TE), market resource people.	2-3. Two weeks to collect and analysis 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
	V. Product Test			
PLEASE NOTE: Information on product testing has not been included in this manual.	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), independent 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 research: 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 train-

EXHIBIT 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
				ing on market survey Ten days - Market test/ collection of Market data One day - Analysis of market test results
		1.D. Discussion on technical feasibility of products with food-processing resource person.	1.D. Project Manger (ADE), Production Manager (TE), Business Manager (TE), production staff (TE) resource person, Business Advisor (SC), representative microentrepreneurs	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 (Save/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. Project Manager (SC), Program Manager (ADE) , Marketing Manager (TE), Business Advisor (SC), sales staff (ADE)	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?	2. Discussion/workshop 3. Discussion/workshop	2&3. Sales staff (TE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC)	2-3. Half day

EXHIBIT 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
5	4. What is the desired position of each product relative to the competition for the most important purchase criteria?	4.A. Discussion based on primary information collected to date. 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.A.& B. Project Advisor (SC), sales staff (TE), Marketing Manager (TE), Business Advisor (SC), Production Manager (TE); Production Agents (TE)	4.A. One day 4.B. 2 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 objective? 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? For the product line?	7. Workshop	7. Sales staff (TE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC), Production Manager (TE)	7. Two days

Exhibit 1D: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
5	**Part 2. Distribution Strategy** 8. Where should we sell? What are the priority markets? 9. What are the best methods and distribution channels to reach priority target markets? 10. What is the distribution plan the TE products to achieve marketing objectives?	8.-10. Workshop and desk review of historical sales perform ance to help evaluate most lucrative sales opportunities; market study on target markets, cost advantages of distribution markets and methods.	8.-10. Project Advisor (SC), Marketing Manager (TE), Program Management (SC & ADE), sales staff (TE), Financial Director (SC).	8-10. Two days
	Part 3. Pricing Strategy 11. What is the break-even point for units and revenue? 12. For the planning period, at what level should the basic price be set for each product? 13. For the planning period, what will the strategy be for elements beyond the basic price?	11.-13. Workshop	11.-13. Sales staff (TE), Marketing Manager (TE), Business Manager (TE), Business Advisor (SC), Project Manager (SC), Accountant (ADE)	11-13. One-two days
	Part 4. Promotion Strategy 14. What are logo and promotional message?	14. Workshop/ designer presents prototypes	14.A. Marketing Manager (TE), Sales Staff (TE), Business Manager (TE), graphic artist (external)	14. Half day

EXHIBIT 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
5	15. What types of promotional vehicles and tactics should be used to meet the marketing objectives?	15. A. Workshop 15. B. Market test promotion	15.A & B. Sales staff (ADE), Marketing Manager (TE), Business Manager (ADE), Project Advior (SC)	15.A. One day 15 B. One month test for new promotional strategy
	16. How do we want to package TE products?	16. Workshop	16. Same as 15 + Purchasing, Accountant	16. One day
	17. How many staff and what kind will we need to market TE products?	17. Workshop/discussion	17. Marketing Manager (TE), Business Manager (TE); Business Advisor (SC)	17. One day
	18. What is the promotional strategy to achieve marketing objectives?	18. Workshop/discussion	18. Business Advisor (SC), Program Manager (ADE), sales staff (TE), Marketing Manager (TE), Promotional resource people (external)	18. Two days orientation on promotion and development of promotional strategy.
	19. What is the implementation plan for promotional strategy April 1999- April 2000?	19. Implementation (i.e., development of promotional materials) will be done outside of workshop.	19. Managed by Market Manager (TE); All Marketing & Sales Staff, Business Advisor (SC)	19. Three weeks to prepare promotional materials.
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?	1-4. Workshop at production site	1-4. Business Manager (TE), Production manager (TE), production staff (TE), Inventory Manager (TE), microentrepreneurs, Business Advisor (SC)	1.-4. Two days

Exhibit 1D: Business Plan Framework for TARTINA Enterprise

Chapter	Key Questions	Method	Principal Participants	Time Required
6	4. At what level of capacity are we operating?			
	Part 2: Production Plan			
	5. What are TARTINA's production objectives? For quality control, product improvements? What are the production targets?	5. Workshop	5. Business Manager (TE), 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), microentrepreneurs: 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), MEs.	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 and production staff (TE), Business Advisor (SC), R&D (TE)	8. Two days

EXHIBIT 1D: 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?	9. Workshop/planning session	9. Program Manager (ADE), Production Manager (TE), Production TA (external), Inventory Manager (TE), production staff (TE), MEs, Accountant (TE), MIS Specialist (external)	9. Three day workshop; facilitated by external technical assistance
	10. What will the production schedule be? What is the plan to manage purchase of raw material supplies?	10. Workshop and training of production staff and microentrepreneurs	10. Production Manager (TE), production staff (TE), MEs, Business Manager (TE), Business Advisor (SC)	10. Two days to develop production schedule with Production staff and MEs
	11. How can the inventory be better managed? What type of controls can we put in place to reduce spoilage, loss or theft?	11. Workshop and training of production staff and MEs	11. Production Manager (TE), Inventory Manager (TE), production staff (TE), MEs, Business Advisor	
	12. What are the costs of the production plan and the cash flow requirements? What are the unit costs for each product? Production targets and their impact on the bottom-line?	12. Financial planning workshop	12. Program Manager (ADE), Business Manager (TE), Financial Staff (SC, ADE, TE), Production Manager (TE), Business Advisor (SC)	12 Two days on finance plan to support production plan
7	**IX. Human Resources Plan**			
	1. What kinds of human resources are required to support the marketing, production, enterprise management? On what salary scale?	1-4. Workshop, staff inventory	1-4. Senior Program Management (SC, ADE, TE)	1-4. One day
	2. What is the staff recruitment plan and timeline to hire new employees?			

EXHIBIT 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
7	3. What organizational structure is most appropriate?			
	4. What are the outputs, objectives and responsibilities of each position?			
	5. What kind of incentive plan can we employ to motivate and retain staff?	5. Discussion/financial projections	5. Program Manager (ADE), Business Manager (TE), with assistance from project financial staff	5. Half day to prepare implementation plan
	6. What type of development plans do we need for staff and MES to build capacity? What are the specific training and TA needs for the enterprise staff? The MEs? Who will provide training; what are the associated costs?	6. Needs assessment; internal skills inventory; planning session to schedule training and technical assistance.	6A. Business Manager (TE) Marketing Manager (TE), Production Manager (TE), Business Advisor (SC); Financial Director (SC), Program Manager (ADE)	6A. Five days for needs assessment
			6B. Include production agents in discussion on ME development needs.	6B. One-two days to develop technical assistance and training plans.
	7. When and where will plan be implemented; by whom and with what money (HR budget)?	7. Planning session; budget projections	7. Business Manager (TE), Program Manager (ADE) with assistance from financial staff	7. One day to prepare implementation plan
8	**X. Financial Plan**			
	1. What are the financial objectives and targets?	1.-3. Workshop	1.-3. Senior Project Management, Financial Director (SC). Business Manager (TE), Program Manager (ADE) financial staff (ADE/TE), Business Advisor (SC)	1.-3. One day workshop. A number of calculations should have been made during preparation of above plans.
	2. What are the financial requirements to support above plans (Budget planning)			
	3. From where will additional funds be sourced? Resource acquisition plan.			

EXHIBIT 1D: BUSINESS PLAN FRAMEWORK FOR TARTINA ENTERPRISE

Chapter	Key Questions	Method	Principal Participants	Time Required
8	4. How is TARTINA performing financially at present? Development and analysis of financial statements. What are the strategic implications?	4. Presentation of financial statements by Financial Director (SC) and Business Manager (TE); followed by discussion	4. Same as 1-3.	4. One day
9	**XI. Exit Strategy**			
	1. What is the long term goal; and its strategic implications? 2. What type of business model will TARTINA become? How will ownership be structured? 3. What are the best exit options to employ?	1.-3. Seminar, with guest speakers from the business and legal community. Discussion and planning session facilitated by external consultant.	1.-3. All leadership, executive and senior management (SC, ADE, TE), delegate MEs (TE), Business Advisor (SC); external speakers (business professionals), lawyer enterprise consultant with experience in this area.	1.-3. One day seminar
	4. What is the exit strategy? What is the implementing plan for it?	4. Planning workshop facilitated by external consultant.	4. Same as 3, less business professionals.	4. One-two days

The Church: Mission, Objectives, and Ministries 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*

Overview: The overriding challenge to managing a social enterprise is balancing the business objectives with the social objectives. The final goal of your program is inevitably 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 your social enterprise's guiding torchlight; 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.

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

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

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.

One 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 alternatives 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 realistically 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 first and secondly 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 is the mental image of the successful accomplishment of your social enterprise program.

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 the 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."

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 Business Plan

EXHIBIT 2B: SAMPLE VISION STATEMENT FOR TARTINA ENTERPRISE

"To develop the self-determination of a large group of disenfranchised microentrepreneurs, mostly female, engaged in food transformation of agricultural production in rural Haiti by way of viable enterprise that contributes to a higher standard of living for the families of the microentrepreneurs."

Mission Statement

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 is also the beacon of 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.***

> "If you don't know where you are going, it doesn't matter which way you go."
>
> — *Cheshire Cat in* Alice in Wonderland
> *Lewis Carroll*

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 intervention. 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 intervention?

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 women microentrepreneurs 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 lead organization (PVO) or local implementing partner (NGO) 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 intervention?" and "What is going to change for the target clients?" For example, the purpose of a marketing intervention would not be "to provide marketing services to poor women entrepreneurs" but "to increase 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" or intervention. 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 opportu-

nity 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.

▲ 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 women microentrepreneurs 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.*

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 women entrepreneurs 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."

Social Enterprise Objectives

"Efficiency is doing things right.
Effectiveness is doing the right thing."

— *Zig Ziglar*

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. Sub-or functional 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. (See 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 2 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 — are time based (corresponding to the period of the business plan

Social Impact Objectives

The 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 group—microentrepreneurs, small producers, NGO staff, customers, 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.

- ***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.

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

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;
- Percentage of children of microentrepreneurs in school;
- Decrease in out-migration;
- Increase in women's empowerment or social status.

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.

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.

- ***Cost recovery*** — gauges the ability of the social enterprise to cover its costs through generated revenue. Cost recovery is expressed as the percentage of expenses covered by the revenues in a given period. For instance, a 25% cost

[1]At the time of this writing, conferences and virtual discussions were being held globally with prominent BDS leaders and practitioners aimed at developing a framework of best-practice performance indicators to measure BDS program success. As well, the Roberts Foundation, one of the leading architects of U.S. social enterprises, plans to publish methods for measuring program returns.

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-effectiveness 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.

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 Business Plan.

EXHIBIT 2D: TARTINA SOCIAL ENTERPRISE OBJECTIVES

TARTINA PROJECT'S 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 Microentrepreneurs and increasing that number by 20% each year over a seven-year period.

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

INCOME LEVEL

Income potential must be greater than what microentrepreneurs 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 microentrepreneurs is conducted. Based on this information, TARTINA following objectives for income level on a seven-year period:

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

[3]The SC/Haiti social enterprise program is in the process of widening "scale of impact" to other beneficiaries. In addition to the project's microentrepreneur 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 7, the social enterprise aims to:

- Create 370 new job opportunities: 358 microentrepreneurs and 12 ADE/TARTINA staff.
- Decrease rural out-migration by 50 percent.
- Link a minimum of 65 percent of microentrepreneurs 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 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]	$205,000	$265,000	$280,000	$285,000	$270,000	$225,000	$185,000
Cost recovery	7%	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	$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

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 MEs	120	144	173	207	249	299	358
Profit/Loss per ME	($1,583)	($1,528)	($1,071)	($675)	($322)	($33)	$140

Business Description

In pace with the widespread notion that "the guiding paradigm for the management and operations of BDS organizations should be SMEs [small or medium enterprises] themselves,"[5] Save the Children champions this kind of businesslike organization[6] by creating the BDS program as a separate *entity* or social enterprise. Therefore, regardless of the type of intervention (marketing, training, advocacy, technology, 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 NGO or PVO programs.

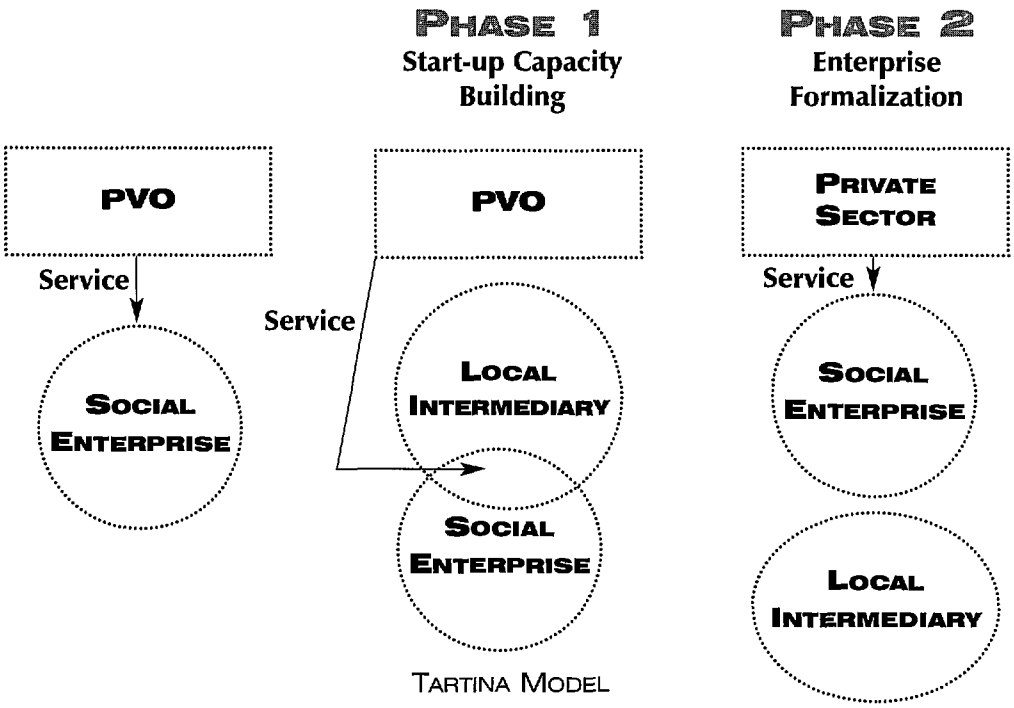
Entity - something that has a distinct existence or conceptual reality.

[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.

The danger of not using this approach is the confusion that can arise on all fronts among the lead organization (PVO), the implementing partner (NGO), 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, 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 lead organization (in SC/Haiti, a PVO). In the next phase, formalization, the enterprise spins off as a business that is completely separate from the local intermediary (NGO, 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 SME 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 BDS programs use the local NGO or PVO 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 - the name associated with one or more items in the product line that share one of several possible forms of the product.

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:

- ***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 preface) 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 name.** 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

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.

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.

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.

▲ 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.

Developing Business Description

Many practitioners make the common mistake of confusing the business of their social enterprise with the businesses of the microentrepreneurs they work with. In some cases they are the same, but in others they are not, and the needs, goals, and objectives of the businesses may be very different from one another. Writing a concise business description will help you avoid this pitfall.

Business Description is included in 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 two and 1/2 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; microentrepreneurs 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 1 1/2 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 $700,000 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 enterprise, credit, and BDS 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 microentrepreneurs 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 microentrepreneur 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, microentrepreneurs 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*

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 business development services programs, including our 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," a term used frequently in BDS literature.

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.

The Customer

"There is only one boss. The customer. And he can fire everybody in the company, from the chairman on down, simply by spending his money somewhere else."

— *Sam Walton*

Who Is the Social Enterprise Customer?

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

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 non-profit organizations, individuals, companies, traders, artisan markets, vendors, microentrepreneurs, etc.

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.

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

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?

Included in Business Plan

Exhibit 3A: Market Rating for TARTINA

TARTINA Enterprise

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

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

Although TARTINA products are made by microentrepreneurs, 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.

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—the final customer and the actual customer—to define. For example, if your enterprise is a grain mill that produces and sells sorghum flour to retailers, your actual customers are stores, bakeries, and cooperatives, but your final customers are individual consumers of sorghum 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.* (see exhibit 3B)

Who Is the Social Enterprise Customer?

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).

Which Customers Are Most Important?

If your social enterprise is providing training services to microentrepreneurs, yet is paid as a percentage of microentrepreneurs' income, you have a vested interest in the purchasers of the entrepreneur-made products. In another example, a social enterprise provides market linkage services to microentrepreneurs 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 microentrepreneurs?

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" (consignment sales to organizations) in Port-au-Prince. 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.

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 family. 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 levels 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 children)? 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 product 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 Tool** found in appendix 3-1; an example of the completed tool 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 out side 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

BEHAVIORAL			
	NA	NA	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 Tool** found in appendix 3-2; 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 Tool** found in appendix 3-3; an example of the completed tool 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

Key: H = high
M = medium
L = low
O = no influence

Level of Influence	Actual Customer				Decision Maker; Purchaser				Final User			
Sensitivity traits	H	M	L	O	H	M	L	O	H	M	L	O
Price	•				•							•
Quality		•			•							•
Brand name		•				•				•		
Product features			•		•				•			
Salesperson	•							•				
Promotions/special offers	•							•				•
Advertising	•					•				•		
Convenience of use			•		•							•
Convenience of purchase	•				•							•
Location				•	•							•
Store décor/environment				•		•				•		
Customer service	•					•						
Return policy	•						•					
Credit availability	•						•			NA		
Peer recommendations		•				•			•			

Summary and Strategic Implications of Activities

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

- ▲ Which markets 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

> "Markets change, tastes change, so companies who choose to compete in those markets must change."
>
> — *Dr. An Wang*

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

▲ **Size.** It is essential to confirm that your customer base is 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 numerous 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 public information does augment analysis, most small businesses in the West use this method. You may also want to supplement intuition and observation by conducting some additional market research.

▲ **Trends.** Of equal importance is evaluating the trends that may impact the market in future years. Doing so will give you a sense of the continuing 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 like 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. What is the rate of growth in your target market?
3. What changes are occurring in the makeup of the market?
4. What changes might affect customers' ability to afford the product/service?
5. How are customers changing their use of the product/service?
6. What changes in social values and concerns are affecting the product/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. ***What is the rate of growth in 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 are occurring in the makeup of the 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. ***What changes might affect customers' ability to afford the product/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.
5. ***How are customers changing their use of the product/service?***
   - The importance of peanut butter and jam as healthy 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. ***What changes in social values and concerns are affecting the product/service?***
   - We're hoping that the target market will value more the social benefit that the products bring to rural microentrepreneurs. 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

Specific Frameworks

Chapter 4

Chapter 4

"In the business community, the ability to be market-directed, to respond to external forces and adjust one's position accordingly, and the capacity to change the terms of engagement constitute the difference between success or annihilation in an increasingly competitive global economy."

— *Jed Emerson and Fay Twersky*

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 intervention 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.

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.

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 poor microentrepreneurs, 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 local implementing NGO, 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.

- **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?

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.

- **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 microentrepreneurs? 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 lead organization; and (3) senior management and the board of the implementing partner? Do all the key leaders champion the venture and support the accom-

plishment 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 have 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 NGO or lead 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 (PVO, NGO, etc.)?

Analysing the Social Enterprise

- Fill out the **Business Assessment Tool** found in appendix 4-1.
- 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.

Business Assessment is included in the Business Plan

EXHIBIT 4B: BUSINESS ASSESSMENT TOOL

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; NGO disengagement difficult
Client relationships	S		Positive impact/relationship with microentrepreneurs
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

Analyze the Operating Environment: Opportunities and Threats

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

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 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 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 microentrepreneurs 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?

Analyzing the Operating Environment

▲ Fill out the **Operating Environment Analysis Tool** found in appendix 4-2.

▲ 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 visa 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.

<u>An analysis of the operating environment is included in the Business Plan.</u>

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 the 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:*** This is particularly true for citrus fruit jams and jellies. 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.

Industry Attractiveness

Rationale:

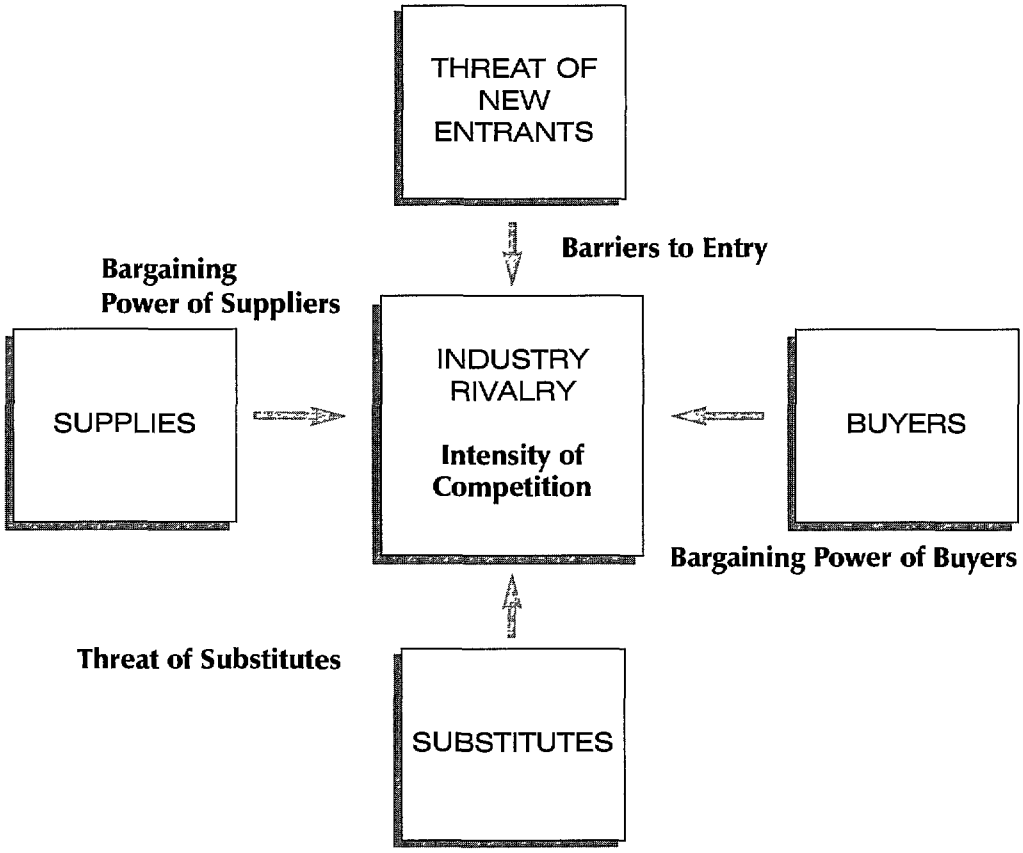
Attractiveness of an *industry* is a critical piece of the market research puzzle when planning your social enterprise intervention. An industry is attractive if it offers above-average potential for healthy long-term profitability and sustainable *comparative advantage*. Determining industry attractiveness 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 intervention.

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 4D: 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 or advanced technology to emulsify and store peanut butter was too costly for microentrepreneurs. And without year-round production and storage capabilities, microentrepreneurs 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 intervention to circumvent or mitigate these constraints.

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

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)

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

In 1993, Save the Children began a BDS 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 poor women and increase their incomes, build coalitions (linkages with the government, the private sector, and other NGOs), exert influence on the policy environment, and create a self-sustaining enterprise. Subsector analysis was the central feature of the pursuit of these objectives.[3]

Therefore, 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 is an

[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.

important tool for BDS 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 BDS 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 BDS 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.

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.

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

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 on 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

Microentrepreneurs 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 interventions that will enhance products and marketing techniques that will help microentrepreneurs 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.
- **The time to establish your 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.

- **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.
- **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.

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 Tool**, including the attractiveness-rating columns, in appendix 4-4. An example for retaso is in exhibit 4E.
- ▲ 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 4-3.)
- ▲ Note the strategic implications of barriers to entry for your social enterprise.

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

Measure of Barriers to Entry		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 intervention 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

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

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.

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.

- **The costs of switching from one product to another are low.** Consumers of 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.

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 microentrepreneurs. Although private companies purchased retaso products, the women microentrepreneurs who made them where 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 retaso microentrepreneurs 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 producer who accepted the middlemen's prices.

Designers of the BDS program in the Philippines sought to override middlemen's buyer power through an intervention that targeted women retaso producers and provided them with services to increase their competitive ability. The enterprise (at that time called an association) organized hundreds of microentrepreneurs, 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.

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 (see chapter 5, Marketing, for more information).

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.

Determining Buyer Power

- ▲ Follow the same directions as for barriers to entry. Fill out the **Buyer Power Tool** in appendix 4-4. An example for retaso is in exhibit 4F. You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (see appendix 4-3).
- ▲ Note the strategic implications of buyer power for your social enterprise.

EXHIBIT 4F: EXAMPLE OF BUYER POWER IN RETASO INDUSTRY

Measures of Buyer Power		Highly Unattractive	Unattractive	Neutral	Attractive
Number of customers*	Some		•		
Availablity of competitors' like product.services	Many	•			
Switching costs	Low	•			
Threat of backward integration	Low				•
Possibilities to differentiate	Medium		•		
Price competitor	Many	•			
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.

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.

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 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.

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. See also 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 supply chain is sometimes referred to as a **supply chain**.

The purchasing industry is not an important customer to the supplier. If the supplier does not recognize the purchaser as a valued customer, the customer is unlikely to be treated favorably.

Determining Supplier Power

- ▲ Follow the same directions as for buyer power. Fill out the **Supplier Power Tool** in appendix 4-4. 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 4-3).
- ▲ 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 4G: EXAMPLE OF SUPPLIER POWER IN RETASO INDUSTRY

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

Strategic implications: A social enterprise intervention could serve to augment customer value by consolidating purchasing for individual retaso customers. The enterprise would buy retaso in bulk quantity, thereby considerably increasing customer value to retaso suppliers. Moreover, the enterprise would constitute a united voice for retaso producers, 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. As well, 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 intervention.

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 to lose 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.

Determining Availability of Substitutes

- ▲ Follow the same directions as for supplier power. Fill out the Substitutes Tool in appendix 4-4. 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 4-3).
- ▲ Note the strategic implications of substitutes for your social enterprise.

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

Measures of Substitutes		Highly Unattractive	Unattractive	Neutral	Attractive
Availability of close substitutions	Many	•			
Availablity of substitutes	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

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

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.

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.** If different types companies are selling the same goods and services.

Determining Industry Rivalry

- ▲ Follow the same directions as for substitutes. Fill out the Industry Rivalry Tool in appendix 4-4. An example for retaso is in exhibit 41.
- ▲ You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (appendix 4-3).
- ▲ Note the strategic implications of industry rivalry for your social enterprise.

EXHIBIT 4I: EXAMPLE OF INDUSTRY RIVALRY IN RETASO INDUSTRY

Measures of Rivalry		Highly Unattractive	Unattractive	Neutral	Attractive
Number of competitors	Many	•			
Industry growth	High				•
Product features	Low	•			
Excess capacity	High	•			
Diversity among	Low				•
Customer value 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 microentrepreneurs, 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.

Determining Overall Attrractiveness of Your Industry

- ▲ Place the "attractiveness ratings" for each of the forces in the **Five-Forces Model** in appendix 4-4. An example for retaso is provided in exhibit 4J.
- ▲ 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 4J: Example of Five Forces for the Retaso Industry

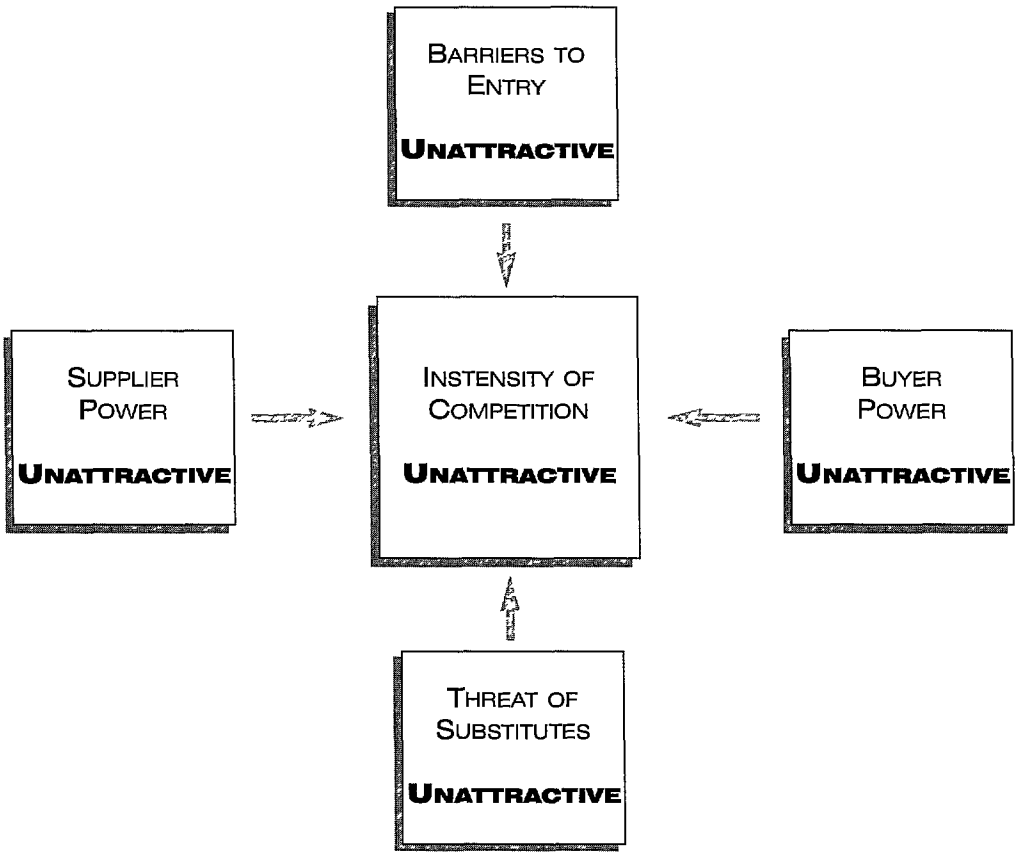


Exhibit 4K: Synthesis Tool: Example From Retaso

Measures of the Five Forces		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. Suggested adjustments include changing from a centralized association to a decentralized structure linking home-based 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 BDS intervention focused on creating a more enabling legal environment for poor women microentrepreneurs 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.

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.

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

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 training services to microentrepreneurs and SMEs, a large part of your market depends on your customers' ability to expand, and an economic downturn could slow growth and erode your revenues.

How do these economic variables influence your industry?

- ▲ Low business expansion?
- ▲ Growing unemployment?
- ▲ High interest rates?
- ▲ High inflation?
- ▲ Weak local currency?

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. At this juncture, it warrants a second look for your selected industry, particularly if you are considering launching your social enterprise in the "gray" areas of government regulation.

Many macro-level BDS advocacy interventions focus on changing the policy environment to "level the playing field" for SMEs. 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 interventions 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 SMEs, 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.

- ▲ Indicate the degree of technological change that has occurred in your industry over the past five years in the business areas listed in exhibit 4L, Sensitivity to Technological Change.
- ▲ State to what degree does your industry relies on technology.

Notations on technological change are included in the Business Plan.

EXHIBIT 4L: 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		
Manufacturing/production		
Administration		
Marketing/communications		
Information retrieval		
Delivery time/method		
Other		

Financial Characteristics

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

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

"In business, the competition will bite you if you keep running; if you stand still they will swallow you."

— *William Knudsen*

Rationale:
Competition is an integral element of your operating environment, so it deserves special attention. Our experience has shown that practitioners 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 with 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 overcome some hurdles.

Analyzing Competitors

- ▲ Fill out the **Business Assessment Tool** (found in appendix 4-1) you completed in the beginning of this chapter for each major competitor.
- ▲ 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 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 NGOs 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 NGOs.
- ▲ Finally, 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 Tool** is shown in exhibit 4M.

Competitor information is included in the Business Plan.

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.

An 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.

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

EXHIBIT 4M: INDIRECT COMPETITOR TOOL

Indirect competitor	Impact on your business	Possibility of becoming a direct competitor(high/low)
#1		
#2		
#3		

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 in Mamba peanut butter, lumped in the 20 percent " others" category.

DERIVING 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, realistically, 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.

Determining Market Share for Products

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

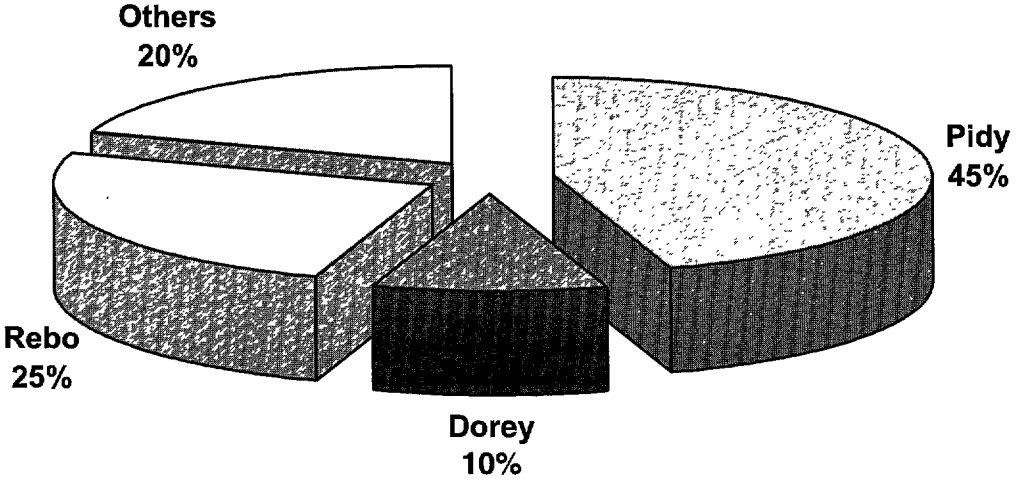
Market share information is included in the Business Plan.

EXHIBIT 4N: MARKET SHARE TRENDS FOR PRODUCERS OF PEANUT BUTTER

Competitor	Percent of market[4]	Market share trend: ↑ or ↓	Most important characteristics of market leaders
#1 Pidy	45%	↓	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%	↑	Import imitator via fancy packag ing; 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%	↓	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 (Zoul, Tacha, TARTINA, imports)	20%	↑	New players gaining market share via various strategies

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

Exhibit 4P: Market Share for Mamba



TARTINA jam production

The Future

> "Business more than any other occupation is a continual dealing with the future: It is a continual calculation, an instinctive exercise in foresight."
>
> — *Henry Luce*

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.

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 Tool** in exhibit 4Q to complete this exercise.

Exhibit 4Q: Competitor Forecast Tool

Potential Future Competitors	Product/Service
Current Competitors Likely to Expand	**Product/Service**
Current Competitors Potentially Leaving Market	**Product/Service**

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 tools, respond to the following questions; this should give you adequate information from which to develop your competitive strategy.

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."

— *Charles Gillette*

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.

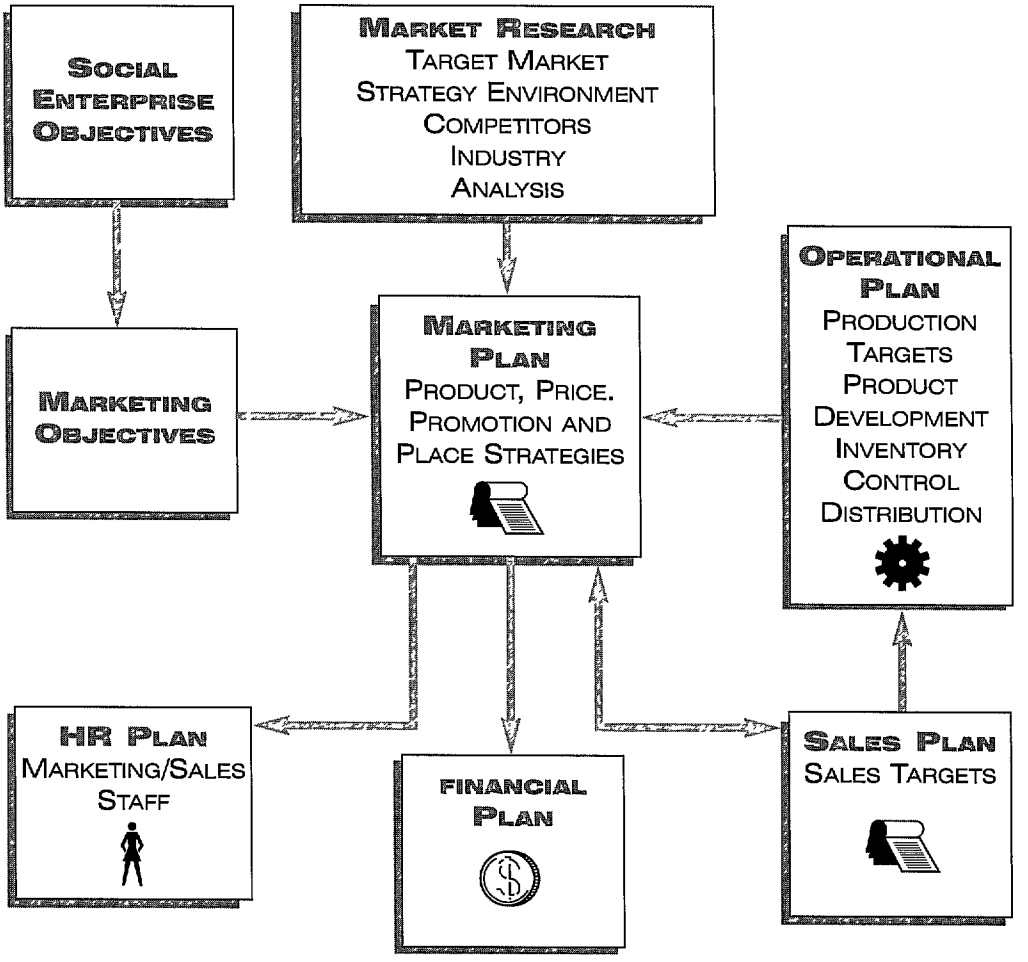
Marketing Synergies

"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



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; and
- 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 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.

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

Developing Marketing Objectives for the Social Enterprise

▲ Determine the marketing objectives for your social enterprise.

▲ Refer to the examples below (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
- Sales target of U.S. $58,976
- Total unit sales (all products) of 62,500 units
- 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 awards 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., microentrepreneurs) 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.

Clarifying Product/Service Features and Benefits

- ▲ Create a Product/Service Features and Benefits Table (see 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; 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 microentrepreneurs	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 on how to improve, refine, or change your products and services when you develop your product strategy to increase your market share or sales volume.

- ▲ 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.

- ***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.

Product life cycles assert:

- Products have a limited life.
- Product sales pass through distinct stages, each posing different challenges to the seller.
- Profits rise and fall at different stages of the product life cycle.
- Products require different marketing, financial, manufacturing, purchasing, and personnel strategies in different stages of their cycle.

— Philip Kotler

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. While 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:

- The attraction to a large market where a product is already well known is understandable. The TARTINA peanut butter brand will need to ensure that within this market it can offer its product at a competitive price and still gain a profit on the sale of each unit.

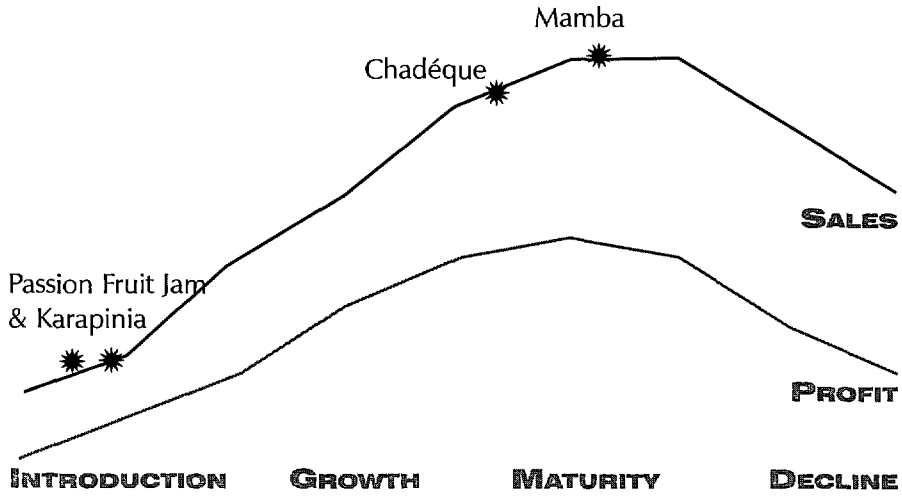
- Ways must be found to postpone peanut butter's entrance into the decline stage of the product life cycle. One of the best ways to do this is to introduce product modifications—new packaging, new flavors, etc. This approach serves to differentiate the product from its competitors and temporarily escape the heat from the direct competition. The social enterprise 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.

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 feasibility test and market research conducted prior to the preparation of the business plan pointed to the great potential of these products.

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



Mapping The Life Cycle of Products/Services

- ▲ Plot your products or services on the Product Life Cycle Chart (an example is given in exhibit 5F).
- ▲ Write in narrative form the strategic implications that emerge from the stage of your products in their respective life cycles (an example is given in 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.

Positioning Products/Services

- ▲ Positioning is a matrix exercise. Price is always used as proxy 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 (an example is given in 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

PRODUCT STRATEGY

> "Cheat me on the price but not on the goods."
>
> — *Thomas Fuller*

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 related 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.

EXHIBIT 5H: "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. From the customers' perceptive, it is often difficult to discern 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 complimentary 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.

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 51 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 51: 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. Cross-selling is a strategy that leverages marketing synergies.

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

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 5J: 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 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

> "If you can't reach your customers, you can't stay in business."
>
> — *Anonymous*

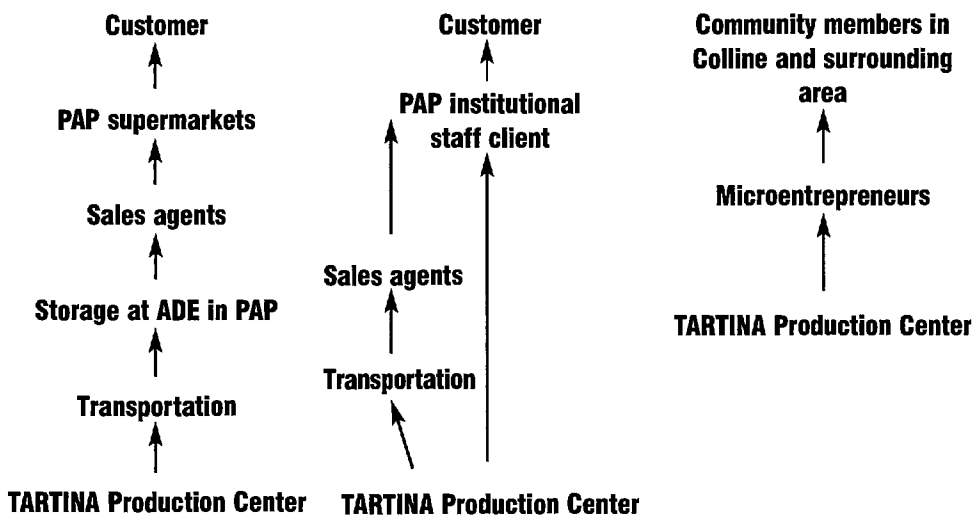
The distribution (place) strategy articulates how you will get your products or services to your customers. It is a key component of alleviating a common constraint microentrepreneurs and SMEs face, gaining access to markets. Both the TARTINA and the retaso social enterprises focused heavily on distribution strategy as a major aspect of their interventions linking microentrepreneurs 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 like 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 5K: Example of Distribution Channel for TARTINA Products



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 5L, 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 5M).

EXHIBIT 5L: 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

EXHIBIT 5M: TARTINA DISTRIBUTION MATRIX

	Supermarkets	Minimarts	Institutions	Individuals	Vendors	Center
Sales agents	•	•	•		•	
Direct sales			•	•		
Micro-entrepreneurs				•	•	
Distributors	NA	NA	NA	NA	NA	NA
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 NGO staff —selling directly to individuals, institutions, retail outlets.

Microentrepreneurs—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.

Analyzing Distribution Options

Step 1

- List the advantages and disadvantages for each potential market in the distribution channel. An example is given in exhibit 5N, **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 5P, **Comparison of Distribution Channel Options for TARTINA (Methods).**

EXHIBIT 5P: 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. Institutional sales refer to staff sales for personal consumption	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	Microentrepreneurs	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, MEs or sales agents	• Direct sales to individuals • No sales costs incurred • Cash sales only • No follow-up • Income impact on MEs • Higher per-unit revenue on sales	TARTINA Staff • No/low sales cost • Can sell products on credit to customers; attracts larger customers • Access to organizational transportation Disadvantages
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 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. Microentrepreneurs offer little value in the distribution strategy toward achieving marketing objectives, although there is direct financial benefit for MEs 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.

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 (see example in exhibit 5Q)
- ▲ Write out a justification based on cost advantage for selecting market locations as related to product or service distribution (see example in exhibit 5S)

Exhibit 5Q: 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 butter	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Passion fruit jam butter	Port-au-Prince	Supermarkets	Petit Goave	Artisan market/individual
Apricot jam butter	Institutional staff	Institutions	Petit Goave	Artisan market/individual
Karapinia	Colline and surrounding area	Individuals	PG and PAP	Individuals/ vendors

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.

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?

Distribution strategy is included in the Business Plan.

Exhibit 5R: Distribution Channels Map for TARTINA Products

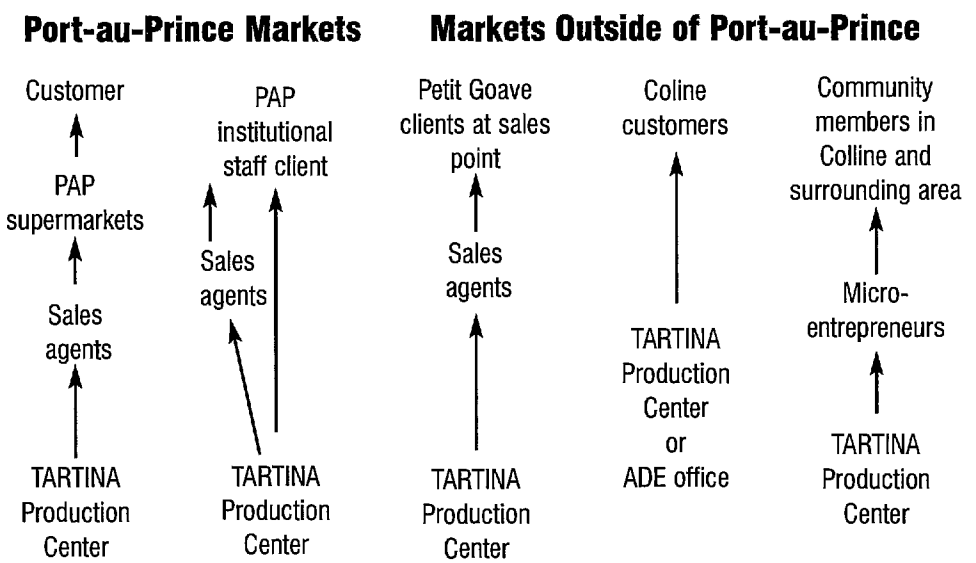


EXHIBIT 5S: DISTRIBUTION STRATEGY FOR TARTINA

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. Clients 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 can well translate into healthy sales levels and a consistent, professional presentation of TARTINA products.

Direct sales: These are personal sales 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.

Microentrepreneurs: Worthy of special note is the recent introduction of microentrepreneurs (MEs) 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. As well, this opportunity has given the MES, 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. MES are also learning new sales skills and other entrepreneurial abilities.

Price Strategy

> "When it comes time to hang the capitalists they will compete with each other to sell us the rope at a lower cost."
>
> — *Vladimir Lenin*

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 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' price for the same or similar 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 BDS models 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.

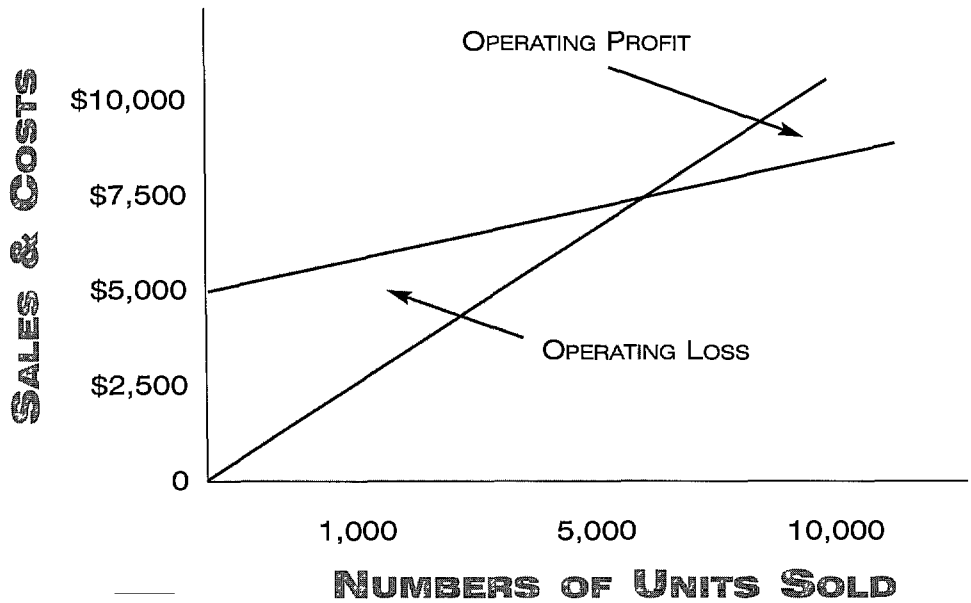
Price Versus Cost

- 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.

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 5T 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 5T



Determining Costs

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 5U: 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
Plain Peanut Butter (16 oz.)	**Price in Gourdes[1]**
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 5U; 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 also 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 Statemet on line item "total operating costs", (see Chapter 8 "Financial Plan").

Allocating Overhead: A "Quick and Dirty" Calculation

For BDS programs working through one or more intermediary, difficulties in assigning overhead can occur. This is particularly true if the intermediaries engage in several activities unrelated to the BDS 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 or BDS program and
4. In the next column the amount of time they dedicate to it.
5. The 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 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

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 cost fixed and variable 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? (see 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 cost 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 gourde per marmite to as much as 16 gourde 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 effects 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.*

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 cost 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.

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.

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 $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 7, 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 beg questions like: Do we have 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

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

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 to do without a given product or service are other factors that contribute to price sensitivity.

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 SMEs 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 clearly 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 exit strategy. 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 any subsidy toward covering your fixed costs and that you clearly 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 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, yet least used, in BDS programs that render services to microentrepreneurs and SMEs. 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 practitioners 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.

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 TARTI-NA, exhibit 5V).

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) vs. *free on board (FOB)* pricing, etc.

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

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

EXHIBIT 5V: 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 offers 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 BDS programs 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.

The codfish lay 10,000 eggs,
The homely hen just one;
The codfish never cackles
To tell you what she's done;
And so we scorn the codfish,
And the homely hen we prize.
Which demonstrates to you and me
That it pays to advertise.

— *Toronto Globe*

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.

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 McDonald's marketing message, "You deserve a break today."

EXHIBIT 5W: 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.

Creating a Promotional Message

We have already noted that customers mainly buy the benefits products and services provide, not their features. In other words, a customer is 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 detail 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 concrete needs of your customers?

Finances: In addition to the actual price, how will the purchase of your product or service affect your customers' overall financial situation? In other words, are there long-term savings benefits, such as increased productivity?

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

Feelings: How does your product or service make customers 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? Does this increase your customers' sense of security?

▲ 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 demonstrating 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 relations 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, especially small-business owners and microentrepreneurs, to service businesses.

Planning Your Promotional Vehicles

The **Promotional Vehicle Worksheet** (exhibit 5W) is a precursor to preparing your promotional strategy and budget. Please photocopy this template for your use.

▲ 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 5W: PROMOTIONAL VEHICLE WORKSHEET

VEHICLE	REACH	FIT	FREQUENCY	COST (per year)
Print				
Broadcast				
Direct Mail				
Brochures				
Flier/poster				
Sampling				
Informal				
PR				
Trade shows				
Gifts				
Phone book				
Displays				
Billboards				
Information meetings				
Special offers				
TOTAL COSTS				

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 microentrepreneurs 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.

Promotional Tactics

In addition to using the aforementioned promotional vehicles, you can employ a number of creative options to promote your enterprise. Usually, little additional cost is involved, and these tactics 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**—sales 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.

Planning Marketing Tactics

▲ Fill out the Tactical Marketing Worksheet, exhibit 5Y. Please make a photocopy of this template for your use.

EXHIBIT 5Y: TACTICAL MARKETING WORKSHEET

VEHICLE	REACH	FIT	FREQUENCY	COST (per year)
Cross-selling				
Personal sales				
Strategic alliances ***Type:***				
Referrals				
Cause-related marketing				
Other				
TOTAL COSTS				

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 (see example in exhibit 5BB).

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 5BB below).
- Your packaging should attract-even call out to-your target customer.
- Your name and logo should be clearly visible.

EXHIBIT 5BB: 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 foodstuffs, 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. (**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?

Determining Marketing Staff Needs

The symbols ($) and 🧍 below denote financial and human resource implications 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 5CC: 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.

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.

- 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 5DD for assistance or inspiration.

Promotional strategy included in the Business Plan.

EXHIBIT 5DD: 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 offersamples 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 informa tion 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 acurrently 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.

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.)?

Summary included in the Business Plan.

Sales Costs

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 5EE.

- ▲ 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 5EE: 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 $1000 for targets (per/mo. quota)	20% of sales price per unit after quota	$15 for transport per/mo.	Health, sick, vacation value	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
Total Costs						

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?

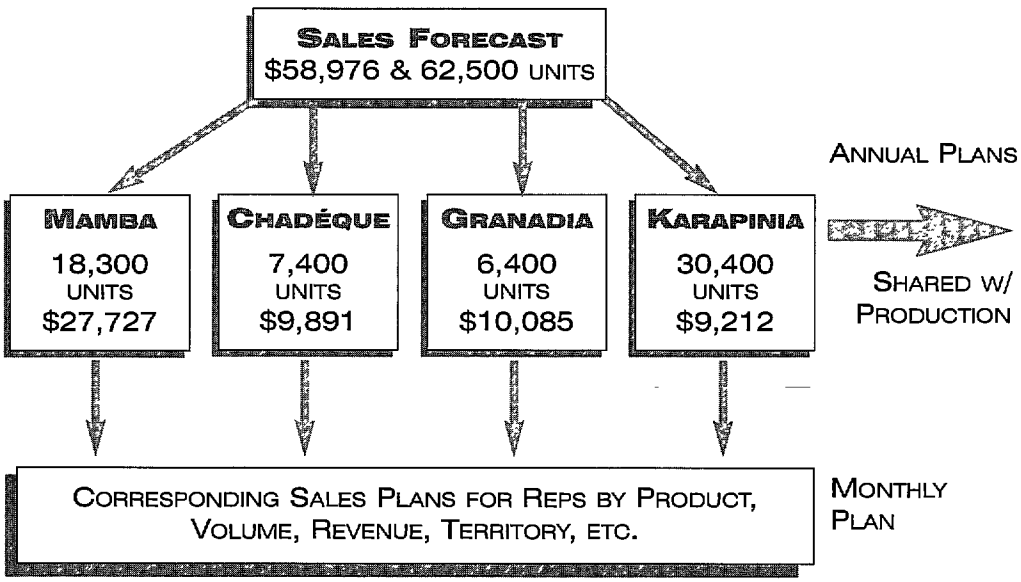
Narrative summary included in the Business Plan.

The Sales Plan

The sales plan aligns quantitative targets with the sales forecasts in marketing objectives. Annual sales plans are segmented by product and broken down into monthly or quarterly figures (see Exhibit 5GG, 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 (see chapter 6) and capabilities of individuals 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 5HH shows monthly sales objectives for rep 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 5FF: 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.

Establishing Sales Targets

- ▲ Develop an annual sales plan for each product.
- ▲ 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 5GG: ANNUAL SALES PLAN

PRODUCT: MAMBA

Month	Quantity Price	Unit Currency	Local	U.S. $	Month	Quantity Price	Unit Currency	Local	U.S. $
Apr-99	1,200	25	30,000	1,818	**Nov-99**	1,300	25	32,500	1,970
May-99	1,200	25	30,000	1,818	**Dec-99**	1,600	25	40,000	2,424
Jun-99	1,050	25	26,250	1,591	**Jan-00**	1,600	25	40,000	2,424
Jul-99	1,050	25	26,250	1,591	**Feb-00**	1,700	25	42,500	2,576
Aug-99	1,100	25	27,500	1,667	**Mar-00**	2,000	25	50,000	3,030
Sep-99	1,250	25	31,250	1,894	**Apr-00**	2,000	25	50,000	3,030
Oct-99	1,250	25	31,250	1,894	**TOTAL**	**18,300**		**457,500**	**$27,727**

EXHIBIT 5HH: MONTHLY SALES PLAN[3]

Sales Agent: Martine Du Pré **Month: December 1999** **Territory: Port-au-Prince**

Market Channel	Customer	Product	Sales/Mo. Objective Volume	Sales/Mo. Objective Revenue[4]	Units Sold/Mo. (Actuals)
Existing Customers					
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	

[3]Template prepared by Kellogg Corps Consultants, J.L. Kellogg Graduate School of Management, Aug. 5, 1998.
[4]Sales projections given in gourdes.

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*

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

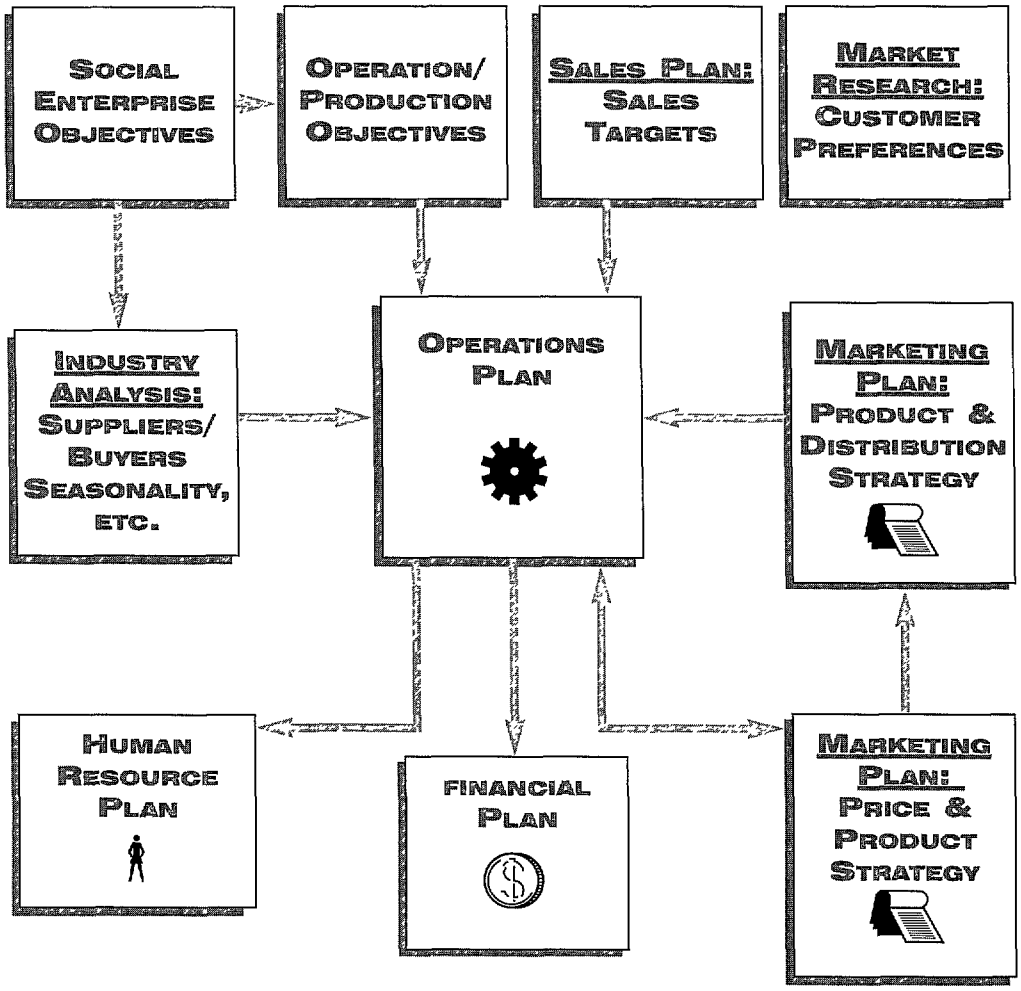
Information needed to formulate an operation plan for manufacturing and service industries converges in some areas and diverges in others. Since "production" (see definition) planning and costing are more detailed and technical for a manufacturing business and include aspects of operations, this chapter 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 =

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.

Diagramming the Operations Process

Step 1: Operations Stages

▲ Map the process depicting each stage of operations. An example for TARTINA is given in exhibit 6B.

▲ The diagram or corresponding narrative should answer the following questions (exhibit 6C):

- 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; 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

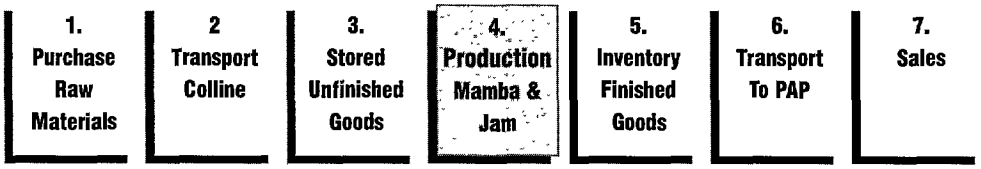


Exhibit 6C: Operating Stages for TARTINA

Operations Stage	Responsible Party
1. Purchase raw materials and inputs • Fruit (for jam production) • Peanuts (Mamba) and labels, containers, other nonmarketing-related assets	1. • Microentrepreneurs • 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

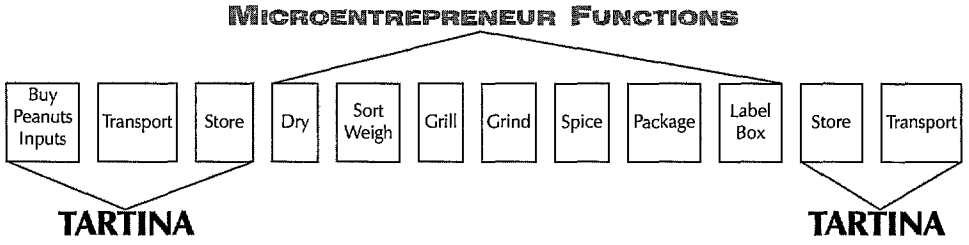


EXHIBIT 6E: PRODUCTION STEPS FOR TARTINA

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. Microentrepreneurs
7. Grind peanuts	7. Microentrepreneurs
8. Add spices/salt (all except unsalted PB)	8. Microentrepreneurs
9. Fill containers with peanut butter; glue labels	9. Microentrepreneurs
10.Box containers for shipping	10.Microentrepreneurs
11.Store in finished goods inventory	11. Inventory Manager
12. Ship to customers	12. Driver

Explanation of TARTINA Model

What is not clearly evidenced in TARTINA's operations process is the role of the microentrepreneur. In order to realize the cost advantage of buying production inputs in bulk, and overcoming the microentrepreneurs' lack of access to supplies, TARTINA centralized its purchasing and storage functions (see Lessons Learned in the Preface). In turn, TARTINA sells peanuts, containers and labels directly to the microentrepreneurs 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 microentrepreneurs, it allows year-round access, a time saving advantage of purchasing from the production site and higher income due to lower priced inputs.

Productivity

"Volume times zero isn't too healthy."

— *Lee Iacocca*

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 or eliminating duplicity is one method 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 to 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. Our 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.)

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)

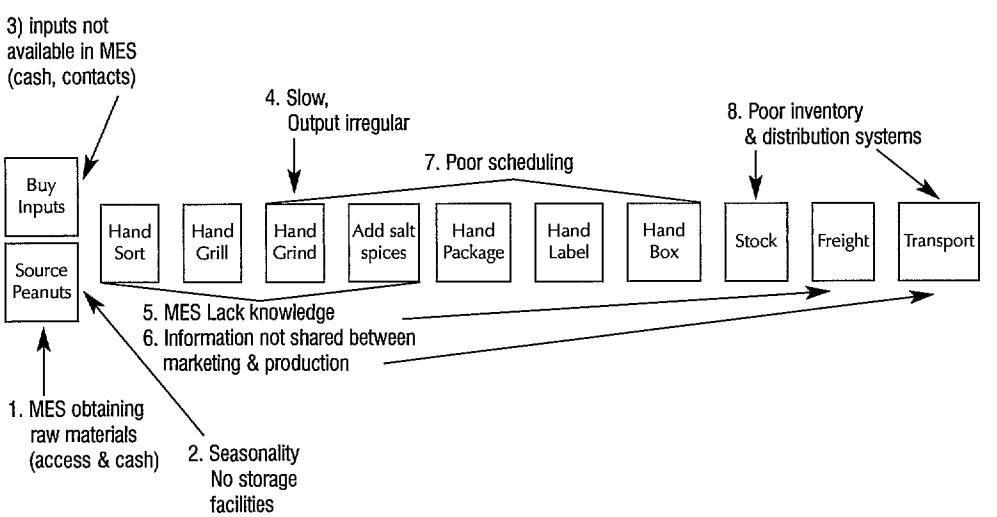


EXHIBIT 6G: CONSTRAINTS ON PRODUCTIVITY FOR TARTINA MAMBA

Bottleneck	Result
1. Microentrepreneurs' 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 MEs (containers and labels)	3. Same as above
4. Hand grinding	4. Same as above
5. MEs 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). MEs buy from TARTINA.
3. Centralized purchasing of containers and labels. MEs buy from TARTINA.
4. Purchased basic grinding machines.
5. Provided food transformation training for MEs 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 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).

Capacity - a measure of an organization's or company's facility or power to produce, perform, or deploy an output.

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.

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

Capacity Analysis

> "The myth of unlimited production brings war in its train as inevitably as clouds announce a storm."
>
> — *Albert Camus*

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.

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 (see exhibit 6J to understand how capacity is derived).

Exhibit 6H: Capacity Flow Diagram for Mamba (After Re-engineering)

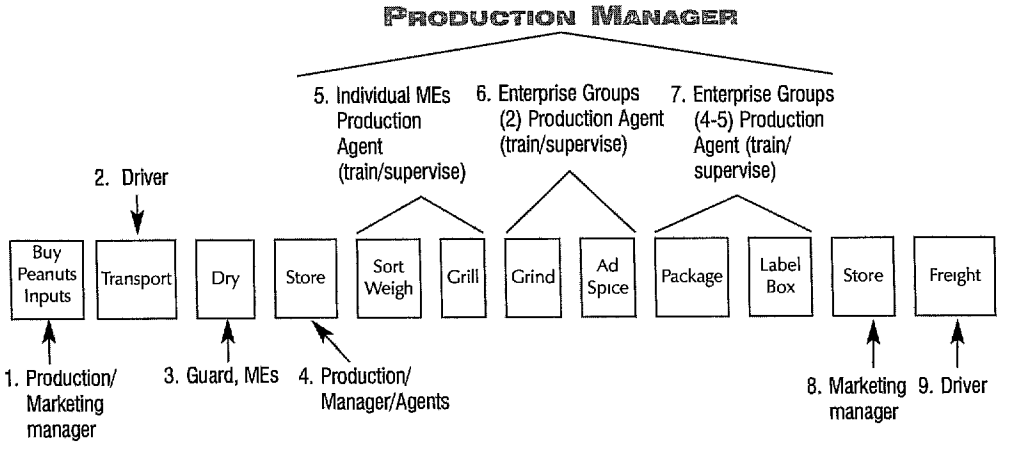


Exhibit 6I

Production Step	Responsible Party	#	Equipment
Purchase peanuts and labels, containers, etc.	Production, Marketing Manager	1 1	Vehicle
Transport (freight) to sales locations	Driver	1	Vehicle
Shelled peanuts are dried in the sun	Guard	2	None
Store in unfinished goods inventory	Inventory Manager	2	Storage silos
Select and weigh high-quality peanuts	Production agents	2	Scale
Record quantity of peanuts; distribute	Production agents	2	Measuring cup
Grill peanuts	ME individuals	All[1]	Home stove/fire
Grind peanuts	ME groups	2	Grinder
Add spices/salt	ME groups	2	Measuring spoons
Fill containers; glue labels	ME groups	4-5	Spoons
Box containers for shipping	ME groups	4-5	None
Store in finished goods inventory	Inventory Manager	1	Storage room
Transport (freight) to sales locations	Driver	1	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 microentrepreneurs. Outsourcing certain business functions to SMEs 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? "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[2]

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 MEs per Day per MES**	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]Ibid.
[3]Out of 80 working days between January and May 1998, 26 were used to produce peanut butter and 14 were used to produce Karapinia.
[4]The new peanut butter 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, KARAPINIA, AND CHADÈQUE[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. 7): sales targets (col. 6) ÷ average production for best days (col. 4).

1	2	3	4	5	6	7	8
Product	**Available Annual Production Days**	**Overall Average Production per day**	**Potential Annual Production if produced @average rate[1]**	**Average Production for best days[2]**	**Maximum capacity if produced as best days everyday[3]**	**Sales targets for year[4]**	**Projected Utilization based on potential product-ion**
Mamba	200	140	28,000	258	51,600	4,450	16%
Karapinia	200	167	33,400	221	44,200	1,500	4.5%

Assumptions:
1. Potential production rate at average rate = 200 working days per year x average production day for both products.
2. Average of the best five days for Mamba, Karapinia, and Chadèque.
3. Maximum capacity = 200 working days per year x best rate.
4. Sales projections from marketing plan.
5. Utilization = sales targets ÷ potential production if produced at best-day rate every day (column 4).

[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.

Setting Operations Objectives

- ▲ Set "SMART" operations objectives.
- ▲ 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: Product Plan Objectives for TARTINA Enterprise

- Standardization of product
- Improvement of quality control
- Commitment to make necessary changes to respond in a timely manner to consumers' changing demands
- Reduction of transformation costs to meet profit margin objectives noted in marketing plan
- Building of MEs' capacity to manage and implement transformation process
- **Production target of 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.

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 PRODUCTIVITY AND CAPACITY

Objectives:

- *Improve product standardization*
- *Build MEs' 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 MEs 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 MEs 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 microentrepreneurs faced in raw materials acquisition and to increase productivity. As well, TARTINA 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 trainer (TOT) training 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.

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 acts of random 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 MEs in product standardization and quality control will be required.
- Base payment to MEs 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.

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.
- MEs will continue to both 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 ME 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 • Recruitment for the Marketing Manager position is an immediate priority. • Closer coordination between sales and production units. 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 the 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

> "I have succeeded in getting my actual work down to thirty minutes a day. That leaves me eighteen hours for engineering."
>
> — *Charles Steinmetz*

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.

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

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.

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. These reports are then used by management for making decisions.

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. Note that no examples of the particular forms or reports are provided.

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 Microentrepreneurs; 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 MEs payment	4.1 **Production Sales Record**-piece rate payment to MEs	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	5.1 Accountant
	5.2 **Bin Card**-indicates date, batch number on product itself	5.2 Inventory Manager
	5.3 **Physical Count** of inventory	5.3 Inventory Manager, Production Agent

6. Transport to sales outlets/force in PAP	6.1 **Transportation Record-** mileage report	6.1 Driver; verified by Production Manager
	6.2 **Finished Goods Inventory Record-** records adjustment to inventory withdrawn for sales	6.2 Marketing Manager; submitted to Accountant
	6.3 **Bin Card-**removal of inventory, based on time in stock	6.3 Marketing Manager; submitted to Accountant
7. Sales in PAP	7.1 **Sales Record-**registers cash or consignment sales	7.1 Marketing Manager and sales force
	7.2 **Weekly Summary Reports** of sales and terms of sale	7.2 Prepared by Marketing Manager, submitted to Accountant and Inventory Manager

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 (see 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)?

MIS details are included in the Business Plan.

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

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.

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

Input	Jan	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Peanuts Mamba												
Grapefruit Chadèque												
Passion Fruit												

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												
Staff Training												
Logistics												
Marketing												
Trekking												
Staff Training												
Logistics												
Marketing												

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.

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 (exhibit 6X).

- ▲ 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)	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 6	PL	Marcel Denise	448 550	+2 -50
	4	Mamba Karapinia	450 500	90 100	6 6	PL	Marcel Denise	470 506	+20 -6
	4	Mamba Karapinia	447 500	90 100	5 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 microentrepreneurs. On days when fewer than 6 microentrepreneurs where scheduled, 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.

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.

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. As well, 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.

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 provideTA 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 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 - 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.

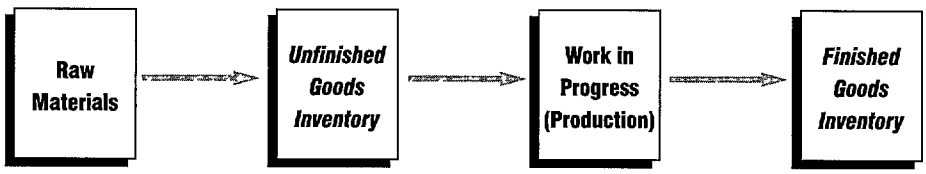
Shelf life - length of time before a good spoils or becomes obsolete.

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 Flow Diagram



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).

Bin Cards

To the manager of a modern business, bin cards probably seem archaic, but for a social enterprise 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.

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 Total Sale End	5. Expected Ending Inventory at Month's
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.

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, for TARTINA)?
- ▲ 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.

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.

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.
- ▲ An example of TARTINA's production equipment is provided for your reference.

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 may countries, the generally practiced asset depreciation schedule follows[8]:

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.

[8]Depreciation schedule provided by CEFE , GTZ

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 costs 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 good 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 NGO-run businesses or BDS programs.

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 practitioners 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).

Preparing an Operations Budget

- ▲ Fill in the operations/production budget template provided in exhibit 6AA. You may photocopy our template for your use, or create new one specific to the needs of your enterprise.
- ▲ If your social enterprise already has an operating history, use past cost information. If not, verify that projected expenses are grounded on market prices.
- ▲ 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 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.

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 6AA: Production/Operations Budget

Costs per Month	Amount
Factory Overhead or "Fixed Costs"	
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 6BB 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 6BB

COMPUTERS	PHARMACEUTICALS	FROZEN FOODS	TIRES
High	R&D Requirements		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 6CC: NUMERIC PRODUCTION TARGETS FOR TARTINA

Objective: Production targets of 62,500 units for a total cost of U.S. $45,974

In exhibit 6DD, 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 6DD

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

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 6FF). 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 6EE. Production and marketing should work closely together to ensure that seasonal fluctuations are reflected in both sales plans and production schedules (see seasonal scheduling in this chapter).

EXHIBIT 6EE: 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 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.

Developing a Production Schedule

▲ Establish a production plan **for each product** that demonstrates how you will achieve stated production targets. 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 6FF.

Production schedule is included in the Business Plan.

Exhibit 6FF: 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**

The Human Resource Plan

Chapter 7

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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 BDS proposals and give generous scoring weight to enterprise programs that are 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 meso-level BDS intervention to create a sustainable and viable enterprise. How your program is structured among donors, the lead organization, field offices, the implementing organization, the enterprise, and microentrepreneurs 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.

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 microentrepreneurs whose income or economic opportunity BDS programs seek to improve. Second, there is the *donor*, to whom the lead organiza-

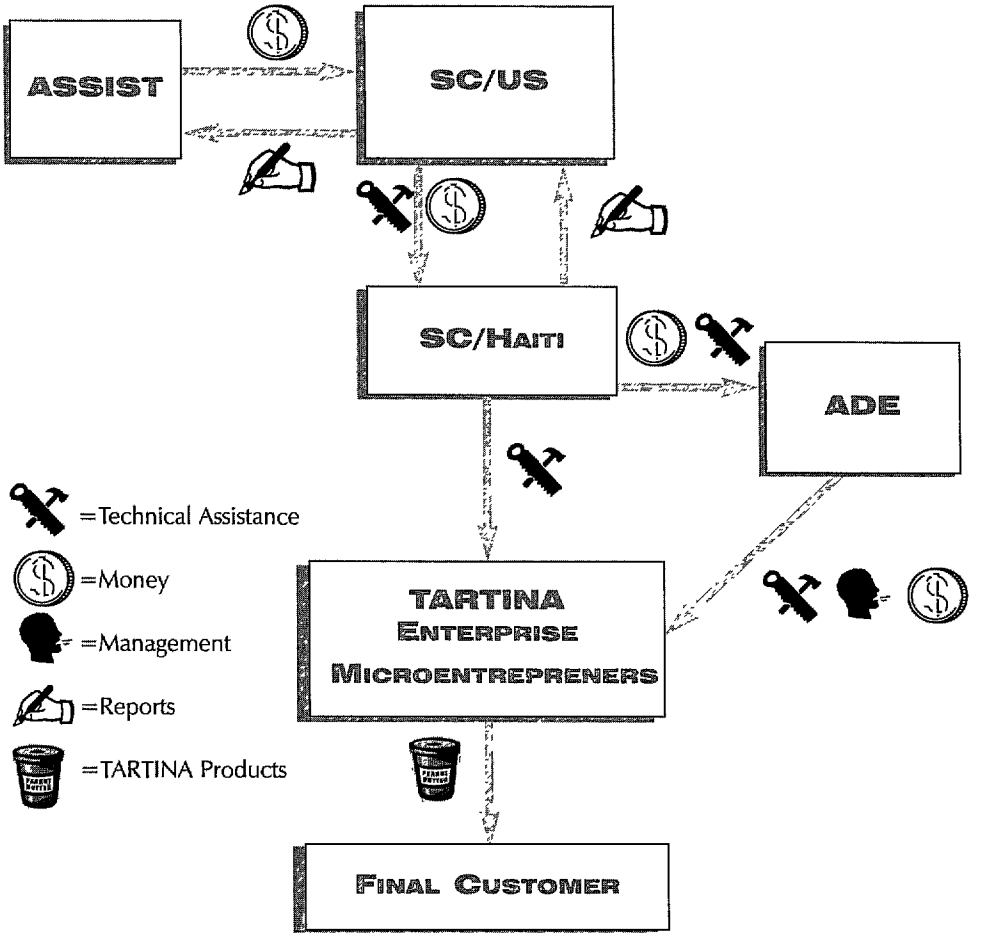
tion is accountable to for reaching certain targets stated in the project's design. Third, there is the *local partner*, the implementing organization (NGO, private sector), whose capacity to execute is often largely dependent on the technical and financial inputs provided by the lead organization (PVO). Fourth, there is the social enterprise itself, which is being developed in the course of the BDS program. And last, there is the target market, the customer who is purchasing the final product or service that the social enterprise or the microentrepreneur 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 local implementing organization, ADE (an NGO), to create a viable enterprise, TARTINA. The target population, 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 microentrepreneurs.

EXHIBIT 7B: ENTERPRISE ACTORS CHART

ENTERPRISE ACTORS FOR SAVE THE CHILDREN'S PROGRAM IN HAITI

Who	Roles	Responsibilities	For Whom
1. SC/US	1. Financial conduit; communication; oversight	1. Achieve final and intermediate program targets; on-going communications w/ASSIST on behalf of project	**Donor:** ASSIST
2. SC/Haiti	2. Reporting	2. Business plan, quarterly reports; secondary responsibility for meeting project targets	
1. SC/US	1. Technical support; donor communication	1. Technical assistance visits and support; communication with ASSIST on behalf of SC/Haiti	**Lead organization:** SC/Haiti
1. SC/Haiti	1. Technical assistance; financial positioning	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	**Implementing organization:** ADE
2. SC/US	2. Technical assistance (TA) as needed	2. Technical assistance as requested by SC/Haiti	
1. ADE	1. Management	1. Management and oversight of business operations	
2. SC/Haiti	2. TA - TARTINA staff	2. TA in all components of business operations	**Social enterprise:** TARTINA Enterprise
3. SC/US	3. TA	3. TA as requested by SC/Haiti	
4. Consult	4. Specific TA	4. TA for specific technical constraints	
1. ADE	1. Organize/mobilize entrepreneurs; provide TA, facility and equipment; limited financing	1. & 2. Build production and management skills and self-esteem of microentrepreneurs; provide economic opportunity and increased income (at some point, responsibility may be transferred to TARTINA)	**Target population:** Poor micro-entrepreneurs in Colline
2. TARTINA staff	2. Training, scheduling, targets, supervision, skills transfer, encouragement	2. Realize production targets	
1. Target population	1. Quality production	1. Purchase TARTINA products that meet customers' wants and needs	**Customer:** Buyers of TARTINA products
2. TARTINA	2. Marketing, quality assurance, production, inventory management, customer service	2. Access to high-quality TARTINA products in the market; realize marketing targets; develop new product to better serve customer demands	

The flatter the program structure—e.g., a locally funded grant or direct implementation of an enterprise program, thus bypassing the local intermediary—the simpler your chain of command and, consequently, program execution. (See Lessons Learned in the preface to this manual.)

Identifying Social Enterprise Actors

Step 1: Program Diagram

- ▲ 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 use icons to represent major responsibilities and arrows to refer to whom each party is accountable.

Step 2: Roles and Responsibilities of Actors

- ▲ Prepare and complete an Enterprise Actors Chart similar to the example 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.
- ▲ 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.
- ▲ 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 microentrepreneurs 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

> "Be a yardstick of quality; some people aren't used to an environment where excellence is expected."
>
> — *Steve Jobs*

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 are given below.

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 structure 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 outputs" for SC's Financial Director in the enterprise program are "building capacity of partner NGO to maintain adequate financial information systems to support enterprise program decisions". For

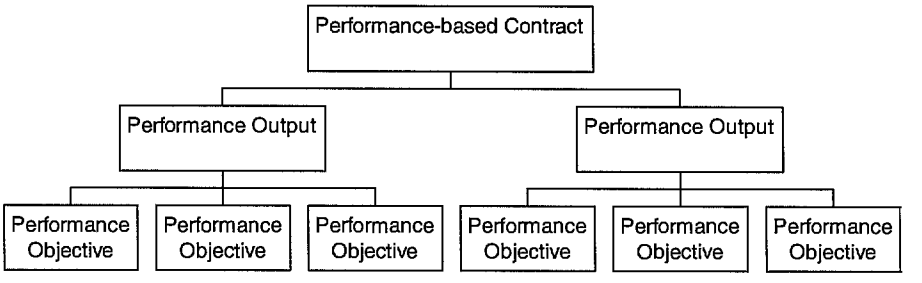
TARTINA's Marketing Manager, the output is "achievement of marketing plan objectives" (see exhibit 7C).

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 like training opportunities, travel, etc.—and determined in the evaluation process. (See Incentive Programs, in this chapter.)

Staff Accountability for Targets



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

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 opera tional 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 PVO headquarters, field offices, or even the implementing NGO 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 PVO personnel issues.

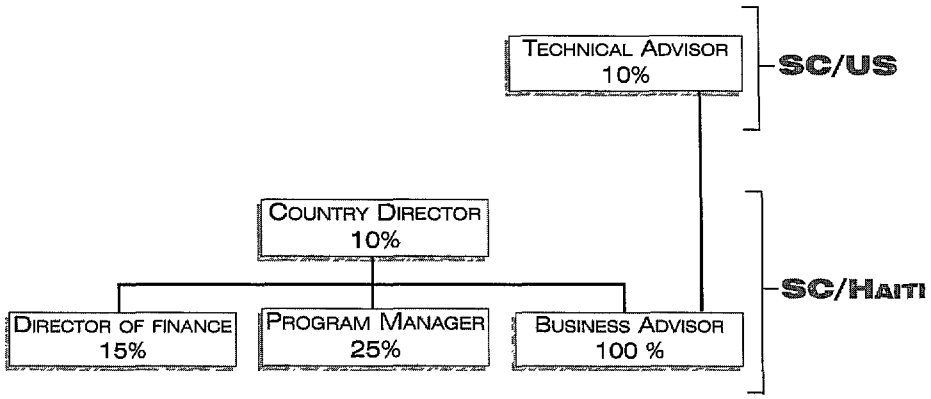
HQ AND FIELD PROGRAM STAFF (AND MANAGING NGOS)

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 PVOs that launch enterprise programs will have to recruit at least one business advisor to manage the program.

EXHIBIT 7D

SCF Organization for Enterprise Program



This organizational chart shows the program staffing at both PVO headquarters and field offices for Save the Children. As a result of historical relationships prior to restructuring, we retained SC's Program Manager in the enterprise "organagram" (though his responsibilities have dwindled to 25 percent). 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.

Determining PVO Staffing Needs

Note: This section can also be completed by local NGOs 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 PVO staff (see exhibit 7B). If you have or are seeking a centrally funded grant, you may have two organizational levels, HQ and the field.
- ▲ Write a summary statement of PVO (or lead organization) responsibilities. An example for TARTINA is provided in exhibit 7E. This summary directs staffing at the PVO level, asking the question, "What kind of staff do we need to meet our responsibilities?"
- ▲ List PVO 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 PVO 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.

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.

TARTINA microentrepreneur cleans up after production.

Exhibit 7F: Job Descriptions for SC/Haiti's Enterprise Staff

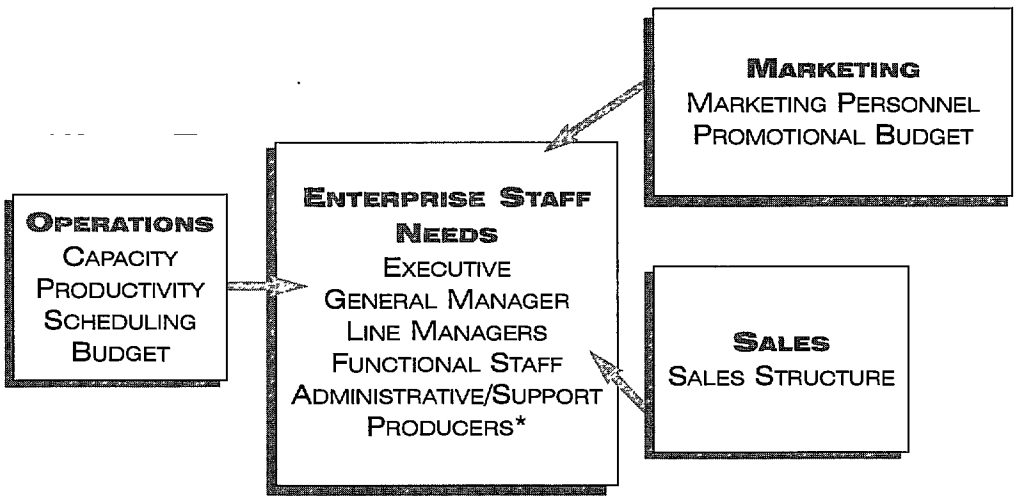
Title	**Executive Director (10%)**
Location	PAP
Main Output	**Provision of strategic direction to the enterprise program**
Responsibilities	Provide oversight and institutional leadership to program
Qualifications	✵ Extensive development and management experience w/ Save the Children ✵ Master's Degree 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 trans formation. ✵ Monitor, evaluate, and report progress on project activities to project partners and ASSIST.
Qualifications	✵ Private-sector experience ✵ 5+ years of experience in BDS (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 NGO 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

> "Every successful enterprise requires a dreamer, a businessman, and a tyrant."
>
> — *Peter McArthur*

"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, like marketing and sales or production and inventory. Or the enterprise might hire a part-time manager. Every social enterprise needs a general (business) manager to oversee 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 or directors. The PVO and implementing organization often provide leadership to the social enterprise during the intervention period; this structure may or may not continue, depending on the implementing organization's exit strategy (see chapter 9). Optimally, the enterprise's leadership should be made up of its own staff and directed by a board and eventually shareholders.

A Note on Job Sharing

As a result of limited resources, many development 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. 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 NGO is a single-focus (business) organization, rarely does it warehouse all the appropriate business skills for a social enterprise. Check the motivations of partners that want to put partner staff in the enterprise program and be sure they are consistent with your objectives. Staff development and capacity building are integral to social enterprise interventions, 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.

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.

Determining Enterprise Staffing Needs

Step 1: Responsibilities of Enterprise Staff

▲ Return to your Enterprise Actors Chart. Review the major responsibilities of the enterprise's and/or implementing organization's staff (see exhibit 7B).

Step 2: Identifying Individual Positions

▲ 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 appendix 7-1.

▲ 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/Production section 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"
- Include both line management positions and functional staff.

▲ Look for this icon: 🚶

▲ 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, like 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 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?

Executive

▲ Who provides the leadership for the social enterprise (board of directors, partner senior management, lead organization, or executive body at the enterprise level)? What are the implications for human resources of using this leadership structure (paid staff positions, time of project, etc.)?

Enterprise Staff Plan is included in the Business Plan.

EXHIBIT 7H: HUMAN RESOURCE CHART FOR TARTINA ENTERPRISE

Staff Needs	#	Time on Project	In-house	To Hire	Partner Staff
PVO Field Office Staff (SC/Haiti)					
Country Director	1	10%	✔		
Program Manager	1	25%	✔		
Director of Finance	1	15%	✔		
Business Advisor	1	100%	✔		
General Management					
(TARTINA or ADE)					
Business Manager	1	50%	✔		
Financial Director	1	30%	✔		✔
HR Director	1	25%	✔		✔
Admin. & Support					
Accountant	1	100%	✔		
Secretary	1	40%	✔		✔
Driver	1	100%	✔		
Security guards	2	100%	✔		
Marketing	1				
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	

RECRUITMENT

> "The question 'who ought to be boss?' is like asking, 'who ought to be the tenor in the quartet?' Obviously, the person who can sing tenor."
>
> — *Henry Ford*

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 *Working Capital*, refers to the quintessential social enterprise (microfinance institution) 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 (PVOs) 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 practitioners. 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 local capacity building. Since social enterprises are development interventions destined to become sustainable local businesses, questions arise regarding the role of the lead 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 microentrepreneurs from your target population. In BDS little attention has been given to qualifying those we endeavor to help, whereas in microfinance programs entrepreneurs 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 the preface). Initially, microentrepreneurs 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 for the shift to standardize TARTINA products. TARTINA learned that "entrepreneurial traits," or the willingness 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 like on-time delivery, dependability, or product consistency or quality. *Setting selection criteria also helps guide your capacity-building agenda.*

TARTINA production agents and workers (microentrepreneurs) 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 71: 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 transformation. 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 education or pervious 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.	Retail store or chain; 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 microentrepreneurs). No formal education or literacy required.	Local community 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.

Planning Recruitment

Step 1: Enterprise Staff

- ▲ 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

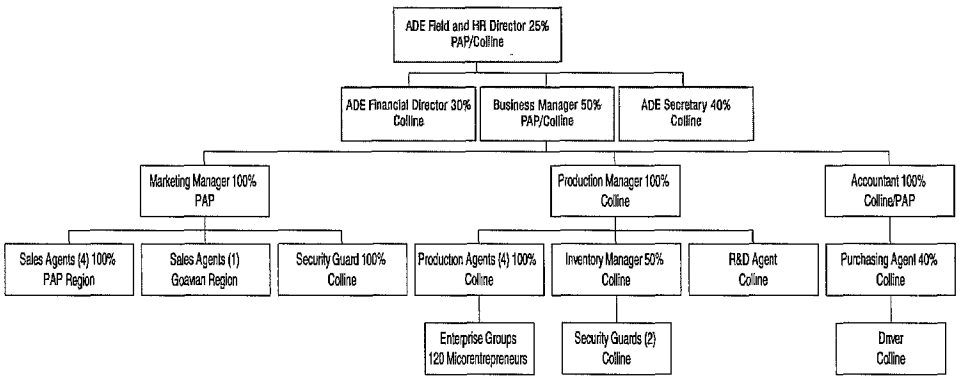
- ▲ Develop basic selection criteria for your target population.
- ▲ Also develop screening procedures: Who will be responsible for selecting members of the target population to participate in the enterprise, and what process will be used?

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 NGO and the enterprise program. 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 NGO (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 mangers 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.

Preparing an Organizational Chart

▲ Prepare an organizational chart (see 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.

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?

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 busi ness 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 WMEN Project Strategic Team meetings and in weekly operational meetings as required. ✵ 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 the MEs; collection, storage, and conservation of raw materials; prod uct 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 MEs. ✵ 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 MEs' capacity to prepare high-quality products at maximum productivity levels**
Compensation Scheme	✵ Base salary + performance-based bonus system

Incentive Programs

> "Money is a terrible master, but an excellent servant."
>
> — *P.T. Barnum*

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 PVOs and NGOs 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. (see exhibit 7M and 7L). 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.

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. ($)
- ▲ Refer to exhibits 7L and 7M for guidance or inspiration.
- ▲ Fashion a nonfinancial incentive program. What incentives will you use to motivate employees? What are the associated costs? ($) Who will benefit from the program?

Information on Incentive Programs is included in the Business Plan.

Exhibit 7L: 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	None Bonuses to trainer	Agent in Training	$200/mo.	Bonuses to Trainer

Exhibit 7M: Financial Incentive Program for Microentrepreneurs

Monthly Incentives for Year	1	2	3	4	5	6	7
Base Labor	$25	$26	$27	$28	$29	$30	$31
Piece Rate	$42	$47	$51	$57	$62	$68	$75
Total revenue per ME	$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.

> "Success in business requires training and discipline and hard work. But if you're not frightened by these things, the opportunities are just as great as they ever were."
>
> — *David Rockefeller*

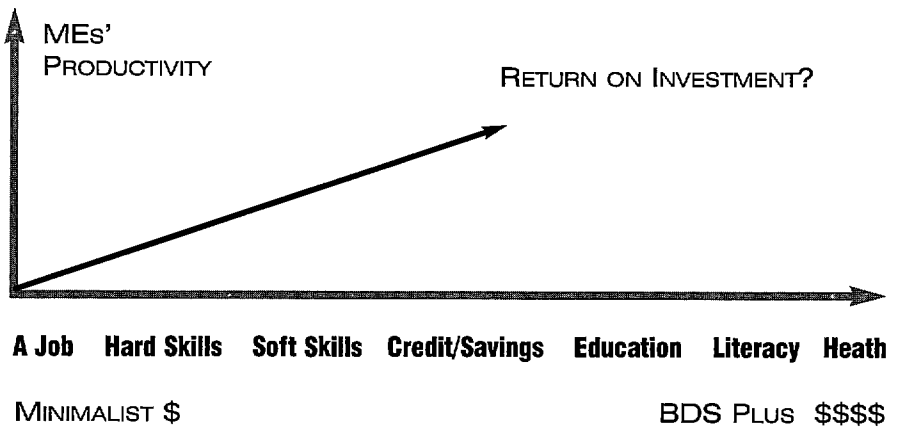
The goal is to create a local business that can compete effectively in the marketplace. This is done with external technical and financial support warranted by the decision to work with a particular target population—poor microentrepreneurs—and to establish a venture in the difficult context of a developing country through an inexperienced local partner. These characteristics are what ultimately set a social enterprise apart from private business, making it a so-called intervention. Capacity building is needed to overcome these obstacles—or "competitive disadvantages"—so that the social enterprise can become viable and continue to serve the target population over the long term. Capacity building should therefore be considered an investment that renders a net benefit to the enterprise (exhibit 7N). The challenge is to determine at which point the return becomes negative.

The mission and objectives 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 local partner, and the target population? SC created a **Capacity-Building Plan** (see exhibit 7P) 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—microentrepreneurs—*"increased economic opportunities and income"* are the direct result of job creation and skills training.

Treatment of Capacity Building in This Manual

Numerous excellent approaches to institutional development, or capacity building, have been developed, tested, and documented by BDS practitioners. For this reason, we barely scratch the surface of this subject here. If your enterprise has heavy capacity-building needs—and particularly if you are working through a local NGO partner—we suggest you augment the business planning materials in this manual with additional resources.

EXHIBIT 7N: CAPACITY-BUILDING INVESTMENTS



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.

EXHIBIT 7P: CAPACITY-BUILDING PLAN FOR TARTINA 1999-2000[1]

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 MEs	Production agents	Two-day "training-of-trainers" (TOT) **training**	SC/Haiti
Production	New product (sweet 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

[1]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.

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 local intermediary staff?

▲ The lead 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 development 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 lead organization, implementing partner, and enterprise staff?

- To take an internal inventory, list all social enterprise participants (lead 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

▲ Develop your capacity-building plan; use **SC's Capacity-Building Plan for TARTINA**, exhibit 7P, 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" (see exhibit 7C). Other training must be conducted by external professionals.

Rationale:

Training needs to be well defined, well targeted and followed up on.

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 **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 7Q and 7R):

- The objective of the training
- Who it is for (the participants)
- Approximate date of the training
- Who will provide the training (internal or external)
- The estimated costs
- The 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 year using a Gantt chart.

Training plan for enterprise and partnership staff is included in the Business Plan.

EXHIBIT 7Q: TARTINA INTERNAL TRAINING

Training Topic: Training of Trainers (TOT)

Participants: Production agents

Date: July 1999

Objective: *Production agents will learn techniques to transfer food transformation knowledge to the MEs.*

Provided by: This TA will be provided by SC/Haiti.

Cost: No additional moneys required.

Follow-up: A regular training/teaching program will be initiated and supervised by the TARTINA Production Manager to reinforce TOT training.

EXHIBIT 7R: 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 moneys 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 lead 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.

Planning External Assistance

▲ Segregate external technical assistance activities from your **Capacity-Building Plan**; our example shows TA for production, marketing, and finance.

▲ Write terms of reference 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 7S and 7T) for illustration.

Technical Assistance Plans are included in the Business Plan.

EXHIBIT 7S: TERMS OF REFERENCE FOR EXTERNAL TECHNICAL ASSISTANCE

Type of TA	Food transformation
Specific Area	Product development (all peanut-based products)
Scope of Work	✵ **Improvement of peanut storage and conservation.** Peanuts are sea sonal crops in Haiti. To be able to produce peanut-based products year-round, the enterprise last year stored peanuts during the off-sea son. Unfortunately, 30 percent of the stored peanuts were lost during the year as a result of inadequate storing 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 high est 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.

Exhibit 7T: Terms of Reference for External Technical Assistance

Type of TA	Food transformation
Specific Area	Product development (sweetened peanut-based products)
Scope of Work	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. As well, 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.

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 7N) 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" like production methods, bookkeeping, sales methods, use of new equipment, etc.? Maybe you will incorporate "soft skills" training into your program, such as teaching microentrepreneurs 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 7U: 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	MEs assuming risk of raw materials purchasing	No
Literacy	Literacy program linkage	Literate MEs 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.

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 7U 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.

▲ 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 7V).

▲ 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 7V: TARTINA HUMAN RESOURCE BUDGET

Staff Needs	Time on Project	Amount[2]
PVO Field Office Staff		
Country Director	10%	
Program Manager	50%	
Director of Finance	15%	
Business Advisor	100%	
Management (TARTINA, ADE)		
Business Manager	50%	
Financial Director	30%	
HR Director	25%	
Admin. & Support		
Accountant	100%	
Secretary	40%	
Driver	100%	
Security guards	100%	
Marketing		
Marketing Manager	100%	
Sales agents	100%	
Production		
Production Manager	100%	
Inventory Manager	50%	
Production agents	100%	
Purchasing Agent	40%	
Logistics	60%	
Production workers	25% - 100%	
R&D	50%	
Incentives		
Bonuses, commissions, profit sharing		
Nonfinancial incentive programs		
Training		
In-house training		
External training		
Technical Assistance		
In-house training		
External training		

[2] Specific information on TARTINA Enterprise and Save the Children/Haiti salaries is not given to protect individuals' privacy. Salaries include benefits.

The Financial Plan

Chapter 8

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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*

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.

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**. Also discussed are social enterprise **cost structures** and how they differ from those in private businesses and why.

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.

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 (see 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 (see exhibit 8A). Other objectives stated in the financial plan support attaining these larger objectives by giving enterprise management and PVO 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 lead organization, or PVO and the implementing NGO (see 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* - expenses	Public donors PVO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Cost Efficiency	Ability of enterprise to render services at a decreasing cost over time	$ = Expenses/# of MEs	Public donors PVO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Average ME Revenue	Ability of enterprise to generate increasing revenues per ME over time	$ = Gross income/# of MEs	Public donors PVO Business Advisor Enterprise Manager	Quarterly Annually	Profit/loss statement
Net Profit/Loss	Enterprise's progress toward financial viability	$ = Enterprise gross income - expenses	Shareholders Public donors PVO 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 - cost of goods sold)/sales	Enterprise Manager	Quarterly Annually	Profit/loss statement
Budget Expenditure Pattern	Enterprise's implementation of activities as planned	% = Actual expenses/planned budgeted expenses	Public donors PVO Business Advisor Enterprise Manager	Quarterly Annually	Budget Profit/loss statement
Entrepreneur's Profit	$ that individual MEs earn	$ = Individual ME gross income - individual ME expenses	Entrepreneurs	Weekly Monthly	ME's financial records
Return on Equity (ROE)	Ability of enterprise to generate sufficient income to be a worthwhile investment	% = Net profit/owner's equity	Shareholders Public donors Enterprise Manager Entrepreneurs	Quarterly Annually	Profit/loss statement Balance sheet

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.

Gross income - all revenue before deduction of any expenses.

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/ *liabilities* to be paid within one year	Shareholders PVO 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/current liabilities	Shareholders PVO 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 - last year's (month's, quarter's) sales/last year's (month's, quarter's) sales	Shareholders PVO 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/sales) x # of days in the reporting period (year, month, etc.)	PVO 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/COGS) x # of days in the reporting period (year, month, etc.)	PVO Business Advisor Enterprise Manager	Quarterly Annually	Balance sheet Profit/loss statement

Accounts receivable - money due from customers for products or services sold.

Accounts receivable collection period - average 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.

Inventory supply ratio - the number of days the inventory will last given the rate of sales.

Assets - items owned by a company that are expected to generate cash. Examples include accounts receivable, inventory, and equipment.

Liabilities - debts, or the obligations of a company to pay money to others (creditors, suppliers, payroll, etc.).

Setting Targets for Each Financial Objective

> "At too many companies, the boss shoots the arrow of managerial performance and then hastily paints the bull's-eye around the spot where it landed."
>
> —*Warren Buffet*

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 expense	$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

Explanation on 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 "roll these up" to the financial target. Evaluate this target. Is it achievable for the time period specified? (See 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. Roll them up to 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 five to seven years. BDS practitioners define financial viability in a variety of ways. For our purposes, 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 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 concur with 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 7 percent is set for the first year of operation (see exhibit 8C).

EXHIBIT 8C

Year	1	2	3	4	5	6	7
Cost recovery	7%	17%	34%	51%	71%	96%	127%

TARTINA microentrepreneurs wash up before beginning production shift.

EXHIBIT 8D: HINTS FOR SETTING TARGETS

Financial Objective*	Guidelines for Setting	Targets Over Time the Target Should ...
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.
Entrepreneur's Profit	Equal to or greater than what ME 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 - measures the ability of the social enterprise to meet its short-term cash requirements. It is calculated as follows: X = total of assets able to be converted into cash within one year divided by liabilities to be paid within one year.

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 microentrepreneur* 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 (see chapter 1, Business Plan Framework, exhibit 1D).
- ▲ Begin by projecting the financial viability of your social enterprise; at what point in time will this occur?
- ▲ Using 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.

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. You may find that the time, energy, and resources required to measure the financial objectives are not worth it.
- ✹ 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 (see 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.

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 implies extra costs associated with training people and working in difficult developing-country environments. We refer to these as the "comparative disadvantages" of social businesses. Viability, however, 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 costs before they break even.

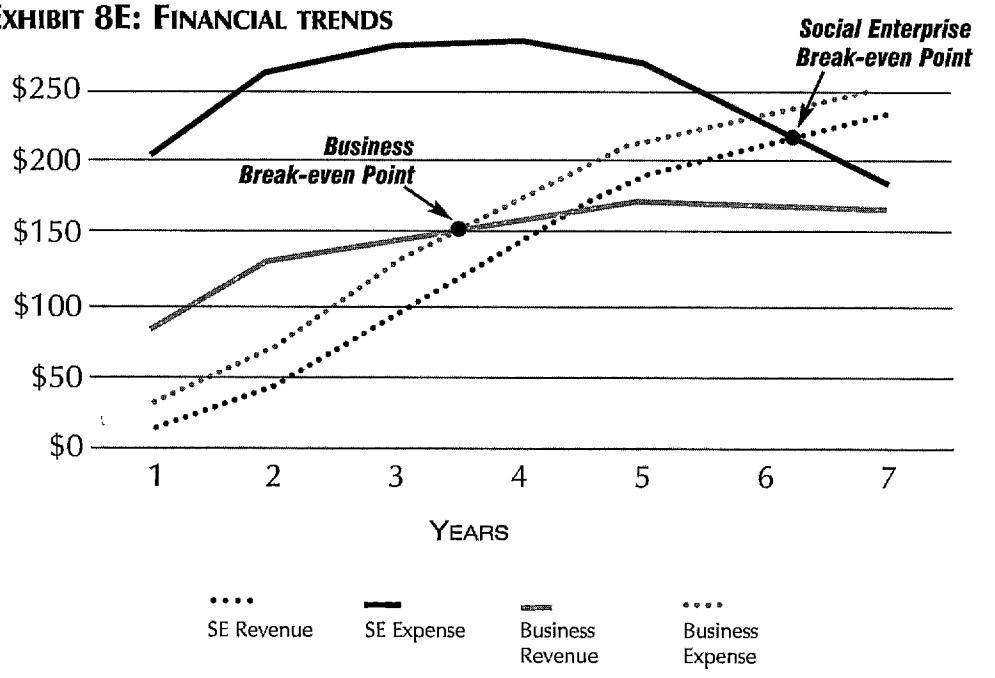
As development practitioners can attest, capacity building per se is hard to account for. PVO and NGO professionals have tried various methods to quantify capacity building, including logging numbers of people trained or documenting skills development. Save the Children's view is that capacity is the 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.

It is important to watch these trends closely; they can act as a warning system and flag a problem endemic among NGO and PVO 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 ten 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



Projecting Financial Trends

▲ Using the graphics feature in a spreadsheet program, project the trend lines of your financial targets and objectives.

Social enterprise trend projections are included in the Business Plan.

> "Invest in inflation. It is the only thing going up."
>
> — *Will Rogers*

Investment: Subsidies

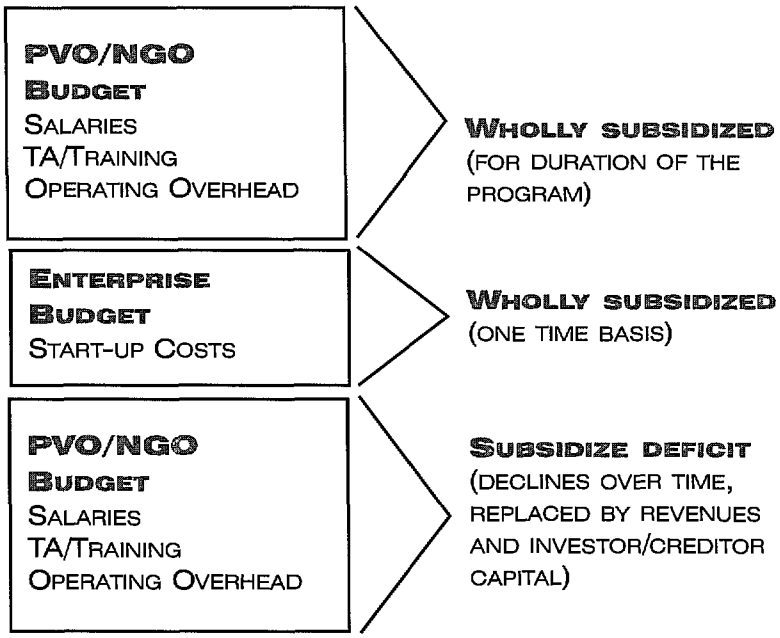
In the private sector, subsidies to a business are called investments, for which investors expect a return on their money. Like investments, subsidies to social enterprises are only warranted if their costs can be justified. Simply put, will they realize a return? Subsidies represent a real cost, so you are accountable to your donors to demonstrate the eventual break-even point that will ensure their investment does not merely represent a several hundred thousand dollar injection into the local economy. In short, you must show that you are not wasting their money. When investors are dissatisfied with a business' performance, they withdraw their support, evoking the proverbial "survival of the fittest" in the business world. By the same count, this autoregulation of social enterprise programs is the power of the donor to pull the plug if your program is underperforming.

Which costs should you subsidize and which ones should you try to cover? Depending on the structure of your organization, and the requirements by your donors for funding, you will need to decide how to treat certain costs. For example, Save the Children segregates its field office and headquarters costs, considering them a temporary but necessary expense to finance social enterprise capacity building. We assume that these costs will be fully subsidized for the funding cycle of the program. Additionally, start-up costs of initial fixed assets are subsidized. Operating deficits are then subsidized on a declining basis to fill the gap between revenues and capacity-building expenses. Unlike a private business that may borrow funds or use venture capital to finance operating or fixed costs prior to breaking even, social enterprises are not required to recuperate these costs and reimburse donors.

Exhibit 8F 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).

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.

Exhibit 8F: Social Enterprise Program Cost Structures



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 are contributed to a revolving loan fund, savings accounts, or insurance schemes for the microentrepreneurs operated by the social enterprise.

After viability is achieved:

- Use revenues to finance the expansion phase of the social enterprise (after achievement of financial viability).
- 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.
- Return all revenues to the donor.

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 was 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.

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).

Financial Tools

"Never ask of money spent
Where the spender thinks it went
Nobody was ever meant
To remember or invent
What he did with every cent."

— *Robert Frost*

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.

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 (see exhibit 8H). Without these tools,

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.

you will not be able to prepare the enterprise's financial targets or measure its progress against these targets. Exhibit 8G gives an overview of the purpose, time frame, and main users for each financial tool.

EXHIBIT 8G

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 PVO 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 PVO Business Advisor Enterprise Manager
Budget	All of the expenses of the social enterprise (profit/loss statement) and all relevant expenses of the PVO	Annually	Quarterly Annually	Public donors PVO 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	PVO Business Advisor Enterprise Manager

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 owners equity, net worth is equal to assets less 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 formas budgets and financial statements estimate business performance results based on certain assumptions.

Exhibit 8H: Interrelationship Between Financial Statements for Social Enterprises[1]

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**
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.

[1]Adapted from Bandler, James. 1994. *How to Use Financial Statements: A Guide to Understanding the Numbers.* New York: McGraw-Hill.

- **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.

- **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.** 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 NGOs/PVOs 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.

Let Technology Be Your Friend

> "A computer does not substitute for judgment any more than a pencil substitutes for literacy. But writing without a pencil is no particular advantage."
>
> — *Robert McNamara*

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 it 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 nonrofits 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).

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 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.

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.

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 81 shows how the information you compiled earlier will be used to prepare your financial statements and budget.

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.

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*.

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.

EXHIBIT 81: FINANCIAL INFORMATION FLOWS

Information Used in Financial Plan	Represented in Financial Statements	Line Items
Strategic Frameworks, Chapter 4		
Seasonal Factors	Cash flow projections	Sales, COGS, operating expenses
	Profit/loss statement	COGS, sales, marketing
Financial Characteristics	Cash flow projections	Sales, returns, COGS, commissions, salaries
	Profit/loss statement	Sales, COGS, operating expenses
	Break-even	Sales price (not a line item)
Marketing, Chapter 5		
Marketing Vehicles	Cash flow projections	Operating expenses
	Profit/loss statement	Marketing and advertising
	Marketing budget	All—related to promotion
Marketing Tactics	Cash flow projections	Operating expenses
	Profit/loss statement	Marketing and advertising
	Marketing budget	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	Operating expenses, other expense
	Balance sheet	Fixed assets, depreciation
	Social enterprise budget	Rent, building maintenance
Production	Profit/loss statement	COGS (inventory), salaries, benefits, payroll tax
	Cash flow projections	Operating expense
	Production budget	All production expenses
	Break-even	Variable & fixed costs of production
	Social enterprise budget	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

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

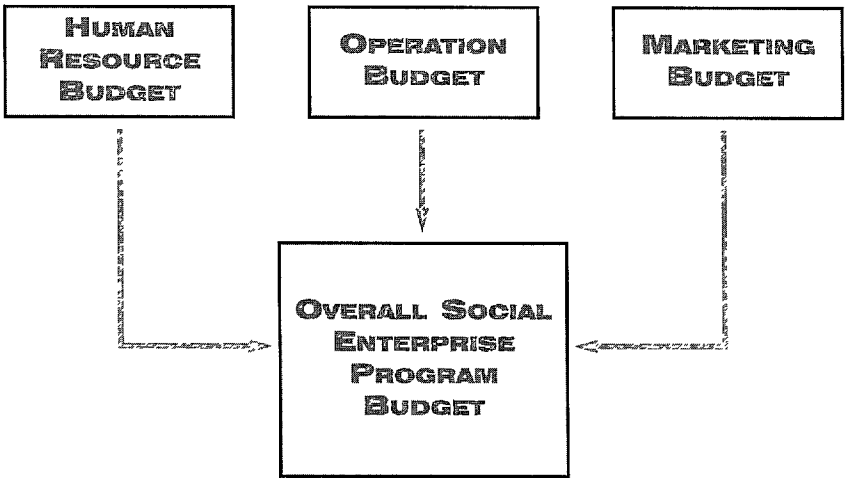
Budget

> "The only good budget is a balanced budget."
>
> — *Adam Smith*

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 PVO 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 (see exhibit 8I and 8J). What has not been discussed in detail—other than PVO salaries in the human resource chapter—is the lead organization's or PVO's budget for staff, capacity building, and overhead as well as social enterprise operating overhead.

Exhibit 8J: 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 in exhibit 8K as a guide to projecting start-up costs for your social enterprise. You may duplicate or photocopy this chart, adding addition line items or omitting them as they pertain to your business.

Start-up cost projections are included in the Business Plan.

Exhibit 8K: Projected Enterprise Start-up Costs

		Amount
Facilities	First rent/purchase	
	Deposits (security, water, utility, other hookups)	
	Improvements/refurbishing/fixtures	
	Other	
Equipment	Vehicles	
	Production machines/equipment	
	Computers/software	
	Furniture	
	Telephones	
	Other	
Materials/Supplies	Starting inventory (or raw materials/work in progress)	
	Production inputs	
	Office and packing supplies	
	Promotional materials (brochures, displays, etc.)	
	Training supplies	
	Other	
Professional Services and Fees	Legal (tax, etc.)	
	Management/marketing/production consultants	
	Accounting	
	Insurance	
	Design/graphic arts	
	Promotion and advertising	
	Licenses/permits/registration	
	Membership or association fees	
Pre-operations Training	Technical assistance or training consultants	
	Tuition or fees (workshops, seminars, classes, etc.)	
	Per diem and costs associated with training (room rental)	
	Other	
Cash (First 30 Days)	For salaries (first month)	
	Reserves—operating expenses	
	Reserves—unanticipated costs	
	Other	
Total Start-up Costs		

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 8L provides an example of a one-year budget for TARTINA Enterprise.

Exhibit 8L: TARTINA BUDGET: April 1999—April 2000

		$ Amount[1]	Q1	Q2	Q3	Q4
I - PERSONNEL						
Salaries						
Field/HR Manager	25%	3,939				
Production Manager	100%	5,909				
Business Manager	50%	15,758				
Marketing Manager	100%	15,758				
Financial Manager	30%	2,955				
Accountant	100%	5,909				
Inventory Manager	50%	1,891				
Production agents	100%	7,879				
Production agents	100%	4,727				
Secretary	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	100%	3,939				
Assets:						
Motorcycle & Accessories	100%	6,000				
Production Equipment	100%	4,000				
Grinder (for sweetened peanut butter)	100%	970				
Peanut Storage Instruments:						
Humidity Meter	100%	400				
Thermometer	100%	200				
Fan	100%	1,000				

[1]Values given in US dollars

			Q1	Q2	Q3	Q4
Insecticide	100%	551				
Grinder Maintenance	100%	121				
Building Maintenance	100%	1,970				
Vehicle Depreciation	100%	5,000				
Vehicle Maintenance	100%	394				
Fuel	100%	1,182				
Travel	100%	788				
Office Supplies	100%	788				
Training Materials	100%	1,182				
Technical Assistance:						
Consultants in Production Technique	100%	5,666				
Materials (for study on improving raw materials production & quality)	100%	1,500				
Research & Development	100%	1,300				
Miscellaneous Expenses	100%	1,450				
TOTAL OPERATING COSTS		**$38,400**				
III - MARKETING COSTS						
Promotion and advertising	100%	***$10,145***				
Sale Agents: Base Salary						
3 agents x 1 month x Gdes 3000	100%	545				
3 agents x 2 months x Gdes 3000 x 1/2	50%	545				
3 agents x 10 mos. x Gdes 3000 x 1/2	25%	1,363				
PAP/Institutional Sales Agent	100%	2,364				
PG/Sales Agent	100%	1,182				
Subtotal Base Salary		***$5,999***				
Commission						
Mamba (18300 Jrs x Gdes 25) x 15%	15%	4,159				
Chadèque (12600 Jrs x Gdes 26) x 15%	15%	2,978				
Grenadia (1200 Jrs x Gdes 30) x 15%	15%	327				
Karapinia (8500 scs x Gdes 5) x 15%	15%	386				
Subtotal Commission		***$7,851***				
Total Sale Agents		***$13,850***				
TOTAL MARKETING COSTS		**$23,995**				
SUBGRANT		**$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.

Lead 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 PVO or other lead organization that will be providing technical support and acting as a financial conduit. Exhibit 8M 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 8M: Save the Children Social Enterprise Program Budget April 1999—April 2000

I - Salaries + Fringe		Amount[2]	Q1	Q2	Q3	Q4	Y-T-D
Headquarters:							
Technical Advisor	10%						
Field Based:							
Country Director	10%						
Business Advisor	100%						
Marketing Manager	100%						
National Staff:							
Field and HR Manager	25%						
Financial Director	15%						
Driver	25%						
Travel:							
Domestic							
International							
Overhead:							
Rent (based on space allocation)							
Utilities							
Building maintenance							
Computer + office equipment							

[2]SC salaries are withheld for reasons of privacy.

		Amount	Q1	Q2	Q3	Q4	Y-T-D
Equipment maintenance							
Office supplies							
Assets less than $5,000							
Vehicle (fuel/maintenance)							
Telecommunications							
Postage							
Miscellaneous							
Technical Assistance:							
Training materials							
Installation of MIS							
Marketing training							
Quality control program							
Business management							
Food/production technology Program							
Market research program							
Consultants							
TOTAL SC EXPENSES							

Preparing the Lead Organization (PVO) Budget

- ▲ Follow the instructions for preparing a social enterprise budget (previous section).
- ▲ You can photocopy the TARTINA example in exhibit 8M to use as a template or for reference.
- ▲ Lead organization budgets are not included in the social enterprise business plan.

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 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 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 - expenses of running a business as opposed to those directly allocated to the cost of making a product or rendering a service.

EXHIBIT 8N: PROFIT AND LOSS STATEMENT EXPLAINED

INCOME	
1. Gross sales	Total sales from product/service line categories.
2. Less: Returns and allowances	Products returned; credit or discounts given to customers.
3. Net sales	(1 minus 2) Total sales minus returns and allowances.
Costs of Goods Sold	
4. Beginning inventory	Finished goods inventory on hand at the beginning of the period.
5. 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).
6. Costs of goods available for sale	(4 plus 5) Total costs of all goods for sale.
7. Less: Ending inventory	Actual value of inventory left on hand at end of period.
8. Costs of goods sold	Costs of inventory sold during an accounting period that includes the expenses incurred to make a product.
9. Other income	Revenues not associated with product or service "sales" such as rental, commissions, interest income, services that are not included in sales.

10. Gross profit	(3 minus 9) 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	
11. Salaries	Salaries of management and administrative staff not directly connected to production.
12. Employee benefits	Paid vacation and leave, health insurance, 13th month, etc.
13. Payroll taxes	Self-explanatory (laws are country specific).
14. Rent	Non-factory real-estate expenses—rent or mortgage payments.
15. Repairs & maintenance	Cleaning services, repairs to property.
16. Equipment rental	Leased equipment for nonproduction usage.
17. Furniture and equipment purchase	Self-explanatory.
18. Vehicle(s)	Purchase (moped, truck, car, etc.), mileage.
19. Vehicle maintenance & repairs	Service and repairs.
20. Depreciation	Value of fixed assets (depreciation).
21. Insurance	Liability, vehicle, theft, fire, equipment, etc.
22. Interest expense	Interest owed on borrowed capital.
23. Utilities	Water, heat, power, light not used in production.
24. Telephone	Self-explanatory.
25. Office supplies	Usual business supplies (pens, staplers, paper, white boards, etc.) as opposed to production inputs.
26. Dues, subscriptions, licenses	Membership dues for affiliations or trade associations; fees for operating/product licenses, trademarks, or patents.
27. Training materials + services	Supplies and materials; contracted technical assistance.
28. Postage and freight	Self-explanatory.
29. Marketing and promotion	Advertising, design, premiums, samples, displays,etc.
30. Sales commission	Self-explanatory plus bonuses.
31. Legal and professional services	Any nontraining outside services (attorneys, consult ants, auditors, accountants, technical specialists, etc.).
32. Travel	Self-explanatory.
33. Miscellaneous	Self-explanatory.
34. Other	Additional category pertinent to enterprise, but not captured in itemized list.
35. Total Operating Expenses	(sum of 11 through 34) All operating expenses.
36. Net profit/loss before tax	(10 minus 35)
37. Provision for taxes	Tax on profits. Country-specific requirements often related to legal status of enterprise (see chapter 9).
38. NET PROFIT/LOSS (from operations)	(36 minus 37) The "bottom line"—how much the social enterprise is either earning or losing from operations.
39. SUBSIDY	Income from government and foundation grants or private funds.
TOTAL NET PROFIT/LOSS (after subsidy)	(38 plus 39)

Preparing the Profit and Loss Statement

- ▲ Include the participation of qualified staff accountants and the financial manager or director when preparing profit and loss projections.
- ▲ Use the explanation of the profit and loss statement in exhibit 8N for reference and use additional financial and accounting resources as desired.
- ▲ Prepare a projected (pro forma) profit and loss statement for one year, and include empty columns to reconcile actual balance sheet assets, liabilities, and net worth. Copy our example or use a standard Profit and Loss Statement Template, which can be found in any accounting book.
- ▲ Be sure to list the assumptions behind your profit and loss projections.

The profit and loss statement is included in the Business Plan.

EXHIBIT 8P

TARTINA Profit and Loss Statement	Projections (in $) Year 1	ACTUALS 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					
Total Operating Expenses	**$62,395**					
Total Operating Costs	**$146,729**					
NET PROFIT/LOSS	**($131,807)**					

Results: *Comparing TARTINA's projected net loss with its financial objectives for profit/loss (exhibit 8B), we see the relationship between the profit and loss statement and financial objectives. The total projected expenses are $205,000, which includes costs of goods sold of $58,271 plus operating expenses of $146,729. Therefore, total expenses including production are slightly more than the projected $190,000 at $190,078, after deductions for sales of $14,922, just shy of $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.

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 (see exhibit 8Q). Analyzing the changes in the balance sheet over several reporting periods informs enterprise trends.

EXHIBIT 8Q: 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 pur chase 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 deprecation	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 has 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.

Amortization - costs of an intangible asset are allocated of 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.[3]
Donor contributions	Donor grants or private NGO/PVO funds used to subsidize operations.
Owner contributions	NGO/PVO 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[4] and reinvested (for profit).
Net surplus/(deficit)	Amount of income (or loss) generated in the current year[5].
TOTAL NET WORTH	Total value of the enterprise.

Preparing a Social Enterprise Balance Sheet

- ▲ Include the participation of qualified staff accountants and a financial manager or director when preparing balance sheet projections.
- ▲ Use the balance sheet explanations in exhibit 8Q for reference and additional financial and accounting resources as required.
- ▲ Prepare a projected (pro forma) balance sheet for one year, and include empty columns to reconcile actual balance sheet assets, liabilities, and net worth. Copy our example or use a standard Balance Sheet Template, which can be found in any accounting book.
- ▲ Be sure to list the assumptions behind your balance sheet projections.

The balance sheet is included in the Business Plan.

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[3]Adapted from SEEP Network Financial Services Working Group. 1995. *Financial Ratio Analysis of Microfinance Institutions.* New York: Pact Publications.
[4]Ibid.
[5]Ibid.

EXHIBIT 8R

TARTINA Projected Balance Sheet	Projections Year 1	Q1	Q2	Q3	Q4	Y-T-D
ASSETS						
Current Assets						
Cash on Hand	$7,482					
Savings Account						
Accounts Receivable	15,742					
Inventory						
Raw Materials	1,950					
Finished Products	9,276					
Total Current Assets	34,450					
Fixed Assets						
Property, Plant, Equipment	23,524					
Office Equipment	3,351					
Land and Buildings	5,500					
Vehicles	24,000					
Less Accumulated Depreciation	(526)					
Total Fixed Assets	55,849					
TOTAL ASSETS	**$90,299**					
LIABILITIES						
Current Liabilities						
Accounts Payable	10,114					
Accrued Payroll	6,487					
Short-Term Notes Payable	1,738					
Noncurrent Liabilities	0					
Long-Term Notes Payable	0					
TOTAL LIABILITIES	18,339					
NET WORTH						
Reserves for Bad Debts	0					
Donor Contributions	203,767					
Retained Earnings (Losses)	0					
Net Surplus/Loss	(131,807)					
TOTAL NET WORTH	71,960					
TOTAL LIABILITIES & NET WORTH	**$ 90,299**					

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 the balance sheet equation at work.*

What Is Cash[6]?

Cash is ready money in the bank or in the business. It is not inventory, it is not accounts receivable (what you are owed), and it is not property. These might be converted to cash at some point in time, but it takes cash on hand or in the bank to pay suppliers, to pay the rent, and to meet the payroll. Profit growth does not necessarily mean more cash—as we will see.

A lesson that all entrepreneurs learn is the difference between profit and cash. Profit is the amount of money you expect to make if all customers paid on time and if your expenses were spread out evenly over the time period being measured. However, it is not your day-to-day reality. *Cash* is what you must have to keep the doors of your business open, while you are busy trying to make a *profit*. Over time, a company's profits are of little value if they are not accompanied by positive net cash flow. You can't spend *profit*; you can only spend cash.

Lack of liquidity can be a killer—even for profitable businesses. Lack of profits won't kill a business nearly as quickly as the lack of cash to pay your trade creditors. Remember, non-cash expenses such as depreciation can make your profits look negative, while your cash flow is positive. And you could also be showing a profit but have negative cash flow That's why it is essential that you understand how to use cash flow projections, and ***use them on a regular basis.***

[6]Excerpt from "The Importance of Cash Management," Women's Economic Self-sufficiency Team, Albuquerque, N.M.; Women's Initiative for Self Employment, San Francisco; and Charlotte Taylor, Venture Concepts, in association with New Jersey Association of Women Business Owners, Inc., June 1997.

Cash Flow Statement

Too often, financially viable businesses fail because of cash flow problems. 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 services. A cash flow statement shows all the inflows and outflows of cash based on when they actually occur. This financial tool is critical for forecasting potential cash shortages so that the social enterprise can make plans to address these shortages. Likewise, the cash flow statement 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.

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 for seasonal cycles;
- ▲ Properly plan equipment purchases for replacement or expansion;
- ▲ Prepare for adequate future financing and determine the type of financing you need (short-term credit line, permanent working capital, or long-term debt).

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 capital strategy to meet their business needs. (Exhibit 8S)

Exhibit 8S: Uses for Cash Flow Projections

Time Period	Purpose
Short term (monthly)	To determine short-term cash position To estimate working capital requirements To plan for short-term investments account
Annual	To determine amount of cash needed to run the business operations during the year To ascertain where the cash will come from To determine seasonal variations in cash flow To estimate annual borrowing requirements and the ability to make repayments
Three to five years	To support strategic planning. To determine long-term equity needs To estimate long-term borrowing requirements

To reach conclusions on the changes in cash, the type of cash is distinguished between that used for daily operations and that used for investment and financing.

- **Operating cash flow**—often referred to as working capital, this is the cash flow generated from internal operations, such as product or service sales or other revenues reflected in your income statement.
- **Investing cash flow**—generated internally from *nonoperating* activities, such as capital investments in plant and equipment or other fixed assets, and nonrecurring gains or losses.
- **Financing cash flow**—the cash *to and from* external sources, such as donors, lenders, investors, and shareholders. A subsidy or grant, a new loan, the repayment of a loan, and the payment of a dividend are some of the activities that would be included in this section of the cash flow statement.

Keys to Good Cash Management

Business analysts report that poor cash management is the major reason why most business fail. It would be more accurate to say that business failure is due to poor cash management.

Good cash management entails:[7]

- Knowing when, where, and how your cash needs will occur;
- Knowing what the best sources are for meeting additional cash needs; and
- Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors.

Preparing the Cash Flow Statement[8]

Preparing a cash flow projection is a something like preparing your budget and balancing your checkbook at the same time. Unlike the income statement, a cash flow statement deals only with actual cash transactions. Depreciation, a noncash transaction, does not appear on cash flow statements, whereas loan payments (both interest and principal) appear on cash flow statements, since they require the outlay of cash.

Cash is generated primarily by sales, but for most social enterprises, not all sales are cash sales. 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. Therefore, social enterprises need to use cash flow projections to estimate when credit sales will become cash in hand.

If you regularly prepare a monthly profit and loss statement, you will be aware that there are certain items that may not affect your profit and loss statement for some time, such as:

- A substantial increase in inventory purchases;
- An increase in accounts receivable (money owed to you by customers);
- A reduction of credit by suppliers;

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.

[7]Ibid.

[8]This section is adapted from "Preparing Your Cash Flow Statement," Women's Economic Self-sufficiency Team, Albuquerque, N.M.; and Charlotte Taylor, Venture Concepts, in association with New Jersey Association of Women Business Owners, Inc., June 1997; and "Cash Flow Worksheet," Women's Initiative for Self Employment, San Francisco, 1997.

- The purchase of equipment;
- The unrecognized obsolescence of inventory (stale/spoiled items);
- A funder's refusal to renew or extend a loan; and
- A lump sum payment of debt.

The cash flow statement details all the operating sources and uses of cash (cash revenues, purchases, salaries, rent, etc.), including those that do not show an immediate impact in the profit and loss statement. 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.

To determine **operating cash flow**, start with net income and add back expenses that did not result in inflows or outflows of cash. The most common noncash expense is depreciation. When working with historical figures, adjusting net income with depreciation and other noncash expenses is much simpler than determining all the revenues and expenses that provide or require funds.

Next, identify all the balance sheet accounts that are associated with operations and determine the *change* in the account from the end of the last period to the end of the current period. Operating cash flow includes all the balance sheet accounts that are a part of normal operations. Trade receivables and payables as well as accrued expenses, prepaid expenses, and other current assets that are a part of day-to-day operations are included in operating cash flow.

Operating Cash Flow Example
Net Income After Tax
Depreciation
Increase in Accounts Receivable
Increase in Inventory
Decrease in Accounts Payable
Increase in Accrued Expenses
Total Operating Cash Flow

The remaining balance sheet accounts are either **investing activities** or **financing activities.**

Investing activities typically include long-term assets used in the business:

Investing Cash Flow
Purchase of Equipment (Fixed Assets)
Decrease in Notes Receivable
Total Investing Cash Flow

The financing activities show where the money came from:

Financing Cash Flow
Increase in Long-Term Notes Payable
Increase in Term Loan
Conversion of Note to Shareholder to Paid in Capital
Total Financing Cash Flow

Once again, you determine the change in each balance sheet account from the beginning of the period to the end of the period, tally up the changes, and there you have it—a complete picture of the cash flow for your social enterprise.

TOTAL CASH FLOW
Cash at beginning of period
Cash at end of period

Making Cash Flow Projections

The level of detail needed in your cash flow projection will vary depending on the complexity of your business. 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.

▲ Locate the **Cash Flow Worksheet** in appendix 8-1.

Step 1:

▲ Determine operating cash flow.

▲ Start with net income and add back noncash items.
Determine the change in all balance sheet accounts associated with daily operations.

Step 2:

▲ Determine investing cash flow.

▲ Determine the change in all long-term assets of the business.

Step 3:

▲ Determine financing cash flow.

▲ Determine the change in all loans and equity accounts (exclusive of net income).

Step 4:

▲ Add the three components together to equal total cash flow.

Step 5:

▲ Add the cash balance at the beginning of the period, and you should get the cash balance at the end of the period. If not, you've made an error somewhere.

▲ Recheck your math and the +/– signs for each of the balance sheet changes.

The cash flow statement is included in the Business Plan.

EXHIBIT 8T

Explanation of TARTINA example: On the following pages is a cash flow statement for a 12-twelve 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 reflective of 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 containers and labels. This translated into cost savings for TARTINA.

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**

Chapter 8 The Business Plan

Risk/Sensitivity Analysis

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.

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 enterprise's strengths, and weaknesses of the business (see 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.

Preparing a Sensitivity Analysis

- ▲ 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, 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.?
- ▲ An explanation of how management plans to respond to certain risk exposure in a given industry, market, or strategic environment can strengthen a business plan by increasing the perception of the social enterprise management's credibility and capacity, but it is not required for a business plan.

Exit Plan

Chapter 9

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Chapter 9

"Know when to hold them, know when to fold them, know when to walk away and when to run."

— *Kenny Rogers, "The Gambler"*

Overview: Using the analogy of a business plan as a road map, the exit plan is the final destination of your social enterprise program. It embraces the vision of your social enterprise in concrete terms and defines what the enterprise will look like some years into the future. Donor-investors are particularly interested in this section of the business plan, as it demonstrates a consciousness of sustainable enterprise creation. A well-conceived exit plan conveys the "return on investment" donor-investors seek when they underwrite your program, including an assurance that the program will continue to exist after external funding has ceased.

In the past, program proposals evidenced sustainability using cost recovery projections and estimations of local management capacity. Today, we know that these alone are insufficient measures and that consideration must also be given to an enterprise's legal structure and ownership. Save the Children has often found these issues to be sticking points, yet they are critical components of a social enterprise's long-term viability and therefore must be entertained at the program's inception. At the time of this writing, SC is in the midst of formally addressing these issues institutionally, so we do not have an example from TARTINA to illustrate the exit process.

This chapter explores different **business models** and **exit plan options** that a social enterprise program might employ according to its **long-term goals**. This portion of the business plan should be prepared by all key enterprise stakeholders.

Long-Term Goals

"Hitch your wagon to a star."

— *Ralph Waldo Emerson*

The long-term goals of your social enterprise surpass the time frame of the business plan to five, seven, or 10 years down the road. They essentially consist of the social enterprise's vision, developed in chapter 2. Vision statements, however, can be vague and may need to be rewritten so that they embody the vision in tangible terms. To develop its long-term goals, TARTINA reviewed its vision statement and asked what it meant in concrete terms.

"To develop the ***self-determination*** of a ***large group*** of ***disenfranchised microentrepreneurs***, mostly ***female***, 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 the families of the microentrepreneurs."

Key goals that the vision encapsulates are highlighted in bold. In exhibit 9A, TARTINA Enterprise's goals are defined along with their strategic implications.

EXHIBIT 9A: TARTINA'S LONG-TERM GOALS—SEVEN YEARS

Long-Term Goal	Definition	Strategic Implications
Self-determination for disenfranchised female microentrepreneurs	Income, a job, economic opportunities, transferable hard and soft skills for poor Haitian women	Social mission adherence Microentrepreneur equity
Large group	358+	Moderate growth
Rural Haiti	Serve nonurban areas	Rural manufacturing sites
Food transformation	Core business competency	Diversification in product line, not in type of business
Viable enterprise	A market-driven business, which at a minimum breaks even and is preferably profitable	Formalized business, private ownership, professional staff and management

Rationale:
Clarifying the social enterprise's long-term goals will help you understand their strategic implications for the future, which subsequently will guide the choices you make in your exit plan.

Setting Long-Term Goals

- ▲ Set the time frame for your long-term goals.
- ▲ Begin with your vision statement: Is it written in tangible terms that can be achieved in the time frame indicated?
- ▲ Highlight the key words in your vision statement, then define them. Definitions are encapsulated in the body of the business plan.
- ▲ What are the strategic implications of these goals?

Enterprise Models

> "The wise man understands equity; the small man understands only profits."
>
> — *Confucius*

The overriding precept of development professionals is to work their way out of a job, and the main goal of a social enterprise program is to create a viable local business that will continue to exist after external support ceases. This premise has implications for the type of business model the social enterprise program will develop into.

This section presupposes BDS program evolution to some form of a business NGO, social-purpose business, or socially responsible business. Exhibit 9B very generically outlines four types of enterprise models. Don't be alarmed if the characteristics of your social enterprise, or your vision for its future, doesn't fit these models in their entirety. There are many gray areas among enterprise models, depending on the type of business, the country context, and the long-term goals. Save the Children foresees its enterprise programs as falling somewhere between a business NGO and a social-purpose business.

Rationale:
Part of developing an exit plan is considering the type of model your enterprise program will become to be sustainable over the long term. Progression toward a particular business model should be apparent in various sections of the business plan before departure time is near, so planning at this stage is an invaluable exercise.

Exhibit 9B

	Program	Business NGO	Social-Purpose Business	Socially Responsible Business
Structure & Mission	A program of the local intermediary or lead organization (PVO). Mission is based on the organizational mission to help target population (i.e., poverty alleviation). Vision is often short term, not longer than life of funded project.	Legally registered as an NGO; single-focus organization committed to achieving social ends (i.e., economic opportunity) through business interventions. Often PVO created or identified as a local partner. Non-tax paying. Vision is longer term, not linked to funding cycle.	A business founded to meet profit goals in a manner that also contributes to public good. Bound by a social mission and forsakes business opportunities that deviate from mission. Can be structured as a private business or cooperative. May have started as a PVO program or partner. Pays taxes. Longer-term vision.	A private-sector business that has social concerns but whose overriding aim is to increase shareholder earnings. Social objectives may or may not be written into mission. Business strategy determined by market demands, curbed by social consciousness. Pays taxes. Open-ended vision to be profitable.

	Program	Business NGO	Social-Purpose Business	Socially Responsible Business
Ownership & Governance	PVO or implementing partner organization owns program and associated assets at the close of the program. Resources shared between implementing organization and enterprise program. Governance not a priority.	NGO owns business. Board of directors for the organization, usually with little real power. If started/ assisted by a PVO, final responsibility lies with PVO despite ownership.	Ownership may be multiple; flexibility to allocate ownership among PVO, NGO, MEs, and private sector. Accountable to governing board.	Privately or publicly held by shareholders. Ownership issues largely resolved by market forces. Shareholder governed.
Management & Staff	Program management mostly by staff internal to organization. Simple structure. Some staff may be externally recruited. Requires creativity, community organizing, logistic management. Staff remains close to operations.	Personnel are more specialized. Structure decentralized from lead organization. Innovative, technically skilled employees. Staff remains close to operations. Manages capital and social interest.	Highly entrepreneurial. Professional management and functional staff Strong technical and business skills. Manages investments, debt, and social interest.	Solid combination of entrepreneurship and professional management. Highly specialized and strong financial skills. Responsible for management of other people's money.
Operations	Puts social agenda in the forefront; led by mission, not by market. Highly participatory. Large part of operations capacity building and training. Measures social impact. Focuses on putting structure in place, developing internal controls. Often inefficient. Audits and evaluations as required by donor.	Business needs of poor central to core. Stays close to social mission; more accountability to financial bottom line than programs. Product driven. Measures social impact and business indicators. Large part of operations capacity building and training. Decision making is a participatory process. Low or appropriate technology. Increased efficiencies. Audits conducted by host organization.	Market led, but social costs are balanced. Marketing synergies. Products clearly defined; tests new product and market. Efficient operations. Integration of technology in business. Management facilitates participation but makes final decisions. Measures business impact, follows social change. Internal audit function in place.	Market led. Business diversifies/expands in response to customers' wants and market opportunities. Leverages social views in marketing. Success measured in financial terms. Highly efficient, sophisticated operations; may choose higher-cost processes that promote social ends. Full integration of high technology. External audits performed; regular internal audit functions. Management

	Program	Business NGO	Social-Purpose Business	Socially Responsible Business
Operations				decisions guided by market; decision making from top down.
Viability	Not viable in the long term. Requires continued financing. Cost recovery is often seen as a side benefit rather than an expectation of the program.	Strong cost recovery culture; capable of generating a profit above direct costs. High % cost recovery or financial viability expected over long term. Often cost structure is not sustainable. May share profit with target population or to cross subsidize programs.	Viability expected. May be slower to break even than private business because of operating with "comparative disadvantages." May use surplus revenue for social ends or distribute dividends.	Profitability expected. If business is unprofitable over time it will exit market. Profits retained to finance business growth and distributed to shareholders. May fund social programs directly or through foundation giving.
Financing	Grant and privately funded, mostly through centralized grants and organization project funds.	Grant funded, yet some investment is self-financed through cost recovery. Both central and local grants. Some access to soft loans. Long-term donor investing at a declining rate. Soft budget, bankruptcy difficult.	Access to soft loans as well as commercial capital. Equity and local investment play increasingly important roles. May have some access to donor funds for special programs. Capital needs for working capital, fixed assets.	Equity, venture capital, and commercial capital are main sources of financing. Very high capital needs for fixed assets and working capital.
Risk	Priorities jumbled between implementing organization and the enterprise program; mission confused; internal conflicts arise; can produce overall harmful effect on target population if program collapses or closes. May lead to poor assuming risk of weak program.	Structural ambiguity stifles enterprise growth. Difficulty accessing private financing. Risks myopia, loses sight of market, business prone to stagnation. May also go up market forsaking needs of target population to meet cost recovery objectives. Rigorous to manage business and grant. Heavy cost struc-	Danger of forsaking or compromising social mission because business decisions are made in reference to financial bottom line; legal constraints to NGO/PVO holding equity stakes; prone to internal disputes over how to distribute revenues between retained earnings, social programs, and divi-	Risks defined by ability to respond to market forces. Cause-related marketing tactics could exploit target population or backfire, causing loss in market share or sales. Overleveraging.

	Program	Business NGO	Social-Purpose Business	Socially Responsible Business
Risk		ture threatens viability. No shareholder accountability.	dends. Profit distribution to target population is good concept but difficult to achieve. Bankruptcy possible. Cash flow problems can occur.	
PVO Role	Integral role. Business program part of PVO program portfolio (includes working through local partner).	Technical assistance provider to NGO business; grant manager accountable to donor for targets.	Board member, shareholder, and periodically managing technical assistance. May partner to support new programs or short-term projects/events.	Recipient of company giving program or strategic ally for "cause-related" marketing campaign.

Identifying an Enterprise Model

- ▲ Using exhibit 9B as a guide, describe the characteristics of the business model your social enterprise program will become based on your vision and long-term goals.
- ▲ As well, consider new opportunities and threats in the operating environment (chapter 4) that may arise if your business model changes.

Exit Options

There are several different choices you can make when planning your divestment strategy (for a lead organization or implementing partner). Some overlap exists among them, and exit options may also be combined to form a two- or three-step process. For example, you might transfer ownership to the local implementing partner, then help it devise a strategy to spin off the business entirely or sell it to a private company, as is the case with TARTINA Enterprise.

Rationale:
The type of exit strategy you choose is based on many factors: (1) the social enterprise vision; (2) the culture and priorities of your organization (whether lead or implementing partner); (3) perspectives, desires, and priorities of key enterprise stakeholders (donors, target population, senior management and leadership); and (4) legal issues. All of these must be carefully considered as you shape your exit plan.

EXHIBIT 9C: TYPES OF EXIT OPTIONS

OPTION	DESCRIPTION	PROS	CONS
Merger	Join with existing organization or company	Combining of resources; potential synergies; may increase likelihood of enterprise success; continuity for target population.	Mission tension; new partners, bosses, culture; less control and decision-making power; personnel may lose jobs.
Sale/ Acquisition	To company/individual	Total divestment; receive cash or get relief from debt burden or subsidizing costs.	Must find ready buyer or company. Lose all control over future of enterprise and mission; staff and management may lose jobs; mission may be compromised. Unlikely for social enterprise.
Transfer	Ownership/responsibility to other NGO/PVO	Clean exit with assurance that mission will wholly or partially be pursued. Possible opportunity to continue involvement. Continuity for target population in the short term. Possibility to continue involvement—i.e., support or leadership (board).	Lose all control over future of enterprise management; mission may change as well.
Franchise	Sell concept to replicate	Receive income, recognition; brand development; possibility for achieving greater scale; validates concept.	Concept must be appropriate to other country contexts, organizations, etc. Legal issues can be complicated. Role/focus changes from business to serving franchisees.
Transform	Change into other legal structure (i.e., program to NGO, NGO to business, social business to NGO, etc.)	Corresponds to meeting changing needs of target population, institution, and market. May be able to meet objectives more efficiently; better likelihood of positive impact on target population.	Difficult to execute; mission shifts, business suffers growing pains; period of ambiguity. HR needs change, existing staff and manage-

OPTION	DESCRIPTION	PROS	CONS
		Sustainability more likely. Implies continued involvement by implementing organization or PVO.	ment may lose jobs. Can be slow and arduous process; final divestment of external support difficult.
Spin off	Formalize as independent business/separate entity	Enterprise actualizes own identity, culture, priorities, growth. Mission pursuit continues, although may change to align with other strategic allies/partners.	Difficult to cut ties; relations can be ambiguous between parent organization and newly independent entity. Possibility of failure or collapse. Does not ensure continued involvement of PVO or local partner.
Close	End enterprise operations	Easy, good for businesses that will never achieve viability; clean finish.	Target population losses; no continuity. Staff loses jobs. Learning ceases.

Selecting an Exit Option

▲ Choose the exit option that is most suitable according to priorities of your social enterprise program, managing and supporting organization, and stakeholders.

The Exit Plan

"My work is done. Why wait?"

— George Eastman, founder of Kodak, in his suicide note

Rationale:

The exit plan serves as a guide for the lead and implementing organizations and the social enterprise through, on the one hand, a divestment process and, on the other hand, a growth process. Certain milestones benchmark progress achieving long-term goals and transforming the legal structure into the desired the business model. Careful planning avoids leaving holes when support departs—i.e., resource acquisition to diversify donor funding, strategic alliances and linkages as alternatives to PVO or NGO technical assistance, and governance to incorporate vested leadership

into the social enterprise. These milestones should be detailed as objectives and strategies in the body of the business plan you are currently preparing and subsequent plans. The exit plan begins with present time and is forecast over the next several years. The time frame depends on the planned involvement of the lead and implementing organizations and may be a function of funding as well.

Milestones

An exit plan should contain the following milestones for measuring progress toward achieving enterprise goals.

- **Exit strategy** is the exit option or combination of options you have chosen for your social enterprise program. This may be a two-step process, with transfer to a local partner occurring in Year 3 and spinoff in Year 5 or 7.
- **Mission focus** describes which aspect of the mission you will emphasize over time. In the beginning viability may be at the forefront, whereas once the enterprise is sustainable, you may channel revenues into new social programs to increase impact or into new business development.
- **Structure** denotes the legal form your enterprise will take and the necessary requirements, such as registering the business or incorporation.
- **Enterprise growth/development** states business milestones in projected sales, profit margins, integration of technology, and product diversification to achieve long-term viability.
- **Staff and management** address the number and type of staff needed to realize goals.
- **Strategic alliances** are linkages formed with new business and technical partners. They are particularly important for social enterprises whose survival requires continued and more specialized support once the implementing or lead organization has exited.
- **Financing and viability** chart financial targets as well as type of financing sought and the desired mix of funds (from donors, soft loans, commercial capital, investors). Goals in this section include retirement of debts and the building of reserve funds.
- **Social targets** are the impact objectives outlined in chapter and beyond. As the business matures, these targets may change or broaden to include other social programs or additional objectives.
- **Governance** states how the leadership of the social enterprise will be configured and prescribes the process of shifting from a program led by the lead or implementing organization to one that is independent.
- **Ownership allocation** describes how your enterprise will distribute equity among the various stakeholders. Ownership may also be tied to legal structure.

Exhibit 9D: Exit Plan

	Present	Year 3	Year 5	Year 7
Exit Strategy:				
Mission Focus:				
Structure:				
Type of business model				
Incorporation				
Registration, licensing				
Other				
Enterprise Growth/Development				
Number of locations				
Annual sales				
Profit margins				
Number of products				
Add capacity				
Add new product lines				
Add technology				
Other				
Staff and Management:				
Number of staff				
Type of staff/management				
Salaries/bonuses				
Professional development				
Other				
Strategic Alliances:				
Capacity building				
Technology linkages				
Specialized technical				
Outsource function				
Financing and Viability:				
Cost recovery percentage				
Net profit/loss				
Cost efficiency				
Resource acquisition				

Financing mix				
Debt retirement				
Reserves				
Other				
Social Targets:				
Jobs created				
Income per target client				
Programs funded/executed				
Management capacity				
Other				
Governance:				
Board structure				
Shareholders				
Ownership Allocation:				
Microentrepreneurs				
PVO and/or NGO				
Private				
Other				

Preparing an Exit Plan

- ▲ Photocopy the template in exhibit 9D, and set a time frame appropriate for achieving the long-term goals of your social enterprise. (The template provided corresponds to TARTINA's seven-year financial viability goal.)
- ▲ With the help of key stakeholders, develop an exit plan denoting important milestones along the way to achieving enterprise goals.
- ▲ Are these milestones adequately reflected in your current business plan, i.e., encapsulated in its strategies and objectives? If not, you may want to rewrite certain sections to ensure that your business plan is comprehensive and supports the objectives of social enterprise sustainability to the fullest, including how you plan to leave the enterprise program.

The exit plan is included in the Business Plan.

Performing the Business Plan

Chapter 10

Chapter 10

"A journey of a thousand miles must begin with a single step."

—*Chinese Proverb*

Putting The Pieces Together

Congratulations for nearing the finish! Now you are ready to collate the various parts of your business plan. Remember, a business plan is a cumulative process. All the work you completed in previous sections of this manual culminates here in an actual business plan for your social enterprise.

Business Plan Outline:

COVER PAGE

EXECUTIVE SUMMARY

VISION AND MISSION STATEMENTS

OBJECTIVES

DESCRIPTION OF THE SOCIAL ENTERPRISE

TARGET MARKET

BUSINESS ASSESSMENT

OPERATING ENVIRONMENT ANALYSIS

COMPETITIVE ANALYSIS

MARKETING PLAN

OPERATIONS PLAN/PRODUCTION PLAN

HUMAN RESOURCE PLAN

FINANCIAL PLAN

EXIT PLAN

APPENDICES

Preparation Basics

- **Length -** in chapter 1 we refrained from giving a specific business plan page count. In practice a business plan should be anywhere from 15 to 35 pages (not including financial statements and appendices). Length is predicated by the complexity of the business. A simple start-up enterprise, selling one or two products in just a few markets, should have a brief plan. A more complicated business with several products, serving multiple domestic markets (and possibly overseas markets) will need a much longer business plan to accurately depict its operations.
- **Language -** use clear, concise, straightforward business language and avoid jargon and rhetoric at all costs. The tone should be professional and knowledgeable with the overall goal of expressing confidence and optimism about the prospects for your social enterprise.
- **Graphics -** as the old saying goes, "a picture paints a thousand words". When appropriate use photographs, diagrams, graphics and tables to illustrate and support arguments, conclusions and projections. Graphics also breaks up texts and gives the reader a "snap shot" of the narrative.
- **Numbers -** using numbers lends credibility, especially in businesses where success is measured quantitatively. For example, projecting performance in percentage change; referring to market size; supporting your conclusions with statistical information, etc. validates your business acumen.
- **Presentation -** select a typeface that is easy to read and no smaller than 10 points. Use bullet points to offset specific information, and to break up text. Avoid cramming too much information on a page. The layout should be "airy" as opposed to "dense" with plenty of white space on the pages.

Preparing the Business Plan

- ▲ **Look for this icon from past exercises completed in this manual.**
- ▲ Go through the check list below; mark off each box as you compile this information.
- ▲ Some B-plan sections resulting from earlier exercises will need to be edited or rewritten to improve their flow, logic or length in order to produce a comprehensive business plan.
- ▲ A few sections require improvisation. Some information was given in the manual to prepare the section without providing an explicit exercise to do so.

❑ ***Cover Page, includes:***
Name of Social Enterprise; Street Address; Mailing Address; Telephone Number; Month and year the plan is issued; Time period covered by the business plan; and Name(s) of Owner(s)

❑ **Table of Contents**

❑ **Executive Summary**

A one or two page summary of business plan highlights.

Chapter 2: The Vision, Mission, Objectives and Business Description

❑ **Vision Statement — pages 54-55**

❑ **Mission Statement — pages 55-58**

Embodied in the mission statement are: ❑ Client Statement; ❑ Problem Statement; ❑ Statement of Purpose; ❑ Business Statement; and ❑ Value Statement.

Objectives:

❑ Social Impact Objectives. — **pages 59-63**

❑ Financial Viability Objectives. — **pages 59-63**

❑ **Business Description — pages 63-69**

Chapter 3: Target Market

❑ Description of target customer (includes customer levels). — **pages 72-76**

❑ Synthesis of customer information. — **pages 76-82**
(includes: customer profile, customer purchasing habits and buying sensitivities).

❑ Summary of customer needs and wants. — **N/A**
Narrative summary of conclusions drawn from customer exercises.

❑ Market size and future trends. — **pages 82-83**

Chapter 4: Strategic Framework

❑ Business Assessment (strengths and weaknesses) — **pages 88-92**

❑ Operating Environment Analysis (threats and opportunities) — **pages 93-96**

❑ Summary of Industry Attractiveness (synthesis + strategic implications) — **pages 97-108**

Industry Analysis (in narrative summary form), including

❑ Seasonality — **page 109**

❑ Economic Factors — **page 110**

❑ Government Regulation — **page 110**

❑ Technological Change — **page 110**

❑ Financial Characteristics — **page 111**

Competitive Analysis

❑ Competitor Information — **pages 112-113**

❑ Market Share Distribution — **pages 114-116**

❑ Competitive Strategy — **pages 118**

Chapter 5: Marketing Plan

❑ **Marketing Objectives — pages 123-124**

❑ **Product Strategy** *(for each product)* **— pages 124-133**

Included in the product strategy is: ❑ Market Description; ❑ Sales Target; ❑ Target Customer; ❑ Description of Product Features/Benefits and Comparative Advantage.

❑ **Product Line Strategy — pages 133-134**

❑ **Distribution Strategy** *(for each product)* **— pages 135-143**

Included in the distribution strategy is: ❑ Channel Map; ❑ Number of Targeted Markets; ❑ Staff/Contractors to Execute Distribution Strategy; ❑ Method of Distribution; ❑ Budgetary Implications; ❑ Synergies or Added Value; and ❑ Strategic Rationale and Implications.

Price Strategy *(for each product)* **— pages 143-154**

Included in the promotion strategy is: ❑ Basic Price Strategy and Beyond Basic Price Strategy; ❑ Selling Price for Each Product/Service and Type Of Customer; and ❑ Strategic Rationale.

Promotion Strategy *(for each product)* **— pages 154-164**

Included in the promotion strategy is: ❑ Promotional Message; ❑ Promotional Vehicles And Tactics Used; And ❑ Strategic Rationale.

Sales Plan — pages 165-169

Included in the promotion strategy is: ❑ Summarized Sales Structure; ❑ Summarized Sales Strategy; ❑ Monthly And Annual Targets Per Product.

Chapter 6: Operations Plan

Operations Plan

❑ Operating Objectives — **page 185**

❑ Process Strategy (productivity and capacity) — **pages 186-187**

- ❑ Flow Diagram for operations (and production) stages (and steps) — **pages 173-175**

❑ Quality Control Strategy — **pages 188-189**

❑ Market Response/Product Development (for each product) — **pages 189-191**

- ❑ Research and Development Plan — **pages 192-193**

❑ Information Sharing/Tracking (MIS) — **pages 194-198**

❑ Inventory Management System — **pages 203-205**

❑ Production Schedule — **pages 210-212**

Chapter 7: Human Resource Plan

Human resource plan:

- ❑ Enterprise Staff (HR Chart) — **pages 225-228**
- ❑ Background and qualifications of existing staff — **N/A**
  A brief description of skills, qualifications and related experience for key staff positions.
- ❑ Recruitment Plans (staff and target population) — **pages 229-231**
- ❑ Organizational Chart — **pages 231-232**
- ❑ Incentive Programs — **pages 235-236**
- ❑ Capacity-Building Plan for enterprise and partner staff — **pages 338-241**
  - ❑ Training — **pages 241-243**
  - ❑ External Technical Assistance Plans — **pages 243-245**
- ❑ Capacity-Building Plan for Target population — **pages 245-247**

Chapter 8: Financial Plan

- ❑ Financial Planning Objectives — **pages 251-254**
- ❑ Financial Targets — **pages 255-258**
- ❑ Evaluation and Audit Plan — **pages 258-259**
- ❑ Revenue use information and trend projections — **pages 259-263**
- ❑ Start-up Budget — **pages 272-274**
- ❑ Operating Budget (+ assumptions) — **pages 275-277**
- ❑ Projected Profit and Loss Statement (+ assumptions) — **pages 278-282**
- ❑ Projected Balance Sheet (+ assumptions) — **pages 282-285**
- ❑ Projected Cash Flow Statement (+ assumptions) — **pages 286-291**

Chapter 9: Exit Plan

- ❑ Exit Plan — **pages 302-305**

Appendices

Include only those documents that strengthen the case your business plan makes.

- ❑ Job Descriptions (for key positions) — **pages 233-234**
- ❑ Past Financial Statements — **N/A**
- ❑ Promotional Material — **N/A**
- ❑ Maps of the Geographical Area — **N/A**
- ❑ Other — **N/A**

Concluding Word:

In preparing this business plan, you have put in a great deal of time and effort. At this point you should have a solid prospectus of your social enterprise to give to donors, investors and stakeholders. More importantly, however, you have created a critical management tool to guide you in this venture. Once your enterprise has opened its doors, you will undoubtedly be consumed with the numerous challenges and joys of social entrepreneurship. At times it may be difficult to stay on course, especially when the "going gets rough". Therefore, whether during periods of calm or storm, rely on your business plan as a road map to chart your course to viability. Set your goals and live by them, but also remember that your business plan is a living document, and should be referred to regularly, and revised to reflect changes that occur in your business as well as in the market.

Good Planning and Good Execution!

"So be sure when you step,
to step with care and great tact

and remember that Life's
a Great Balancing Act.

And will your succeed?
Yes! You will indeed!

(98 and 3/4 percent guaranteed)".

-Dr. Suess

Appendices

APPENDIX 1-1: BUSINESS PLAN

Chapter	Key Questions	Method	Principal Participants'	Time Required
2	**I. Mission & Objectives** 1. What is the vision and mission? 2. What social impact and business objectives will be accomplished? 3. What is the description of this business?			
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? 2. How is the market segmented? 3. What are the primary buying motives/habits of the target market for each product? 4. What are the future trends and size of the target market?			

Appendix 1-1: Business Plan

Chapter	Key Questions	Method	Principal Participants	Time Required
4	**III. Institutional, Environmental and Industry Assessments**			
	1. What are our enterprise's strengths and weaknesses?			
	2. What are the opportunities and threats in the external environment that our enterprise's faces?			
	3. Is the industry hospitable or hostile for our business? What aspects of the industry will impact business and profit potential?			
	IV. Competition Analysis			
	1. How are the main competitors and their overall strengths and weaknesses? And per product?			
	2. How much market share does the competition have relative to our enterprise's?			
	3. What the competition will look like in the future?			
	4. What is our strategy with respect to the competitors?			

Chapter	Key Questions	Method	Principal Participants	Time Required
4	**V. Market Research & Product Test** 1. What products will offer the greatest feasibility of achieving the enterprise's objectives?			
5	**VI. Marketing Plan** 1. What are our marketing objectives for the product line? Sales targets? **Part 1. Product Strategy** 2. What are the features and benefits of the 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? 5. What is the plan for the products in terms of physical characteristics and servicing to help achieve marketing objectives?			

Appendix 1-1: Business Plan

Chapter	Key Questions	Method	Principal Participants	Time Required
5	6. What are the cost implications for product changes?			
	7. What is the strategy for each product? For the product line?			
	Part 2. Distribution Strategy			
	8. Where should we sell? What are the priority markets?			
	9. What are the best methods and distribution channels to reach priority target markets?			
	10. What is the distribution plan the products to achieve marketing objectives?			
	Part 3. Pricing Strategy			
	11. What is the break-even point for units and revenue?			
	12. For the planning period, at what level should the basic price be set for each product?			
	13. For the planning period, what will the strategy be for elements beyond the basic price?			

Chapter	Key Questions	Method	Principal Participants	Time Required
5	**Part 4. Promotion Strategy** 14. What is our logo and promotional message? 15. What types of promotional vehicles and tactics should be used to meet our marketing objectives? 16. How do we want to package our products? 17. How many staff and what kind will we need to market our products? 18. What is the promotional strategy to achieve marketing objectives? 19. What is the implementation plan for promotional strategy?			

Appendix 1-1: Business Plan

Chapter	Key Questions	Method	Principal Participants	Time Required
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 the level of productivity?			
	3. What are our constraints to production?			
	4. At what level of capacity are we operating?			
	Part 2: Production Plan			
	5. What are the production objectives? For quality control, product improvements? What are the production targets?			
	6. How can we improve production process? Improve capacity utilization and productivity?			
	7. How can efficiency and quality control of production process be improved?			

Chapter	Key Questions	Method	Principal Participants	Time Required
6	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?			
	9. How can information sharing be improved between production steps and throughout the business? How can we track this information?			
	10. What will the production schedule be? What is the plan to manage purchase of raw material supplies?			
	11. How can the inventory be better managed? What type of controls can we put in place to reduce spoilage, loss or theft?			
	12. What are the costs of the production plan and the cash flow requirements? What are the unit costs for each product? Production targets and their impact on the bottom-line?			

APPENDIX 1-1: BUSINESS PLAN

Chapter	Key Questions	Method	Principal Participants	Time Required
7	**IX. Human Resources Plan**			
	1. What kinds of human resources are required to support the marketing, production, enterprise management? On what salary scale?			
	2. What is the staff recruitment plan and timeline to hire new employees?			
	3. What organizational structure is most appropriate?			
	4. What are the outputs, objectives and responsibilities of each position?			
	5. What kind of incentive plan can we employ to motivate and retain staff?			
	6. What type of development plans do we need for staff and MES to build capacity? What are the specific training and TA needs for the enterprise staff? The MEs? Who will provide training; what are the associated costs?			

Chapter	Key Questions	Method	Principal Participants	Time Required
	7. When and where will plan be implemented; by whom and with what money (HR budget)?			
8	**X. Financial Plan** 1. What are the financial objectives and targets? 2. What are the financial requirements to support above plans (Budget planning)? 3. From where will additional funds be sourced? What is the resource acquisition plan. 4. How is our enterprise performing financially at present? Development and analysis of financial statements. What are the strategic implications?			

Appendix 1-1: Business Plan

Chapter	Key Questions	Method	Principal Participants	Time Required
9	**XI. Exit Strategy** 1. What is the long term goal; and its strategic implications? 2. What type of business model will our enterprise become? How will ownership be structured? 3. What are the best exit options to employ? 4. What is the exit strategy? What is the implementing plan for it?			

Appendix 3-1: Customer Profile

Trait	Actual Customer #1	Actual Customer #2	Purchasers; Decision Makers
Demographic			
Geographic			
Psycho-graphic			
Behavioral			

APPENDIX 3-2: CUSTOMER PURCHASING HABITS

PURCHASING HABITS	ACTUAL CUSTOMER	DECISION-MAKER
Reason for purchase		
Number of times will try		
Frequency of purchase		
Quantities purchased		
How/where product is purchased		
Payment method		
Time to make purchase decision		

APPENDIX 3-3: BUYING SENSITIVITIES

LEVEL OF INFLUENCE	ACTUAL CUSTOMER				DECISION MAKER; PURCHASER				FINAL USER			
SENSITIVITY TRAITS	H	M	L	0	H	M	L	0	H	M	L	0
Price												
Quality												
Brand name												
Product features												
Salesperson												
Promotions/special offers												
Advertising												
Convenience of use												
Convenience of purchase												
Location												
Store décor/environment												
Customer service												
Return policy												
Credit availability												

Key: H = high
M = medium
L = low
0 = no influence

APPENDIX 4-1: BUSINESS ASSESSMENT TOOL

I. Customer Perceptions	**S**	**W**	**Comments**
Product/service features			
Value			
Quality			
Reputation/ name recognition			
Social image			

II. Internal Operations			**Comments**
Mission statement			
Resources			
Infrastructure/capacity			
Operating efficiencies/ economies of scale			
Strategic alliances			
Location			
Structure			
Client relationships			
Product/service mix			
Human resources			
Leadership			

APPENDIX 4-2: OPERATING ENVIRONMENT ANALYSIS

Environmental Factors	**O**	**T**	**Comments**
Legal & regulatory policies			
Economic environment			
Political instability or insecurity			
Transportation & communication			
Physical climate			
Market			
Technology			
Raw materials			
Demographics			

APPENDIX 4-3: 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** W = .50	**Market Demand/Growth** W = .25	**Government Interest** W = .05	**Strategic Environment: Threats/ Opportunities** 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.

APPENDIX 4-4: PORTER 5 FORCES MODEL FOR INDUSTRY ANALYSIS

PART 1
BARRIERS TO ENTRY

Measures of Barriers to Entry	Industry Standard	Highly Unattractive	Unattractive	Neutral	Attractive
High investment costs					
The time to establish your enterprise					
Substantial expertise required					
Lack of suppliers or distributors					
Market saturation					
Changing technology					
Restrictive regulations					
Lack of high-quality personnel					
Customer resistance					
Existing patents and trademarks					
Attractiveness rating					

Strategic Implications:

PART 2
BUYER POWER

Measures of Buyer Power	Industry Standard	Highly Unattractive	Unattractive	Neutral	Attractive
Number of customers					
Availablity of competitors' like product.services					
Switching costs					
Threat of backward integration					
Possibilities to differentiate					
Price competitor					
Attractiveness rating					

Strategic Implications

PART 3
SUPPLIER POWER

Measures of Supplier Power	Industry Standard	Highly Unattractive	Unattractive	Neutral	Attractive
Number of suppliers					
Availablity of substitutes					
Switching costs					
Threat of forward integration					
Differentiated products					
Customer value					
Attractiveness rating					

Strategic Implications

PART 4
THREAT OF SUBSTITUTES

Measures of Substitutes	Industry Standard	Highly Unattractive	Unattractive	Neutral	Attractive
Availability of close substitutions					
Availablity of substitutes					
User's switching costs					
Attractiveness rating					

Strategic Implications

PART 5
INDUSTRY RIVAL

Measures of Rivalry	Industry Standard	Highly Unattractive	Unattractive	Neutral	Attractive
Number of competitors					
Industry growth					
Product features					
Excess capacity					
Diversity among					
Customer value competitors					
Attractiveness rating					

Strategic Implications

Measures of the 5-Forces	Industry Standard	Highly Unattractive	Unattractive	Neutral	Attractive
Barriers to entry					
Supplier power					
Buyer power					
Threat of substitutions					
Industry rivalry					
Attractiveness rating					

Strategic Implications

Appendix 7-1: Human Resource Chart

Staff Needs	#	Time on Project	In-house	To Hire	Partner Staff
PVO Field Office Staff					
Country Director					
Program Manager					
Director of Finance					
Business Advisor					
General Management					
(TARTINA or ADE)					
Business Manager					
Financial Director					
HR Director					
Admin. & Support					
Accountant					
Secretary					
Driver					
Security guards					
Marketing					
Marketing Manager					
Sales agents					
Production					
Production Manager					
Production agents					
Purchasing agent					
Inventory Manager					
Logistics					
R&D Agent					
Production workers					

APPENDIX 8-1: CASH FLOW WORKSHEET[1]

Cash Flow Statement
For the Period From: _____To_____

Operating Cash Flow	
Net Income After Tax	
+ Depreciation and amortization	
+/- Decrease (Increase) in Accounts Receivable	
+/- Decrease (Increase) in Inventory	
+/- Decrease (Increase) in Other Current Assets	
+/- Increase (decrease) in Accounts Payable	
+/- Increase (decrease) in Accrued Expenses	
+/- Increase (decrease) in Other Current Liabilities	
Total Operating Cash Flow	

Investing Cash Flow	
+/- Decrease (Increase) in Fixed Assets	
+/- Decrease (Increase) in Notes Receivable	
+/- Decrease (Increase) in securities, investments	
+/- Decrease (Increase) intangible, noncurrent assets	
Total Investing Cash Flow	

Financing Cash Flow	
+/- Increase (decrease) in Borrowings (Notes, Payable)	
+/- Increase (decrease) Capital Stock (Subsidiary, Contributions)	
- Dividends Paid	
Total Financing Cash Flow	

TOTAL CASH FLOW	
Cash at beginning of period	
Cash at end of period	

[1]Women's Initiative for Self Employment, San Francisco, 1997. "Cash Flow Worksheet"

Glossary of Terms[1]

Accounts receivable – money due from customers for products or services sold.

Accounts receivable collection period – average 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.

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.

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 – the name associated with one or more items in the product line that share one of several possible forms of the product.

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

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).

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[1]Definitions of terms are adapted from a variety of sources, including: Bandler, James, *How to Use Financial Statements: A Guide to Understanding the Numbers*; Dalsimer, Paul. *Understanding Nonprofit Financial Statements: A Primer for Board Members*; Haggblade, Steve and Matthew Gamser, *A Field Manual for Subsector Practitioners*; *Merriam Webster's Collegiate Dictionary*; Meigs, Robert, and Walter Meigs, *Financial Accounting*; Needles, Belverd, Henry Anderson, and James Caldwell; *Financial and Managerial Accounting*; Nelson, Candace, *The SEEP Non-Financial Services Working Group First Meeting Report*; Nohria, Nitin, *The Portable MBA Desk Reference*; Spiro, Herbert, *Finance for the Non-Financial Manager*; SEEP Financial Services Working Group, *Financial Ratio Analysis of Micro-Finance Institutions*; and Women's Business Center, Small Business Administration on line services.

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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)

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.

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.

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 – measures the ability of the social enterprise to meet its short-term cash requirements. It is calculated as follows: X = total of assets able to be converted into cash within one year divided by liabilities to be paid within one year.

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)

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.

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.

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

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.

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 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.

Meso-level – the level of the BDS intermediary, also referred to as the local partner or counterpart organization. Meso-level interventions aim to develop management and institutional capacity of local partners to render services to small and medium enterprises and microenterprises.

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).

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)

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**.

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.

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.

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Roberts Foundation: http://www.redf.org

Support Center for Nonprofit Management: http://www.search.genie.org

Women's Business Center, Small Business Administration: http://www.onlinewbc.org

Working Solo: http://www.workingsolo.com