

Business (Enterprise) Models for Social Benefit Enterprises



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Agenda

- **Business Models: What and Why?**
- **Elements of a Business Model**
- **Alternative Business Models**
- **Example: THRIVE**
- **Example: Scojo**
- **Session Exercise: Your Business Model**
- **Questions and Discussion**

What is a “Business Model?”



- **Sometimes defined by the “legal” organization structure (for taxation).**
 - Profit
 - Non-profit
 - Hybrid (non-profit + profit)
- **Sometimes defined by what the organization produces.**
 - Product
 - Service
- **Sometimes defined by the organization's mission.**
 - Financial
 - Social
- **Sometimes defined by the organization's income statement.**
 - Income
 - Expenses

Business Model: A Definition

(used in the Santa Clara University GSBI)



- **Value Proposition:** what value do you create for whom?
- **Income (Revenue) Drivers:** how do you obtain money to create value?
- **Expense (Cost) Drivers:** how do you spend money to create value?
- **Critical Success Factors:** what are the key processes for sustainable value creation?

Why is a “Business Model” Important for a Social Benefit Enterprise?



- **Focus the organization on the key activities to create value for the beneficiaries.**
- **Manage cash in order to sustainably create value.**
- **Identify and test key assumptions (critical success factors) on which the value creation is based.**
- **Describe the value of the organization (e.g. to investors, partners, employees)**

Business Model: Value Proposition Defined



Value Propositions are brief descriptions of your organization and the value it provides, and articulate why the target beneficiary will choose your product or service offering(s) over other alternatives. (Note: the alternative may be “non-consumption”).

Value Propositions often are sentences in the form of:

[Name of organization] provides [products/services], which are [statement of key differentiators], for [target beneficiaries], and thereby creates [statement of social value/impact], unlike [alternatives].

Business Model: Value Proposition Examples



Sustainable Health Care Foundation creates franchises (“cfwshops”) that provide access to medicines and health care supplies to under-served customers in rural and urban areas of Kenya at lower prices and with more efficient delivery than other public or private outlets.

For the millions of children worldwide, **Sprinkles** provides a unique, safe, easy to use, and scientifically-proven food supplement. Distributed through partnerships, low-cost Sprinkles “sachets” improve the nutritional quality of traditional foods and enhance the health, development, and well-being of children who otherwise would suffer from vitamin and mineral deficiencies.

Business Model: Your Value Proposition



[My organization] provides [products/services], which are [statement of key differentiators], for [target beneficiaries], and thereby creates [statement of social value/impact], unlike [alternatives].

Business Model: Income (Revenue) Drivers Defined

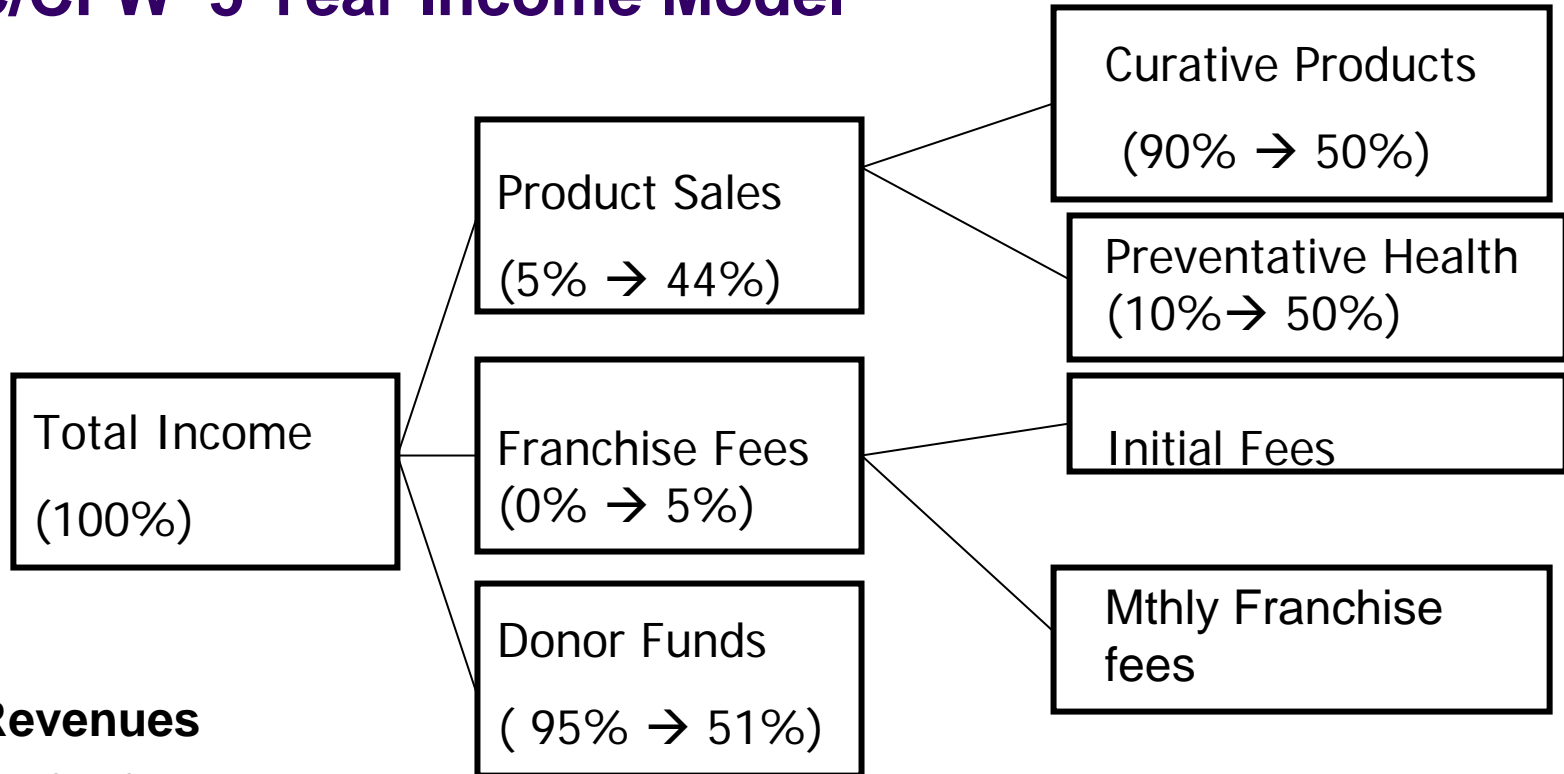


- **Structures**
 - **Contributed**
 - grants
 - donors
 - special events
 - **Earned**
 - transaction fees – can be from “third party”
 - product/service fees (volume/unit based)—
can be from “third party”
 - licensing or franchising
 - advertising
- **Bases**
 - Occurrence-based (per time-period)
 - Volume-based sales (per unit or per beneficiary)
 - License-based (per “use”)

Business Model: Income Drivers Example



SHC/CFW 5 Year Income Model



2010 Revenues

Products (net)	385K
Franchise Fees	43K
Donor Support	<u>454K</u>
Total Revenue	883K

Business Model: Your Income Drivers



Contributed	Amount	Bases	%
Grants			
Donors			
Earned			
Product			
Service			
Licenses			

Business Model: Expense (Cost) Drivers Defined

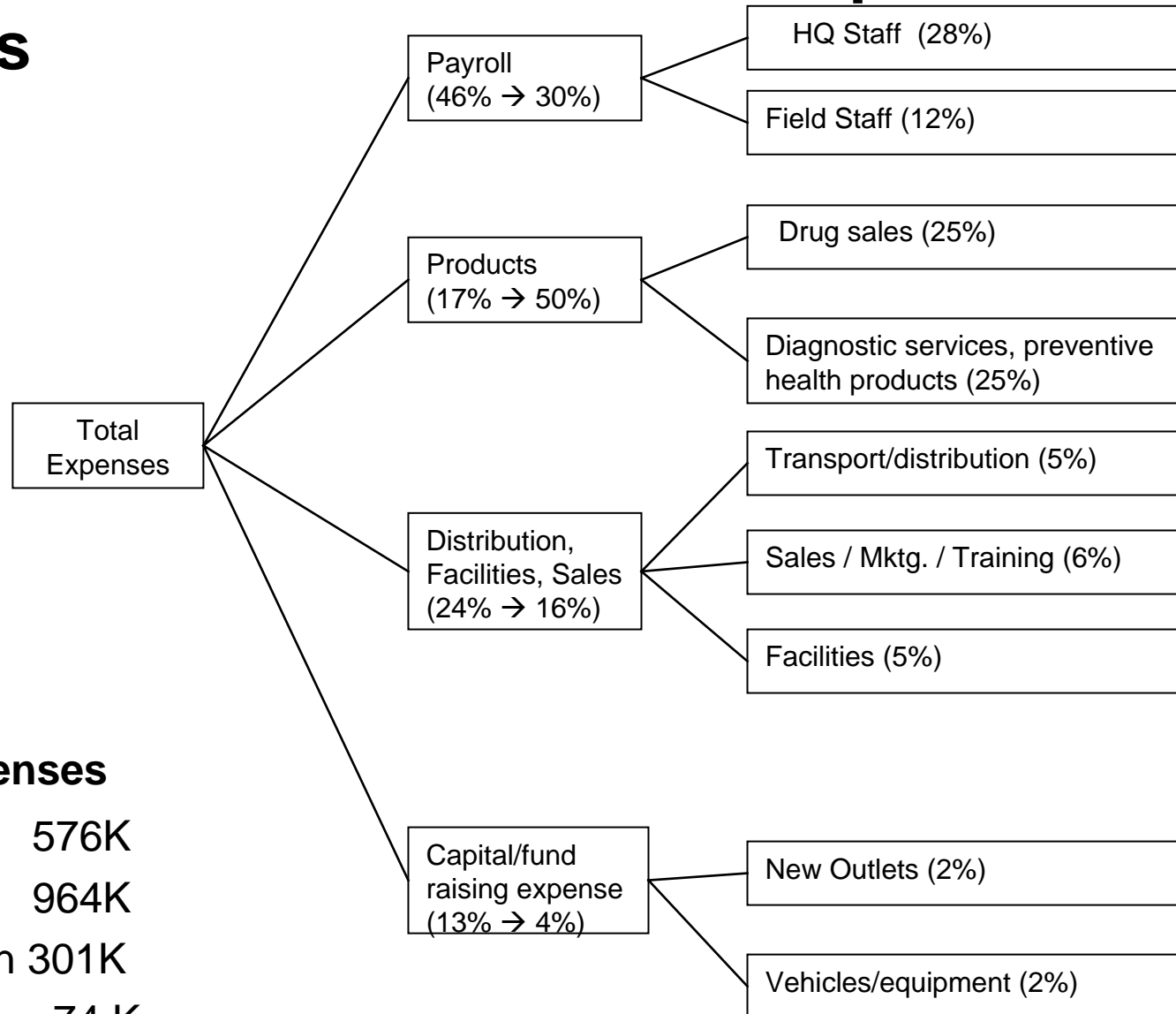


- **Structures (Models)**
 - **Direct labor (payroll)**
 - **Indirect (support) labor**
 - **Materials/inventory/supplies**
 - **Distribution**
 - **Marketing/sales**
 - **Facilities/equipment**
 - **Support**
 - **Administrative (including fund-raising)**

- **Bases (Streams)**
 - **Fixed**
 - **Variable**
 - **Semi-variable**
 - **Non-recurring**

Business Model Example

Sustainable Health Care: CFW Expense Drivers



2010 Expenses

Staff	576K
Products	964K
Distribution	301K
Capital	<u>74 K</u>
Total Exp	1,916K

Business Model: Your Expense Drivers



	Amount	Bases	%
Payroll			
Materials			
Production			
Distribution			
Marketing/Sales			
Facilities			
Support			
Administrative			

Business Model

Critical Success Factors (CSF) Defined



- **Key assumptions (expectations/actions) regarding income and expenses**
- **Income**
 - Funding environment
 - Funding sources
 - In-kind donations
 - “Market” for products/services
 - Quality of products/services
- **Expense**
 - Beneficiary environment (interest)
 - Partnerships
 - Manufacturing (capability/quality)
 - Infrastructure

Business Model Example: Sustainable Health Care CFW Critical Success Factors



- Communities' ability to pay for services
- Availability of up to 250 good nurse candidates as franchisees
- Funding sources
- Good quality generic drugs at low prices
- Skilled staff resources
- Enabling policy environment for private nurse practices

Business Model Example: Your Critical Success Factors



- Income
 - Funding sources
 - Market for products or services
 - Price
 -
- Expense
 - Staff/organization related
 - Distribution related
 - Partner related
 -

Alternative Business Models



- **Traditional**

1. **Contributed Income**

2. **Earned Income**

- **product**
- **service**
- **fee**

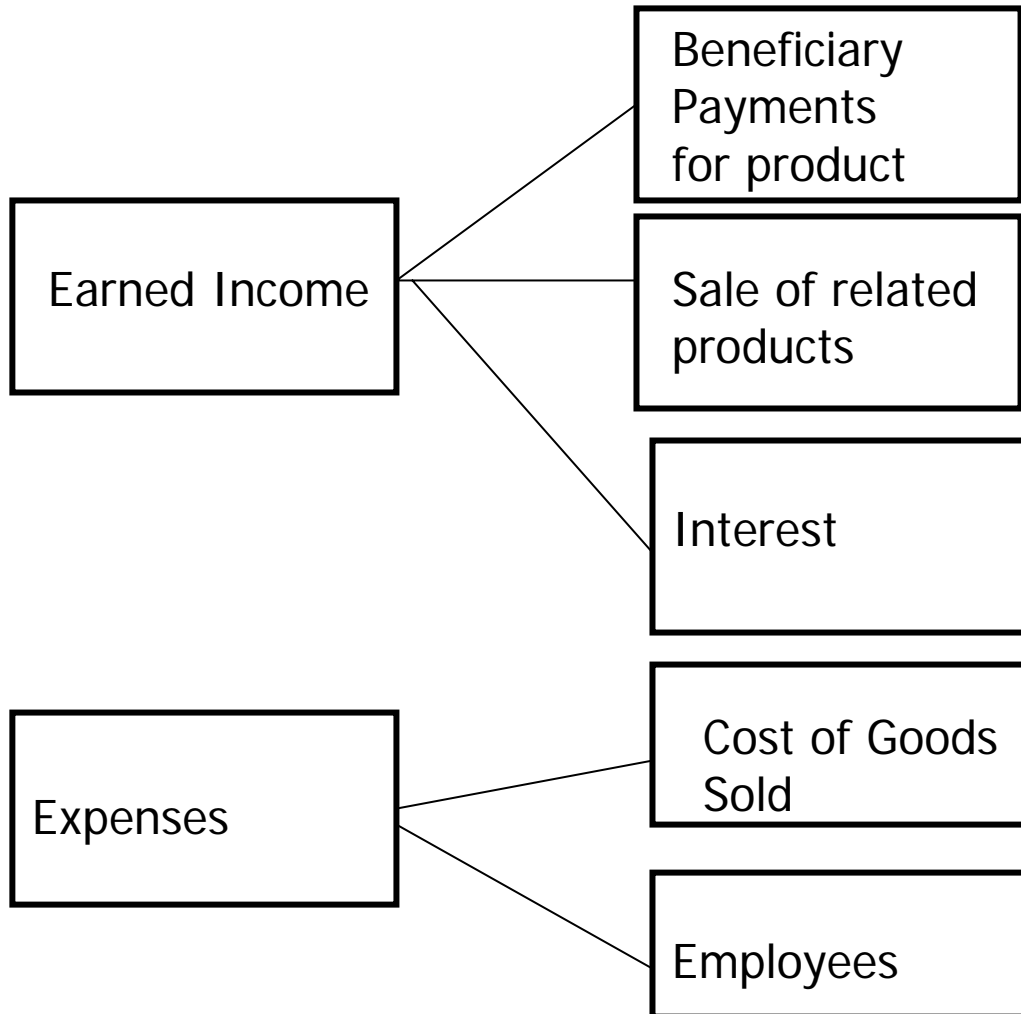
- **Hybrid**

1. **Product/Service/Fee**

2. **Contributed and Earned Income**

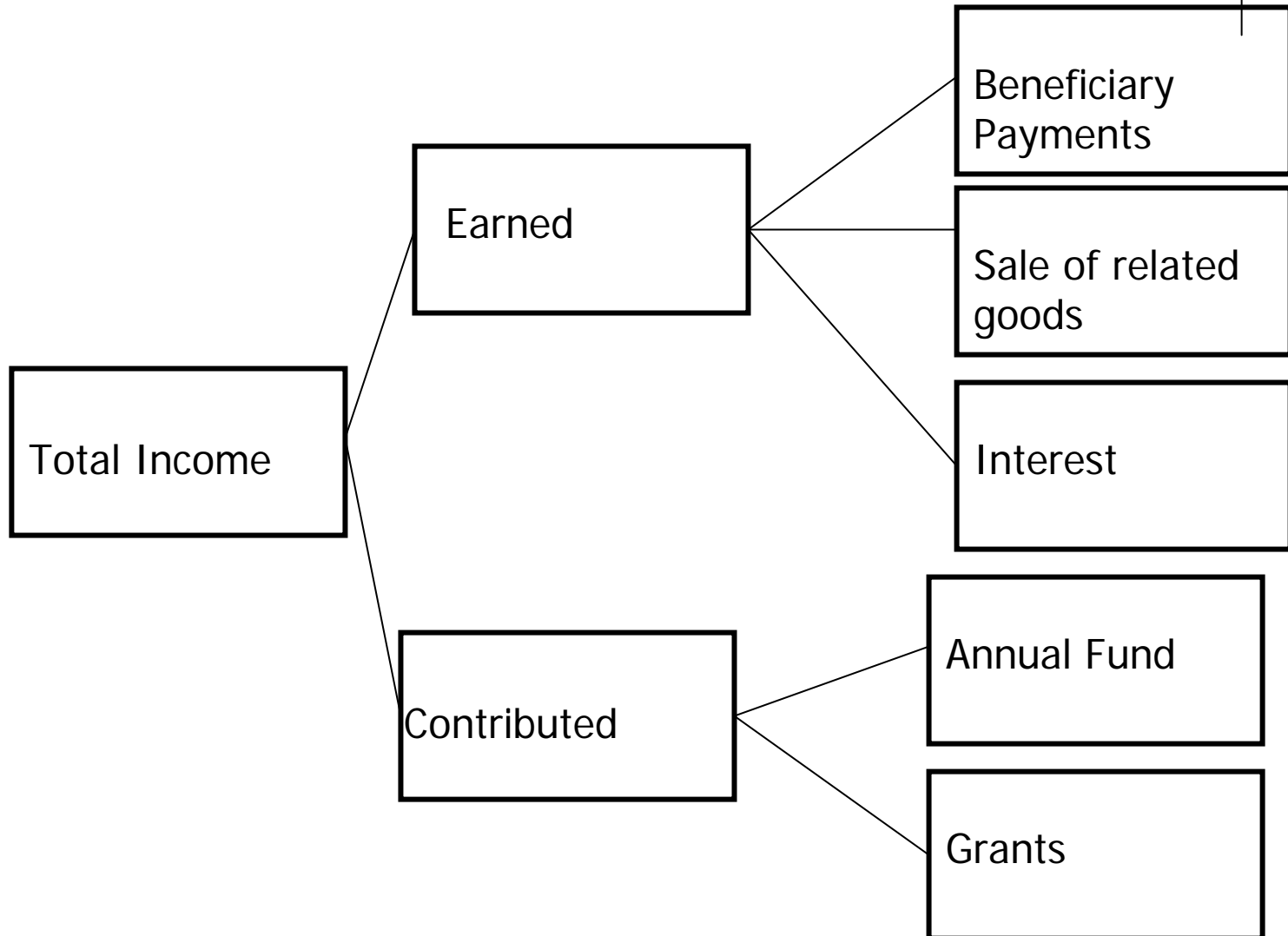
Traditional Business Model

Earned Income from Products



Hybrid Business Model

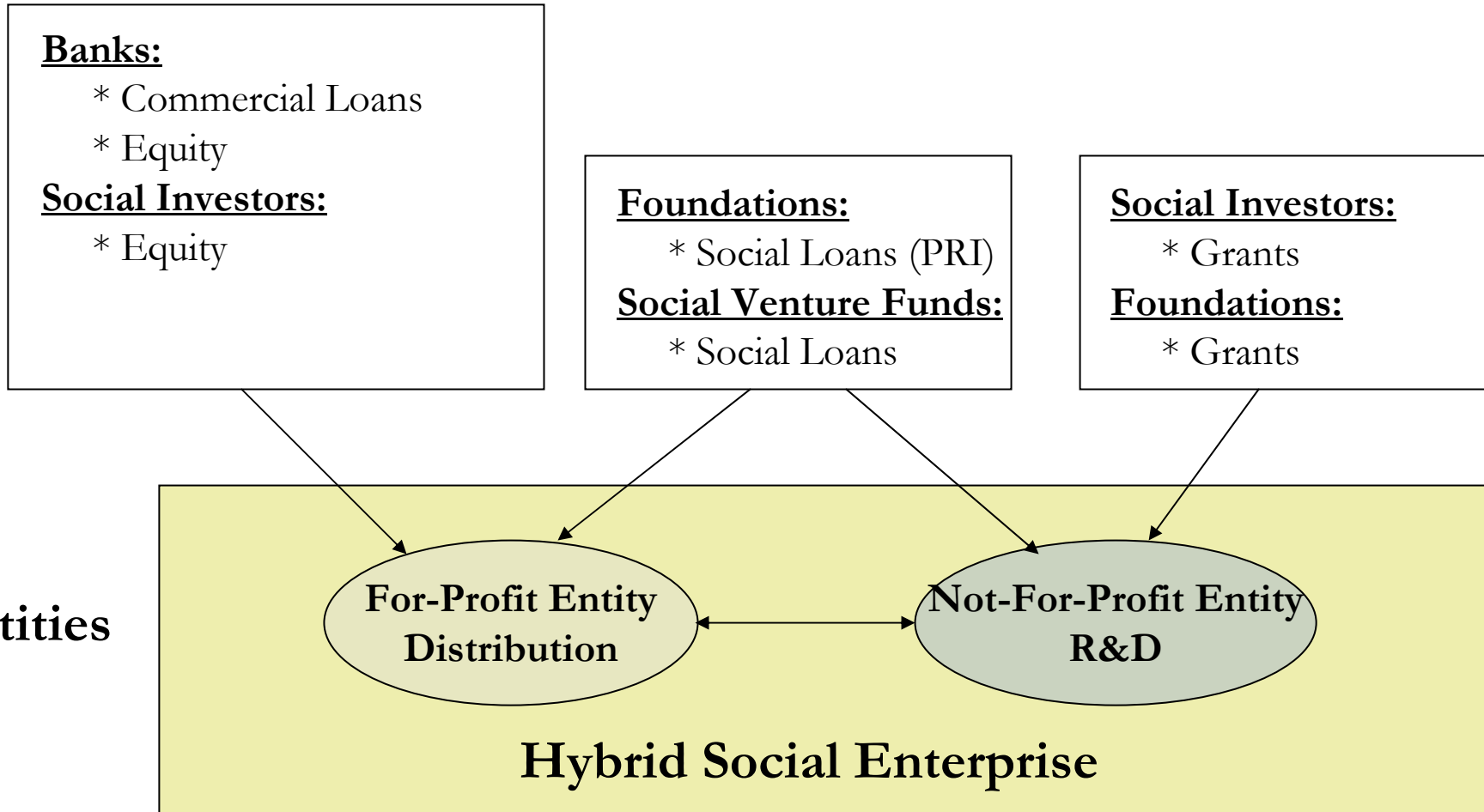
Earned and Contributed Income



Hybrid Investment Strategies



Investors



Entities

Hybrid Social Enterprise

Examples of Business Models for Social Benefit Enterprises



- **THRIVE**

THRIVE provides low-cost LED lighting systems, which are fail-proof, consume very low power, provide clean lighting and do not emit any smoke....

- **Scojo Foundation**

Scojo improves the economic condition of families in the developing world by creating partnerships that broaden the availability of reading glasses and other eye care products and services. Reading glasses offer the user: better vision and greater productivity improved quality of life. Being a Scojo partner means: increased earnings, improved business and technical skills, and increased self-esteem.

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QUESTIONS

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