APPENDIX A: USING WEIGHTED AVERAGES

Rationale:

A simple ranking system helps in weighing the pros and cons of each subsector. The objective of the ranking system is to determine the "real" value of each subsector. A weight is assigned to each criterion, and each subsector is ranked in respect to each criterion. This allows different programs to decide the importance of each criterion according to their individual goals and priorities as well as the external environment.

Directions:

- ▲ The example below demonstrates the use of this method for the retaso and food transformation subsectors. It can be used as a reference in completing the following exercise.
- ▲ Assign a weight to each criterion according to its importance. The sum of all assigned weights should equal 1. The weights chosen for Country X are in the table below.
- ▲ Next, rank the subsector according to how well or poorly it meets the criterion, on a scale from 1 (does not meet criterion) to 10 (closely meets criterion). In this example, the retaso sector was given a 10 for the first criterion because it serves a large population of women, which was a high priority for the program. However, because of strict government regulations in the textile industry, the retaso sector received a rank of only 1 for government interest.

W = assigned weight R = assigned rank

EXHIBIT A1: SUBSECTOR RANKING

Potential Subsector	# of Women Micro-entrepreneurs	Market Demand/Growth	Government Interest	Strategic Environment: Threats/ Opportunities
	W = .50	W = .25	W = .05	W = .20
Retaso	R = 10	R = 6	R = 1	R = 3
Food transformation	R = 3	R = 10	R = 3	R = 10

Result:

The textile industry faces strict government regulation while food-related industries do not face many regulatory obstacles. Therefore retaso ranks lower than food transformation on the criterion of government interest.

- ▲ Next, determine the weighted score for each criterion using the following formula: weighted score (WS) = W x R

Retaso sector

# of Women Microentrepreneurs:	WS = .5 x 10 = 5.0
Market Demand	WS = .25 x 6 = 1.5
Opportunities:	WS = .10 x 3 = .30
Threats:	WS = .10 x 3 = .30
Government Interest:	WS = .05 x 1 = .05
Total score:	**7.15**

Food transformation sector

# of Women Microentrepreneurs:	WS = .5 x 3 = 1.5
Market Demand:	WS = .25 x 10 = 2.5
Opportunities/Threats	WS = .20 x 10 = 2.0
Government Interest:	WS = .05 x 3 = .15
Total score:	**6.15**

Final result:

A sum of the weighted scores gives the two subsectors' overall scores across all criteria. Although the food transformation sector received higher rankings on some criteria, the greater weight assigned to the number of women microentrepreneurs resulted in a higher overall score for the retaso subsector.

Glossary of Terms

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

Accounts receivable collection period – number of days it takes for an enterprise to collect its accounts receivable. It is calculated as follows: number of days = (accounts receivable/sales) x number of days in the reporting period.

Accrual accounting – a practice of accounting whereby revenues are accounted for in the period in which they occur and expenses recognized when they are incurred, rather than when a cash payment is made or received. Accrual accounting gives a realistic picture of the enterprise's financial position by recording the effects of financial transactions on the social enterprise regardless of when cash is received or paid.

Amortization – costs of an intangible asset are allocated of over its useful life.

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

Average cost – a method of inventory valuation that assumes inventory sold during the period was purchased at the average cost of all inventory available for sale.

Average performing assets (APA)[1] – only the part of the assets used to support the business program.[2] Using APA is an appropriate measure when an enterprise is an early program phase under the auspices of the parent organization or implementing partner, or if after maturity it continues to share assets with another organization-i.e. building and land.

Average total assets (ATA)[2] – calculated by summing the total assets in the balance sheet. ATA is an appropriate measure when all assets are used by the enterprise for its business activities.[3] It is the case when the enterprise is single purpose and assets are distinctly separate from another organization (parent organization, implementing partner, nonprofit).

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

Balance sheet – a financial statement that shows assets on the left side and liabilities on the right. A balance sheet gives an overview of a company's financial position at any given point.

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

Book value – the value of an asset whose historical cost has been adjusted for **depreciation** or **amortization**. Book value is also referred to as **net fixed asset value** and is reflected in the **balance sheet** of an enterprise.

Brand – product group identified by the name of a company or manufacturer.

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

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[1]SEEP Financial Services Working Group, *Financial Ratio Analysis of Micro-Finance Institutions*,1995, PACT Publications, NY.
[2]Ibid

Budget – a financial plan based on estimates of expenditures and revenues for a period of time.

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

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

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

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

Cash accounting – a practice of accounting whereby revenues and expenses are recorded when cash is paid and received. Cash accounting is straightforward and is often used by very small businesses; however, it can overstate or understate financial position of the enterprise depending on when a cash payment is made or received.

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

Cash flow projection – a forecast of the cash a business anticipates receiving and disbursing over a given span of time, frequently one month. It is useful in anticipating the cash portion of a business at specific times during the period projected.

Cash flow statement – a financial document that reports information about cash receipts and cash payments during an accounting period. The cash flow statement segments cash sources and uses into "operating", "investing" and financing" categories. It is generally prepared for the same period as the profit and loss statement.

Client population – the poor microentrepreneurs whose income or economic opportunity BDS programs seek to improve (also called Target Population).

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

Comparative disadvantage – factors within a social enterprise such as expensive capacity building, compensation for loss in productivity and materials, and costs of social programs that make it difficult to compete with private sector competitors due to substantially higher costs.

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

Contingency planning – Preparing alternative strategies and plans that correspond to a liable risk occurring, thus threatening the plausibility of the chosen plan.

Contra account – an account whose balance is subtracted from a related account in financial statements—i.e., accumulated depreciation.

Core competency – a skill or aptitude, or a collection of skills, that enables an organization to integrate business processes in the creation and delivery of true benefits for customers and to distinguish itself from its competitors as well as block their attempts at imitation.

Costs of goods – Expenses associated with producing and making a specific sale. Companies differ as to which expenses they attribute to costs of goods, but generally included are direct labor, raw materials, factory overhead, sales commission, and freight.

Costs of goods (COGs) sold – Costs of inventory sold during an accounting period by the selling enterprise. COGs include all costs to make a product or render a service: labor, raw materials, operations, factory overhead, etc. It is important for social enterprises to list costs of goods sold in their income statement.

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

Current assets – assets that are expected to be turned into cash within one year through the company's normal operations.

Current liabilities – liabilities due for payment in one year.

Current Ratio – a measure of liquidity used as an indicator of a social enterprise's ability to pay short-term debts. The formula for Current Ratio is current assets divided by current liabilities.

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

Depreciation – the decrease in the value of equipment from wear and tear and the passage of time. Depreciation is recorded as an expense that allocates the cost of the asset over the time it is expected to generate income.

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

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

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

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

Entity – something that has a distinct existence or conceptual reality. (Merriam–Webster)

Equity – monetary value which represents an ownership stake or net worth in an enterprise. Issuing stock or selling equity stakes raises capital for a business. For example if a PO takes equity in its social enterprise they purchased partial ownership of the enterprise. In publicly traded companies, issuance of stock signifies selling very small pieces of the company.

Features – characteristics of a product or service that deliver a benefit.

FIFO – is an acronym for **F**irst **I**n **F**irst **O**ut, and a method of inventory valuation that assumes the cost of inventory sold during the period is the cost of the earliest inventory purchased and available for sale in the period.

Financial statements – the balance sheet, income statement, and cash flow statement (and sometimes owner's equity), which together provide a fair portrayal of a company's financial condition at the end of an accounting period and the result of operations for the accounting period.

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

Finished goods inventory – completed products stored in inventory and ready for sale.

Fixed costs – costs that remain constant despite increases or decreases in sales.

Flow diagram – a step-by-step map of your operations process. Flow diagrams facilitate identifying bottlenecks, inefficiencies, and information-sharing problems within an enterprise, as well as determining operating and production costs and skill and labor requirements for each stage of the process.

FOB (Free On Board) destination – supplier bears transportation cost.

FOB (Free On Board) shipping point – buyer bears transportation costs from point of origin.

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

Forward integration – a strategy of downstream expansion into new areas of a company's value chain, such as distribution, wholesaling, retailing, etc. See also vertical integration.

Fund accounting – a concept particular to nonprofit organizations and government agencies. Financial records must be maintained for each program that receives contributions (in the form of grants and donations) designated to support a specific program. Each set of records is called a "fund" and is considered a separate accounting entity with its own financial statements.

Fungible – being of such a nature that one part or quantity may be replaced by another equal part or quantity in the satisfaction of an obligation.

General and administrative expenses – expenses of running a business as opposed to those directly allocated to the cost of making a product or rendering a service.

Goodwill – Excess value of asset over market value (or book value). Goodwill appears in financial statements when a business is valued above it assets shown on its books.

Gross income – all revenue before deduction of any expenses.

Gross profit – shows the value that an enterprise is earning over the cost of the merchandise sold **(costs of goods sold)**. Gross profit is calculated by subtracting costs of goods sold from total sales. It is called gross profit because other expenses still need to be deducted in order to arrive at **net profit**.

Gross profit margin – gross profit expressed as a percentage; shows the percentage of return an enterprise earns over the cost of the merchandise sold (costs of goods sold). Gross profit margin is calculated by dividing gross profit by sales.

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

Income statement – see **profit and loss statement**.

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

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

Inventory – product that is either completed or in some stage of production and is to be sold in the normal course of the enterprise's business.

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

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

LIFO – is an acronym for **L**ast **I**n **F**irst **O**ut, and a method of inventory valuation that assumes the cost of inventory sold during the period is the cost of the latest inventory purchased and available for sale in the period.

Margin – the difference between net sales and the cost of merchandise sold, from which expenses are usually met or profit derived.

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

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

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

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

Market saturation – supplying a market with as much of product or service as it can absorb. At the point of market saturation there is no room for new players to enter without competing directly for existing customers currently buying the product or service from another supplier.

Marketable securities – short-term investments with well-defined dollar value such as bonds, treasury bills, or stocks that are easily convertible into cash.

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

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

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

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

Net fixed assets – When a fixed asset is purchased for use in operations of the business it is recorded at cost. As the asset wears out, an amount is charged to expense and accumulated annually in a contra account known as accumulated depreciation. Accumulated depreciation is the cumulative sum of all the years' worth of wearing out that has occurred in the asset. The gross fixed asset (purchase price) less the accumulated depreciation equals the Net Fixed Asset Value (also known as book value).

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

Net worth – also called owners equity, net worth is equal to assets less liabilities. It represents the value of the enterprise.

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

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

Operating expenses – the costs of the selling and administrative activities of a business. Operating expenses are reported in the income statement and are usually categorized as selling and general administrative expenses.

Operations – most closely identified with service businesses; operations are the stages or steps required to provide a service or manage a process.

Opportunities – current or future conditions in an environment that a social enterprise might be able to turn to its advantage.

Outsource – to contract to another company or individual a business function such as assembly, distribution, sales, etc.

Overhead – the costs of operating a business—such as utilities, administrative offices, supervision, insurance, and maintenance—that cannot be linked directly to products or services produced and regardless of any fluctuations in production volume. Overhead can be separated to distinguish between factory overhead, or fixed costs associated with production, and operating overhead, or fixed costs or ***general and administrative expenses*** for operations other than production.

Penetrated market – those customers who have already purchased a product. Knowing the penetrated market allows marketing managers to gauge their position against competitors.

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

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

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

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

Pro forma – a projection or estimate of what may result in the future from actions in the present. Pro formas budgets and financial statements estimate business performance results based on certain assumptions.

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

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

Production – used in reference to the stages or steps required to manufacture physical goods. Manufacturing companies may also have operations stages associated with the nonproduction side of their business, such as tracking and managing inventories, purchasing raw materials, or selling goods.

Profit and loss statement – a financial statement that summarizes the amount of revenue earned and expenses incurred by a business entity over a period of time; also called an income statement. In nonprofit accounting, the profit and loss statement is sometimes referred to as the statement of activity.

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

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

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

Quick ratio – a measure of a social enterprise's liquidity; it is the relationship between the most liquid or current assets (cash, short-term securities, receivables and short-term investments) and current liabilities, used as an indicator of an enterprise's short-term liquidity. The formula for Quick Ratio is current assets minus inventory, then divided by current liabilities.

Return on equity (ROE) – expressed as a percentage that measures the ability of an enterprise to generate sufficient income to be a worthwhile investment. This is calculated by dividing net profit by owner's equity.

Revenue – gross income received prior to deductions for expenses, discounts, returns, taxes, etc.

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

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

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

Shrinkage – theft.

Skim the market – take a small piece of the market with a larger profit margin.

Social enterprise – a generic term for a nonprofit enterprise, social-purpose business, or revenue-generating venture founded to support or create economic opportunities for the poor (individuals or small and medium enterprises) while simultaneously operating with reference to the financial bottom line. A social enterprise can take many forms: as a direct employer of at-risk or poor populations; a customer of goods produced by poor entrepreneurs; a seller of products or services to poor or at-risk business owners; a for-profit business whose revenue is used to cross-subsidize social programs; or, the corollary, an income-generating social service program that covers a percentage of its costs

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

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

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

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

Strengths – skills, aptitudes, and aspects that enable a social enterprise to effectively deliver products or services based on customers' needs.

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

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

Subsidies – grants or gifts by private individuals, governments, or foundations aimed at assisting a venture reputed to be beneficial to a target population or the public.

Sunk Costs – a cost that has been incurred and cannot be affected by present or future business decisions.

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

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

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

SWOT analysis – an acronym for "strengths, weaknesses, opportunities, and threats." It is an analytical tool that helps project managers build a business strategy emphasizing the strengths of the social enterprise and opportunities within the operating environment and diminishes weaknesses and potential threats.

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

Threats – current or future conditions that might harm a social enterprise. For instance, a drought or a season of heavy rain could pose a threat to products in an agricultural subsector.

Unfinished goods inventory also called *work in progress* – the portion of inventory that is in the production process but is not yet a finished good.

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

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

Value chain – see ***Supply chain*** definition.

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

Weaknesses – internal conditions that can lead to poor performance.

Working capital – the excess amount in current assets over current liabilities. Working capital is the money a business uses to run its operations and in accounting is a measure of the enterprise's ability to service its financial obligations.

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"A journey of a thousand miles
begins with a single step."

—Chinese proverb