



**Strategic
Frameworks**

Chapter 4

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

— *Thomas Edison*
Inventor



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

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

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

EXHIBIT 4A: STRATEGIC FRAMEWORKS PRESENTED IN MANUAL

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

Analyze the Social Enterprise

BUSINESS ASSESSMENT: STRENGTHS AND WEAKNESSES

Rationale:

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



A Weakness Can Also Be a Strength and Vice Versa

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

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

Definition of Strengths and Weaknesses

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

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

GUIDE TO ANALYZING STRENGTHS AND WEAKNESSES

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

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.
- ✳ **Quality.** What is the quality of your product or service relative to similar products or services on the market? Is your product or service perceived as having exceptional quality, or does it have another advantage, such as a low price, that attracts customers?
- ✳ **Reputation/name recognition.** What kind of reputation does your product or service have? How well known is your brand or enterprise? When people hear the name of your brand (or enterprise), do they recognize it? Do they identify the name with your product or service?
- ✳ **Social image.** What image does your social enterprise have with customers? Is your enterprise seen as making a contribution to the community by, for example, employing local labor, selling products produced by the poor, or sourcing raw materials from local producers and suppliers? How is your social enterprise viewed with regard to its attention to the environment, fair trade, and just management practices?

Stakeholders' and Management's View of Internal Operations

- ✳ **Mission statement.** Does your social enterprise have a clear mission statement that articulates its central purpose, spells out its chief objectives and the main strategy it will pursue, and embodies the spirit and values of the enterprise? Do all key stakeholders in the enterprise agree with the mission statement?
- ✳ **Resources.** Does your social enterprise have adequate resources to dependably meet your clients' and customers' needs and expectations? Does your social enterprise have ample working capital to weather the ebbs and flows of your business cycle? Is financing sufficient to cover capital investment purchases and asset maintenance and to pay operating costs and overhead, such as salaries, rent,

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.

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.

utilities, and raw material supplies? Are resources available for research and development, contract expertise, and staff training? If your enterprise does not at present have adequate resources, can it readily mobilize them?

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

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

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

✱ **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 clients? Is physical access between your enterprise and the market barred at any time during the year because of inclement weather or other problems?

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

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

✱ **Leadership.** Is there full endorsement of the mission and objectives at the levels of (1) the social enterprise's stakeholders and senior management; (2) staff of the parent organization; and (3) senior management and the board of the implementing partner? Do all the key leaders champion the venture and support the accomplishment of the social enterprise's mission? Or is there dissent or tension among

certain leaders regarding introduction of a business culture or interventions into development practices? Have leaders expressed other reasons as to why they are not wholly on board with the social enterprise? Is there a strong leadership capable of leading the enterprise in times of controversy?

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



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



Analyzing the Social Enterprise

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

EXHIBIT 4B: BUSINESS ASSESSMENT: TARTINA

<i>I. Customer Perceptions</i>	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
<i>II. Internal Operations</i>			Comments
Mission statement		W	Difficulty balancing social and commercial objectives
Resources	S		Grant funding for start-up; operations; free technical assistance
Infrastructure/capacity	S	W	S—have production center; W—communications difficult (radios only); production capacity limited by size of facility
Operating efficiencies/ economies of scale		W	Poor distribution system Variable-cost business, so difficult to achieve economies of scale
Strategic alliances	S		SC, looking for business linkage opportunities
Location	S	W	S—close to target clients; W—far from target market
Structure	S	W	S—structured as a business, not a program; W—ownership unclear; disengagement from parent/partner organization difficult
Client relationships	S		Positive impact/relationship with clients
Product/service mix	S		Peanut butter and jelly are complementary products
Human resources		W	W—lack key marketing manager; lack technical expertise in-house
Leadership	S		Charismatic leadership

KEY

S = Strengths

W = Weaknesses

Analyze the Operating Environment: Opportunities and Threats

Rationale:

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

Definition of Opportunities and Threats

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

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

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.

GUIDE TO ANALYZING OPPORTUNITIES AND THREATS

- ✳ **Legal and regulatory policies.** Do government policies in your subsector prohibit or restrict your operations in any way? Are there existing laws, or new ones on the horizon, that govern production processes for, or handling or disposing of, certain materials you use in your business; employment taxes; or duties on imports? Less often in developing countries than in the United States and Europe, there are health and safety regulations that may require changes to your product or facilities that are outside your financial reach, such as wheelchair access or hazardous-waste disposal requirements.
- ✳ **Economic environment.** Is inflation a major factor in the economy, and is it predictable or does it fluctuate? During inflationary periods does demand go down for your product or service? Are economic conditions improving or declining? What bearing does the economy have on your enterprise? For example, if wages decrease, will customers buy more or less of your product? Will they decide to make the product themselves, or even forgo it, instead of purchasing it? Are there trade barriers or embargoes that hinder or benefit your enterprise?
- ✳ **Political instability or insecurity.** Could the political environment in the country jeopardize business operations in any way? Does political insecurity affect customers' spending habits? Does a possibility of violence or theft threaten distribution, sales, or operations or limit raw materials acquisition or other necessary production inputs?
- ✳ **Transportation and communications.** What are the conditions of the roads and public transportation? Are there plans to resurface old roads or build new ones or to open or close a rail line? Are communications reliable and adequate to meet your business needs? Do you have a variety of communications options—are new communications technologies, such as cellular phones, available and affordable?
- ✳ **Physical climate.** What is the topography of the social enterprise's location? Is access difficult as a result of natural barriers such as rivers and mountains? Are there certain times of the year when access is restricted because of snow or floods? Is access to the market a problem during such conditions? If your social enterprise operates in an agricultural sector or uses agricultural inputs, how does the weather affect your business?
- ✳ **Market.** Is there demand for your products or services? Are the features of your products or services shaped by the stated needs of your customers? Are your target customers willing to pay for these products or services? What is the size of your target market? What is the growth trend in your target market? What is any growth based on—adding new products or services, differentiating the features, or marketing, i.e., getting the word out about your products or services to potential customers?
- ✳ **Technology.** Are there technological innovations that could render your equipment or processes obsolete and cause your social enterprise to lose its competitive edge? Are technologies available that could help improve the quality of your product/service or decrease your production costs? Is technology available that would improve your communications or augment your access to information (Internet access, cell phones, e-mail, fax)? Are the technological inputs you need—knowledge or innovations—available to you?

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

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



Same as previous exercise



Analyzing the Operating Environment

- ▲ Fill out the **Operating Environment Analysis Worksheet** found in *The Workbook* or create your own.
- ▲ The list of opportunities and threats is intended only as a guide; add or omit items as needed for your social enterprise.
- ▲ Remember that opportunities can also be threats and vice versa.
- ▲ When considering opportunities and threats, it is important to look beyond the present and ask, “How will this impact the social enterprise in the future?”
- ▲ After completing the Operating Environment Analysis synthesize the information by answering the following questions:
 - Which are real opportunities, as opposed to distractions (poor strategic choices)?
 - How can you take advantage of these opportunities? When?
 - What measures can you take to mitigate pending threats?
 - What are the implications of these threats for the operations of your enterprise?
- ▲ Refer to the TARTINA example in exhibit 4C.

EXHIBIT 4C: OPPORTUNITIES (O) AND THREATS

(T) FOR TARTINA ENTERPRISE

- T** ***High-quality standardized products demanded:*** The best way to achieve a high volume of sales in a cost-effective manner is to serve urban markets, the closest of which is Port-au-Prince. This places TARTINA products in the competitive, formal market with its high standards for product quality and consistency. The demand for product standardization and quality control cannot be met through a home-based production model.
- O** ***Growing demand for processed food products:*** This is particularly true in urban areas such as Port-au-Prince, where population and income levels continue to rise. Also, more women in the professional work force translates to less time available at home for home-based production of peanut butter and jam products.
- O/T** ***Low barriers to entry:*** It is relatively simple for new companies to start up their own small-scale food-processing operations. There is a minimal degree of bureaucratic red tape, little capital investment is required, the recipes are simple, and labor is available. Consequently, there is lots of competition in the production of peanut butter and jam.
- T** ***Infrastructure and security:*** Distribution to urban markets from rural areas remains a constraint given the poor roads and lack of security, especially after nightfall.
- O/T** ***Microentrepreneurs' knowledge of food transformation:*** They do have some traditional knowledge of peanut butter and jam production, although this alone is not sufficient to satisfy the high standards of the urban markets. The traditional home-based production provides a good foundation for training in standardization of transformed products.
- O/T** ***Locally available raw materials:*** Locally grown citrus fruits are plentiful. Peanut shortages will be a constraint on higher production levels in the near future.
- T** ***Lack of published industry information:*** What little industry information exists is either outdated or extremely difficult to access.
- O** ***Increased consciousness of social responsibility:*** Although still a low priority for consumers, awareness of local products and businesses that support the poor is gaining attention from retailers.

SWOT Analysis

Rationale:

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



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



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

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



The SWOT Analysis is included in the Business Plan.

EXHIBIT 4D: SWOT ANALYSIS FOR TARTINA

<p>STRENGTHS</p> <ul style="list-style-type: none"> Products perceived as the economical choice Strong image as socially responsible Significant resources through grants Complementary product mix Good client relationships 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> Oil separates from peanut butter Quality is inconsistent Brand largely unknown Lack key management and technical expertise Difficult to achieve economies of scale
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> Growing demand for processed foods Locally available raw materials Most similar products are imported Rising consciousness of social responsibility at retailer level 	<p>THREATS</p> <ul style="list-style-type: none"> High-quality standard products demanded Infrastructure and security is poor in Haiti Lack of published industry information
<p>Strategies for maximizing strengths and opportunities: Leverage TARTINA's social contribution to secure contracts with socially conscious retailers who are familiar with TARTINA products and get other retailers to try carrying products on this premise. Plow resources into marketing efforts to get consumers to switch to TARTINA brand and increase its brand recognition across markets. TARTINA will position itself as the economic choice and compete on price against other brands. Secure contracts with producers guaranteeing their market and increasing raw materials supply.</p> <p>Strategies for mitigating weaknesses and threats: Hire needed staff in production and marketing from private industry. Invest in product development to improve product quality and meet market demand. Examine possibilities to increase economies of scale by investing in equipment or electrifying production center and adding evening shifts. Contract technical assistance from specialists to alleviate technical knowledge gaps; specifically to deal with problem of oil separating. Hire guard to improve security situation.</p>	

Industry Attractiveness

Rationale:

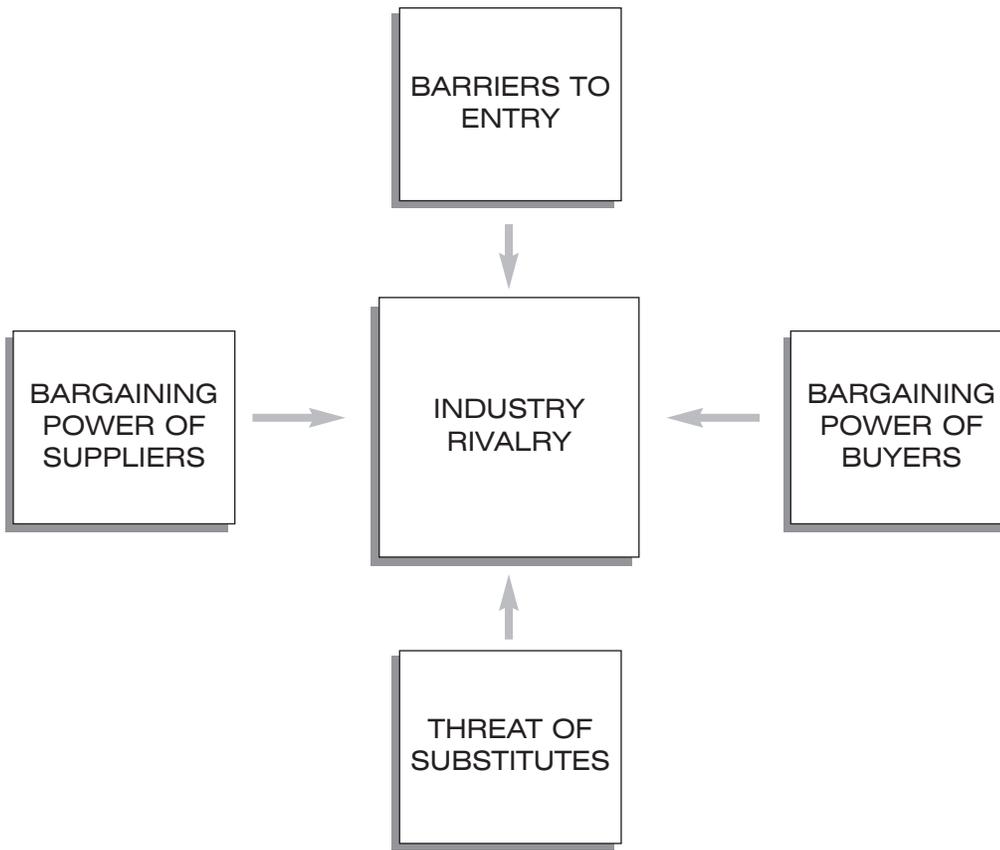
Attractiveness of an *industry* is a critical piece of the market research puzzle when planning your social enterprise. An *industry* is attractive if it offers above-average potential for healthy long-term profitability and sustainable *comparative advantage*. Determining industry attractiveness requires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

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

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

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

EXHIBIT 4E: FIVE FORCES MODEL



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



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

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

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

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

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

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

CASE STUDY FOR PORTER'S FIVE-FORCES MODEL²

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

Save the Children used **subsector analysis** to examine 14 different subsectors in which poor Filipino women work, then chose the fabric remnant subsector in part because it employs approximately 50,000 women in metropolitan Manila with annual earnings below the poverty line. SC also noted that this subsector was growing; demand for retaso products had been increasing by approximately 7 percent per year. Additionally, opportunities

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)

existed to secure contracts for retaso products with large corporations in the Philippines’ fastest-growing industries. Finally, SC believed it could mitigate unfavorable government policies toward the retaso workers by integrating an advocacy component into the program.

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

²The 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.

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

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

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

THREAT OF NEW ENTRANTS: "BARRIERS TO ENTRY"

Rationale:

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

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

Barriers to Entry as a Force in Social Enterprise Design

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

Market Barriers Might Include ...

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

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. (Hagglblade, Gamser, 1991)

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

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

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

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

- ✱ **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.



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

Determining Barriers to Entry

- ▲ Analyze the barriers to entry in the industry in which your social enterprise operates or in industries you are exploring for a new intervention.
- ▲ Fill out the **Barriers to Entry Worksheet**, including the attractiveness-rating columns, found in *The Workbook* or create your own. An example for retaso is in exhibit 4F.
- ▲ Determine how this information translates into “overall attractiveness” for the industry. You may use a rating system or weighted averages to quantify your results. (Instructions for calculating weighted averages are given in appendix A.)
- ▲ Note the strategic implications of barriers to entry for your social enterprise.

EXHIBIT 4F: EXAMPLE OF BARRIERS TO ENTRY FOR RETASO INDUSTRY

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

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

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

BUYER POWER

Rationale:

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

Buyer Power Is Usually High When ...

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

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

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

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

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

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

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

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

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

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

Strategic Options for Operating in a Buyer Power Industry

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

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

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



Same as previous exercise

Determining Buyer Power

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

EXHIBIT 4G: EXAMPLE OF BUYER POWER IN RETASO INDUSTRY

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

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

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

SUPPLIER POWER**Rationale:**

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

Supplier Power Exists When ...

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

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

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

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

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

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

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



Same as previous exercise

Determining Supplier Power

- ▲ Follow the same directions as for buyer power. Fill out the **Supplier Power Worksheet** in *The Workbook* or create your own. An example for retaso is in exhibit 4H.
- ▲ You can use a rating system or weighted averages to quantify your results for "industry attractiveness" (appendix A).
- ▲ Note the strategic implications of supplier power for your social enterprise.

EXHIBIT 4H: EXAMPLE OF SUPPLIER POWER IN RETASO INDUSTRY

**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.

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

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

SUBSTITUTES

Rationale:

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

butter increases, people may use jam or butter as a substitute. Scanning an industry for availability of substitutes is another component of assessing industry attractiveness for your proposed social enterprise.

Substitutes Pose a Threat to Industry Attractiveness When ...

- ✳ **Many similar or substitute products or services exist.** Businesses with poorly differentiated products and services are at greater risk of losing customers if lower-cost substitutes exist. In the retaso cleaning rag business, substitutes can be purchased in many stores. Additionally, potential customers may use old clothes or linens as cleaning rags, for which they pay nothing.
- ✳ **User switching costs are low.** Switching costs are low if buying a substitute product, rather than the actual product, bears no price or other burden.
- ✳ **The perceived value of the product does not justify its price when a lower-priced substitute exists.** Customer purchasing decisions constantly weigh value against price. This is especially true in price-sensitive markets, where customers will readily buy a low-cost substitute if they perceive it as a good value that satisfies their needs.



Same as previous exercise

Determining Availability of Substitutes

- ▲ Follow the same directions as for supplier power. Fill out the **Substitutes Worksheet** in *The Workbook* or create your own. An example for retaso is in exhibit 4I.
- ▲ You can use a rating system or weighted averages to quantify your results for “industry attractiveness” (appendix A).
- ▲ Note the strategic implications of substitutes for your social enterprise.

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

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

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

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

INDUSTRY RIVALRY

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

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

Rivalry Is Intense When ...

✱ **There are many competitors.**

✱ **Industry growth is slow.** In industries where growth is sluggish, companies are fighting for the same pool of customers.



✱ **Product features are poorly differentiated.** Companies that sell commodities, such as coffee or sugar, often suffer from intense competition because the products’ features do not lend themselves to being distinguished from one another.

✱ **Excess capacity exists.** This occurs when companies have a surplus of resources (human resources, plant facilities, physical space, equipment, etc.) that enables them to offer more services or manufacture more products at little or no additional cost.

✱ **The diversity of competitors is high.** Different types of companies are selling the same goods and services.

Determining Industry Rivalry

- ▲ Follow the same directions as for substitutes. Fill out the **Industry Rivalry Worksheet** in *The Workbook* or create your own. An example for retaso is in exhibit 4J.
- ▲ You can use a rating system or weighted averages to quantify your results for “industry attractiveness” (appendix A).
- ▲ Note the strategic implications of industry rivalry for your social enterprise.

EXHIBIT 4J: EXAMPLE OF RIVALRY IN RETASO INDUSTRY

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

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

SYNTHESIS OF INDUSTRY ATTRACTIVENESS

Rationale:

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

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



Same as previous exercise



Determining Overall Attractiveness of Your Industry

- ▲ Place the “attractiveness ratings” for each of the forces in the **Five-Forces Model** in *The Workbook* or create your own. An example for retaso is provided in exhibit 4K.
- ▲ Synthesize the conclusions; this may give you enough information to decide whether this is the right industry for your social enterprise.
- ▲ If your enterprise is currently operating in this industry, do the strategies you articulated for each component in the Porter model fit logically together, or will you need to develop new strategies to operate successfully in this industry?



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

EXHIBIT 4K: EXAMPLE OF FIVE FORCES FOR THE RETASO INDUSTRY

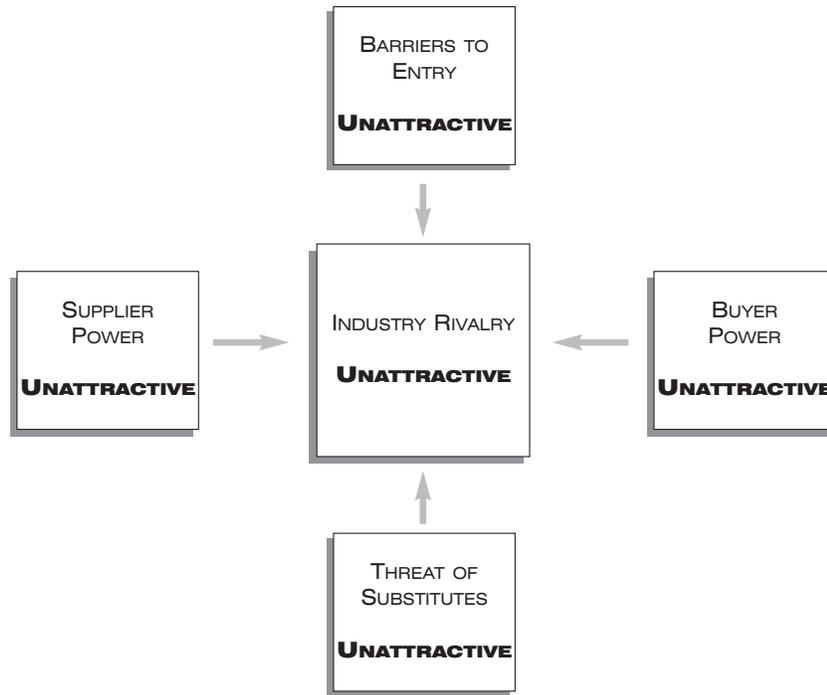


EXHIBIT 4L: SYNTHESIS WORKSHEET: EXAMPLE FROM RETASO

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

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

Industry Analysis

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

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.



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



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

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

Holidays:

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

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

- Which ones?
- In what way?



Seasonal factors are included in the Business Plan

Sensitivity to Economic Cycles

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



How do these economic variables influence your industry?

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



Economic variables are included in the Business Plan.

Sensitivity to Government Regulation

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

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



How does government regulation affect your industry?

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



Government regulations are included in the Business Plan.

Technological Change

Technology-driven enterprises—those that depend heavily on technology in their processes or that sell technology products—tend to be highly vulnerable to change. Sales can fall off dramatically if competitors introduce technology innovations that result in a better product, faster production time, or lower costs. If technology changes rapidly in your industry, then you will need to be prepared to respond, in terms of both R&D and investment in new or replacement

Technology: To Do or Not to Do?

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

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

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.



Same as previous exercise

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



Notations on technological change are included in the Business Plan.

EXHIBIT 4M: TARTINA'S SENSITIVITY TO TECHNOLOGICAL CHANGE

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

Financial Characteristics

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



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



What are the Financial Characteristics of Your Industry?

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



Description of financial characteristics is included in the Business Plan.

Competitive Analysis

Rationale:

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

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

Evaluating competitors' strengths and weaknesses

EVALUATING COMPETITORS' STRENGTHS AND WEAKNESSES

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

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



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

Analyzing Competitors

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

(Continued on page 108.)

EXHIBIT 4N: COMPETITOR ASSESSMENT: PIDY

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

KEY
 S = Strengths
 W = Weaknesses

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

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

TARTINA Enterprise Direct and Indirect Competition

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

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

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



Same as previous exercise

Analyze Indirect Competitors

- ▲ Identify indirect or secondary competitors that may have an impact on the success of your social enterprise. Indirect competitors can be organizations, companies, or individuals who offer similar or substitute products or services or who serve a different market segment that may infringe on your target customer.
- ▲ An **Indirect Competitor Worksheet** is available in *The Workbook*; an example for TARTINA is given in exhibit 4P.



Competitor information is included in the Business Plan.

EXHIBIT 4P: TARTINA'S INDIRECT COMPETITORS

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

Calculating Market Share

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

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

Guesstimation Approach to Deriving Market Share

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

Market Share

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

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

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



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

Determining Market Share for Products

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



Market share information is included in the Business Plan......

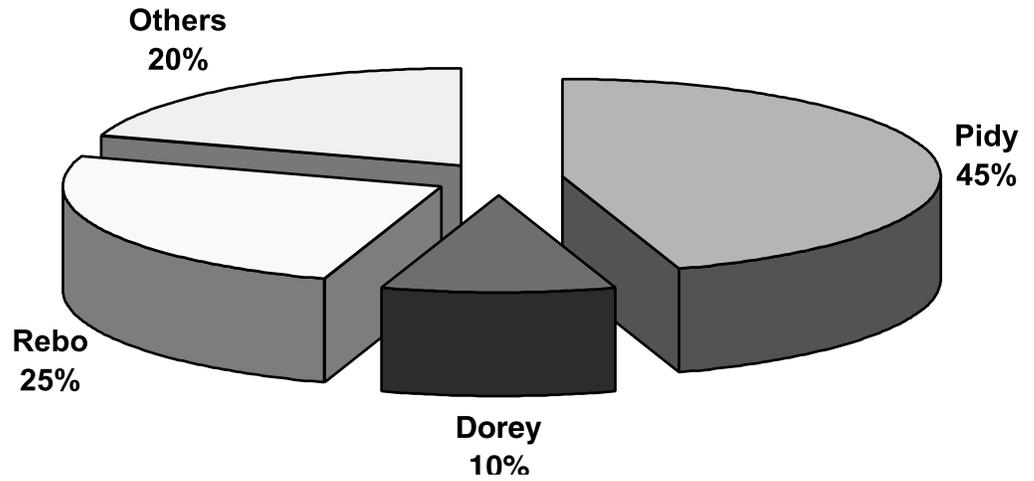
EXHIBIT 4Q: MARKET SHARE TRENDS FOR PRODUCERS OF PEANUT BUTTER

Competitor	Percent of market ⁴	Market share trend:	Most important characteristics of market leaders
#1 Pidy	45%	↓ ↔ ↓	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 packaging; premium price, yet cheaper than imports; colorful label also reaches children; supplier to hotels; not the best-tasting peanut butter, but marketing is slick
#3 Dorey	10%	↓ ↔ ↓	High quality, good taste, smooth consistency, and attractive color; a favorite among connoisseurs of domestic peanut butter; packaging is humble at best; has the look of Grandma’s kitchen in market that favors fancy imports
#4 Others	20%	↑	New players gaining market share

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

(Zoul, Tacha,
TARTINA, imports)

via various strategies



TARTINA
jam production



EXHIBIT 4R: MARKET SHARE FOR MAMBA

FUTURE COMPETITORS

Rationale:

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



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

Projecting the Future

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

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

EXHIBIT 4S: TARTINA FUTURE COMPETITORS

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

COMPETITIVE STRATEGY

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



Same as previous exercise

Formulating Your Competitive Strategy

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

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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 scarce 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.