Lessons Learned

Chapter 9

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

Historical Overview

Save the Children's social enterprise methodology evolved from its experience in a type of programming called business development services (BDS) beginning in 1993 in the Philippines. The program targeted poor, self-employed women in metropolitan Manila working in the remnant subsector of the garment industry. A second, similar program, launched in 1997, served clients who were rural self-employed women in Haiti engaged in the transformation of agricultural products. These programs expanded on subsector approaches and analysis techniques, adding a substantial focus on women and pioneering an approach called women's microenterprise networks (WMEN).

Save the Children's first business program architects used what little documented industry experience was available as the basis from which to blaze the methodological trail of WMEN programming. In brief, the WMEN concept envisioned enabling poor self-employed women to increase their economic opportunities and income through services that would alleviate or minimize constraints they faced in their businesses. The objective was to make women's activities more profitable without increasing their workload. Thus, the methodology emphasized augmenting women's existing economic activities with services that would improve their terms of trade, link them to markets, enhance their products, or give technical support. These services would be provided through an intermediary that would organize women working in the same subsector to help them increase their collective influence over power structures and discrimination within the subsector. The program was conceived to become a viable venture through various fee structures incorporated in its design. Scale would be realized by serving large numbers of poor self-employed women through a "network"—hence the name women's microenterprise networks.

WMEN program trials in the Philippines' fabric remnant industry and in Haiti's agricultural food-processing sector sought to "lead the drive toward effective, large-scale, and sustainable [business development services programs] and help define standards for cost-effectiveness, cost recovery or profitability, and scale in [the] BDS sector."[1] At that time, proclamations of this type were prevalent in development-speak, yet just how these goals could be achieved in the business development services sector remained uncertain. The WMEN programs were launched to test and develop the network methodology's ability to achieve the objectives of scale and

[1] WMEN Program Haiti proposal.

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

Over the past six years, Save the Children's experience has yielded many lessons; unfortunately, none has proved to be the Holy Grail of business development services programs. Neither pilot simultaneously achieved financial viability and large scale. In retrospect, SC has concluded that the main shortcoming of the WMEN approach was its lack of application of business modalities and market research. The WMEN program design gave justifiable consideration to socioeconomic development needs of the target population and donor expectations, yet it underemphasized business elements—the "B" of BDS—in its formula. SC learned that to achieve cost recovery and meet targets, the interventions would have to adopt a market orientation and operate like businesses.

Today, the original precepts and principles of WMEN remain valid, though Save the Children's BDS programming methodology has evolved. The approach metamorphosed into a new methodology called **Social Enterprises for Women**, which builds on the work of the Save the Children BDS forerunners, adding tools and methods adapted from private-sector business disciplines. Save the Children has chronicled several of the lessons learned, which served to shape the new programming methodology. They are detailed in the following case study.[2]

WMEN's Guiding Precepts and Principles

The WMEN methodology was based on the following precepts:

- Poor women work in a variety of economic activities; they manage resources and make a significant financial contribution to the household, directly benefiting their children.
- They provide valuable products and services to the marketplace; however, they face considerable constraints on realizing maximum profits from their economic activities.
- In addition, many of these women face discrimination based on gender, social or economic status, making it difficult for them to conduct their business activities.
- Self-employed women have limited time because they must balance multiple roles.
- Because poor women are economically insecure, they tend to be risk averse.
- Many subsectors have an inherent infrastructure to support a third-party intervention.
- Economic systems are based on both competition (lower prices, superior products, etc.) and power (economic connections and social status).

The WMEN approach was founded on these guiding principles:

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

[2] The WMEN program in Haiti is the only example provided in this manual. For internal reasons, documentation of the WMEN program in the Philippines is not included. The "lessons learned," however, are based on SC's experience in both the Philippines and Haiti.

Case Study: WMEN Program "TOPLA" from Haiti[3]

Program Background

Prior to initiating a WMEN program in Haiti, designers used subsector analysis techniques to study the economic activities of poor self-employed women. They observed that many were engaged in food transformation activities to generate income for their families. In the citrus fruit and peanut agricultural subsectors, rural Haitian women purchased raw materials from local producers and made peanut butter and jam, which they sold in their communities. These women were unable to realize maximum profits, however, because of market saturation and the low purchasing power of their rural customers. Designers noticed that in large urban markets such as Port-au-Prince, in contrast, consumers ate peanut butter and jam purchased from retail outlets. Rural self-employed women were unable to reach these urban markets with their products because of a lack of transportation, marketing knowledge, and retail contacts. Save the Children designers concluded, therefore, that they could substantially increase economic opportunities for these poor women through an intervention aimed at bridging this market gap.

A marketing intervention that sought to link rural self-employed women to urban markets was the first incarnation of the SC/Haiti program. The design itself was based on the WMEN premise of adding value to existing food transformation activities of poor self-employed women. It called for a decentralized approach whereby clients obtained their own raw materials and produced their own goods at the household level, while the Association des Paysans de Vallue (APV), SC/Haiti's local partner, managed the centralized marketing, sales, and distribution functions—using the brand name TOPLA—and SC/Haiti provided oversight and technical assistance to the program.

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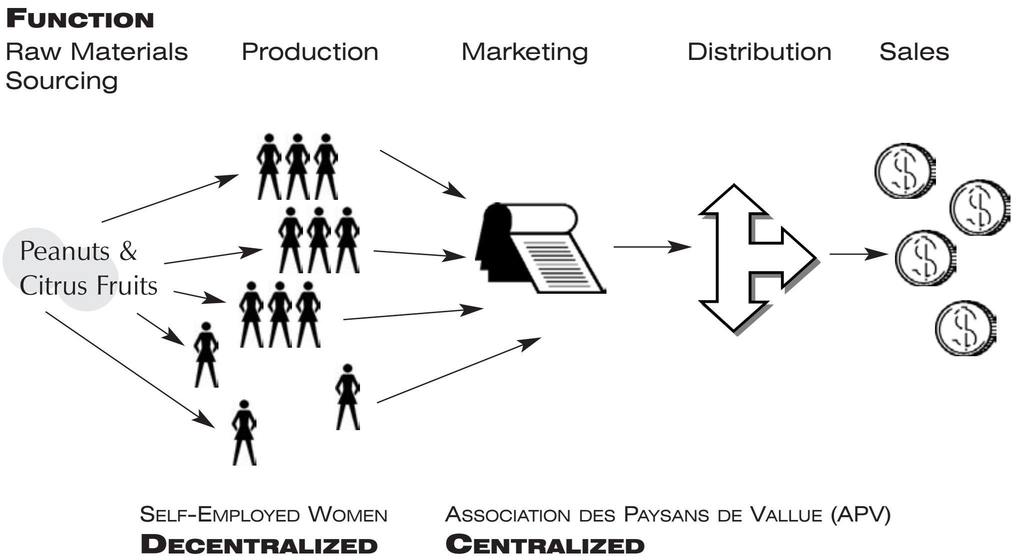
[3] Major contributions to the TOPLA case study were made by Heather Shapter, Save the Children technical advisor in Haiti, and the APV and SC/Haiti program team. Additional contributions are courtesy of Kellogg Corp. volunteer management consultants from the J.L. Kellogg Graduate School of Management, Northwestern University.

Exhibit 9A: Haiti WMEN Network Model

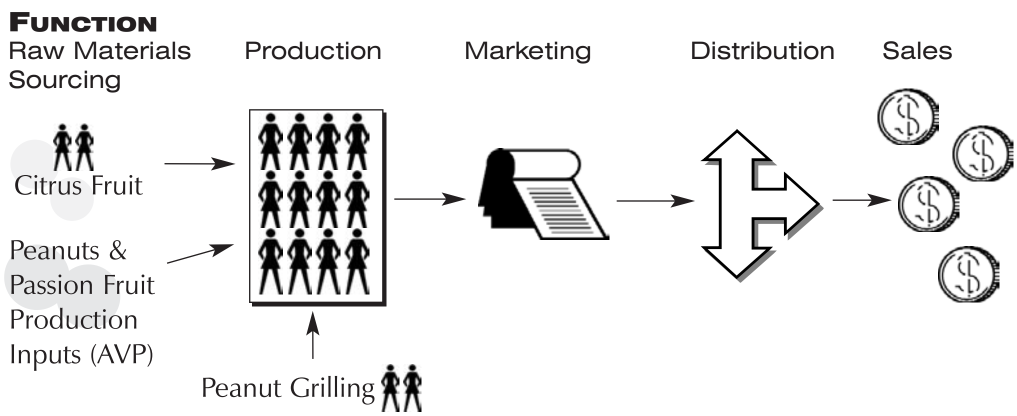


WHAT HAPPENED

The WMEN model was founded on several assumptions that proved to be false. A key assumption, that processing of peanut butter, jam, and other foods is a traditional activity of poor entrepreneurs in Haiti, was flawed. Most of the target population did not actually have experience in peanut butter and jam food processing. As it turned out, training, supervision, and product development were required to produce standard TOPLA products. The second assumption was that clients, self-employed women, would source their own raw material inputs. This was false on three counts: Poor entrepreneurs faced constraints on acquiring some key inputs to production, notably containers and labels; they lacked the means to realize cost savings by purchasing in bulk, which elevated unit costs beyond the break-even point; and finally, this model did not account for the seasonality of raw materials. The third false assumption was that an adequate market for a variable product existed. In fact, SC/US and APV discovered that TOPLA customers demanded a highly standardized product. But WMEN's decentralized approach to production did not support the manufacturing of consistent products, despite the merits of the network concept and its ability to achieve scale. These oversights resulted in additional management burdens and program costs.

This "market test" had a forceful impact on the WMEN program. Save the Children and APV sought to steer the program toward viability by first concentrating on producing a salable product. Although they supported an outstanding effort to adapt the program to market realities, the result was a slow, unintended shift from a loose, decentralized network structure to a centralized manufacturing facility. Investments were made in a production site plant and equipment, and functions were *vertically integrated* one by one without attention to a business strategy. Although these proved to be legitimate business decisions aimed at producing higher quality, standardizing products, and reducing constraints on access to raw materials, their consequence was to shift the WMEN client-focused model to a more classical enterprise model. Acquisition of citrus fruit for raw material inputs and the home-based peanut-roasting stage of production are the only remaining decentralized functions (exhibit 9B).

EXHIBIT 9B: TOPLA SOCIAL ENTERPRISE MODEL



ASSOCIATION DES PAYSANS DE VALLUE (APV)
CENTRALIZED

In Year 2, the program underwent a strategic realignment. Partners reassessed the original social and economic goals and objectives and reached a consensus on the mission. A business plan was developed that articulated new targets, with intermediate benchmarks to measure progress and social impact and concrete steps to achieve them. Targets for scale were also adapted to more realistic levels and to capture TOPLA's target population, which extends beyond poor self-employed women to include small producers.

During the strategic planning period, APV and Save the Children unanimously decided to abandon the WMEN methodology in favor of the more market-based social enterprise approach. The program has since taken on a business orientation, and its structure has become more like an enterprise than a development program.

The WMEN program in Haiti was restructured, and though it remains a "program" under the auspices of APV, the nonprofit intermediary, it has been segregated from APV's other activities and operates as an enterprise (exhibit 9C). The WMEN program has its own guiding mission and objectives, maintains its own accounting system, and shares few personnel functions with APV. The bulk of the food processing for all products in the TOPLA line takes place in one production center, which has been outfitted with basic, semi-industrial equipment to improve productivity and enhance product standardization. Although final questions of structure and ownership are yet to be resolved, the program has evolved into a viable enterprise. This Save the Children considers notable.

EXHIBIT 9C: SC HAITI WMEN PROGRAM

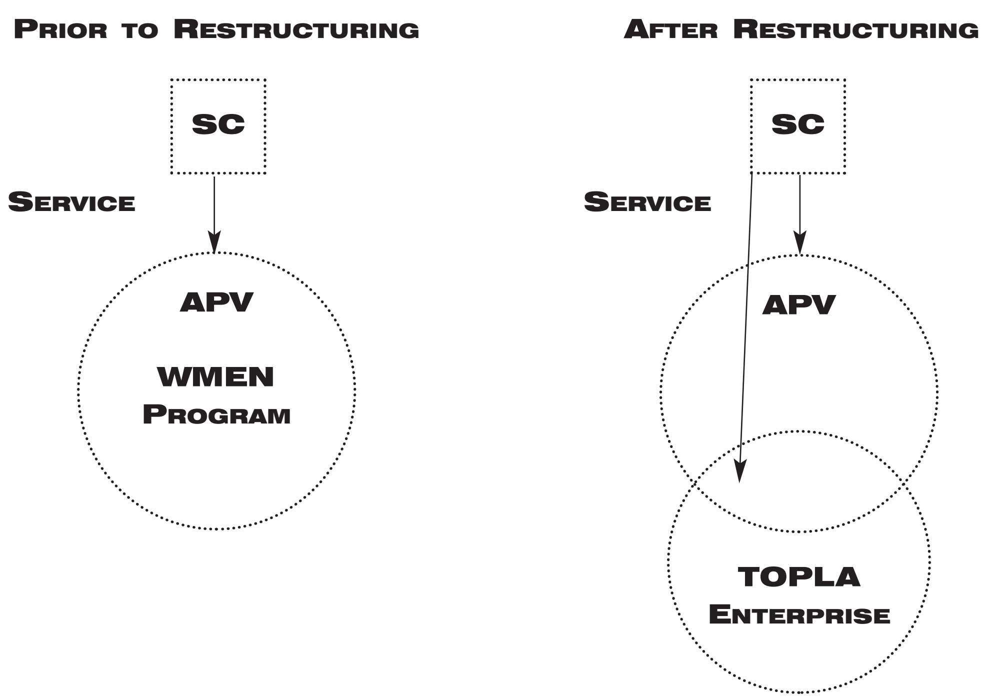


Exhibit 9D: Excerpt From the TOPLA Business Plan

Experience of the past two years has shown that the original decentralized program design is not appropriate to meet the WMEN program's long-term goal and targets. The primary reasons for this are:

- **Customers demand a highly standardized product.** The best way to achieve a high volume of sales in a cost-effective manner is to serve urban markets, the closest of which is Port-au-Prince. This places the products (brand name TOPLA) in the competitive, formal market with high standards for product quality and consistency. The demand for product standardization and quality control cannot be met through a home-based production model.
- **The assumption of traditional knowledge** of the transformation process of a number of the products has proved to be false. Centralized training, follow-up, and continuous supervision by production agents have been required.
- **Bottlenecks to raw material acquisition.** In the decentralized model, the WMEN program loses needed cost savings that can be gained through centralized bulk purchases of production inputs. As well, some key inputs are not easily accessible to the poor women clientele, most notably containers and labels. The customer preference for product standardization also extends to the need for tight quality control and standardization at the raw material purchasing stage.

A Closer Look

The following excerpts chronicle specific challenges TOPLA Enterprise encountered in the early part of the program (and to some extent continues to face) and the strategies it used to overcome them. This section is intended to give the reader an in-depth look at issues that drove the evolution of the current social enterprise approach from the previous WMEN program. Italics denote excerpts taken from Haiti program reports between Year 1 and 2.

Management and Human Resources

To keep pace with the many challenges the WMEN program has faced, SC/Haiti and APV have fallen prey to reactionary management practices. There is an acute need to invest time in setting up systems for systematic planning and for prioritizing decisions. Management is also plagued by a poor definition of program roles, responsibilities, and accountability. Moreover, program management personnel are just that—those with experience in program management but with little experience in running a business or in the techniques of food processing. Also, marketing continues to be one of the principal areas requiring immediate strengthening. Despite its attempts, APV has been unable to attract a qualified candidate for marketing manager at the designated salary.

These issues were addressed by reallocating the budget and recruiting a half-time business manager and a marketing manager at a higher salary. Technical assistance in food processing has been and will continue to be contracted for as required. Roles and responsibilities were clearly delineated in a program organizational chart, and job descriptions were created.

Product Selection

The TOPLA products peanut butter and grapefruit jam are in the mature phase of their life cycles, a stage characterized by brand recognition, stable and high sales levels, numerous competitors, declining profit margins, stiff price competition, and market saturation.

> *Peanut butter and grapefruit jam's entrance into the decline stage of the product life cycle were postponed by introducing product modifications—new packaging, new flavors, etc. This approach served to differentiate the product from its competitors and temporarily escape the heat from direct competition. The WMEN program has identified a market niche for sweetened peanut butter. This flavor is not offered by the competition and will serve to more directly target the tastes of children.*

TOPLA also inaugurated new products, passion fruit jam and Karapinia (a sugar- and spice-coated peanut snack), which in contrast to peanut butter and grapefruit jam are in the introductory stage of their life cycles, a stage characterized by little direct competition, low sales volume, limited distribution, low revenue levels, and increased risk. The feasibility test and market research pointed to great potential for these products, making the risk of introducing them into the market a worthwhile one.

Product Line

Twenty-three products make up the TOPLA product line. With such a long list, product specialization is very difficult to achieve, creating problems of standardization and quality control. Similarly, preparing a cohesive marketing strategy for such a sprawling line of products within the framework of a small enterprise is not possible. Potential economies of scale through bulk purchases are also being lost with the addition of every new product size. A wide-ranging product line significantly complicates enterprise management of inventory control, accounting, and sales and production reporting.

The product strategy has been reformulated, by reducing product line from 23 to seven, to balance the need for focus with that of offering a large enough variety of products to decrease fixed costs per product. Focus is needed to build expertise, especially in the areas of food processing and marketing. Seven complementary products, with synergistic value have been retained in the TOPLA product line. Simply put, peanut butter and jam belong together.

Raw Materials

The inconsistent availability of raw materials remains the main production constraint. The self-employed women clients are unable to find the necessary raw materials or are not able to afford them because of insufficient planning or lack of cash.

During the first year, APV began centrally purchasing and stockpiling peanuts, a key raw material, before their price increased in the off-season. This eased some of the constraints for the clients. Unfortunately, no technical assistance was available to advise the WMEN program staff on proper preservation or storage techniques. As a result, almost 30 percent of the original stock either spoiled or was stolen, negating most of the cost advantage of the bulk purchase.

Production planning was incorporated in the business to minimize situations in which raw materials sit in storage for long periods of time. Purchasing, originally left to the clients, is now centralized under the direction of the TOPLA production center. Economies of bulk purchase are realized when prices of seasonal raw materials are most favorable. Assistance in proper preservation and storage techniques was acquired through Partners of the Americas' Farmer to Farmer Program.

Procurement of Other Inputs

The WMEN program has faced a continuing shortage of jars (plastic and glass), having had only one supplier of the containers. Other suppliers have not been willing to sell to APV because of the small order size. Last year, the supplier was unable to provide stock, which resulted in suspension of production for an extended period. To reduce dependency on a single supplier, APV searched for other sources of supply, including the Dominican Republic, a neighboring country. Of the three types of packaging required, APV was successful in identifying two in the DR, but the cost of one of those two appears prohibitive.

Also, by covering a longer production period, APV has increased its order size for suppliers in Haiti who will only accept larger orders. As well, APV is in the process of assessing the possibility of procuring the containers from nearby Miami or from Venezuela.

Quality Control

Since the shift from an individual to a centralized production model, quality control (QC) has improved significantly. However, each product type still requires QC improvements, especially if the products are to continue to be sold in the competitive, sophisticated market of Port-au-Prince.

One particular quality control problem has resulted in product returns. TOPLA's peanut butter is 100 percent natural, with no additives or preservatives. With this all-natural recipe, the peanut oil separates and rises to the top after a certain period of time. Supermarket owners have been unable to sell TOPLA peanut butter when this occurs. The WMEN program is considering several options to address this urgent issue: Educate the customer on the characteristics of all-natural peanut butter, add the necessary chemicals to reduce oil separation, or tighten up distribution and inventory control to get peanut butter on grocery shelves and sold before the product separates. APV has already received a sample of a chemical fixing agent from the United States, which will be tested during the coming reporting period. Channels are also being analyzed for more efficient distribution and sales turnaround.

> *Local technical assistance organizations specializing in food processing were contracted to provide training to the clients and production staff to ensure that a high level of quality in production is maintained.*

Step-by-step quality control improvements were identified by production agents for peanut butter and jam products, and a "Quality Control Program" was developed. To augment quality control, certain clients are trained as specialists to champion QC, and QC has become a standard part of clients' training.

Financial Outlook

The WMEN program has been unable to meet its cost-recovery targets because of the costs of implementing the centralized production model and other unanticipated expenditures. Although this model requires more initial investment, the long-term return should be higher than that of the individual production model.

The program budget was revised to reflect the activities of the new business plan. Some of the current budget line items will be reallocated to cover the new financial requirements. The new target is to break even by TOPLA's seventh year of operation.

Enterprise Model

The feasibility test and the business planning processes confirmed that the original decentralized WMEN program design could not respond to the Haitian consumer market demands of high standards of quality control and competitive pricing. A centralized food processing model, however, does translate into a potentially successful business concept. The biggest drawback to the centralized model is that it cannot impact the thousands of entrepreneurs originally targeted. In particular, the analysis that laid the groundwork for the business plan showed that the centralized model could support 120 part-time clients for the coming year and 358 by the end of seven years, at which time the enterprise is projected to be financially viable.

> *Peanut farmers should also be included in the beneficiary count. The program will need to take a more active role in ensuring timely access to the required quantity and quality of supply. Peanut farmers in the production region will need technical support to improve productivity yields and the quality of peanut varieties currently under cultivation.*

Conclusion

Save the Children's redesigned Haiti program marked its transition from the WMEN approach to adopting a broader social enterprise methodology in its business interventions (BDS and microfinance programs). Detailed in the following section are the lessons learned from SC's experiences in Haiti and the Phillipines. The vocabulary used in describing these lessons is generic, referring to the social enterprise discipline rather than specifically to BDS programs.

Lessons Learned

The Need for a Focused Strategic Direction and Clear Objectives

The heart and soul of social enterprise programs are its "double bottom line"—the social and business objectives it seeks to achieve. Understanding the delicate balance between the two is the ultimate challenge for social entrepreneurs; it requires a focused strategic direction and clearly stated objectives.

Sustainability of the Enterprise as the Overriding Goal

Save the Children believes an enterprise built on sound business practices is the best vehicle for achieving social objectives. The goal of viability drives strategic direction and decision-making. Without that goal, social enterprise pursuits will have limited benefit and life span.

Avoid Mission Dissonance

It is crucial to begin an enterprise program with a clearly articulated vision and a mission statement ratified by all social enterprise program stakeholders. Doing so will help to define the strategic direction of the enterprise and ensure that stakeholders are behind it. Business programs are not appropriate for all Private Voluntary Organizations (PVOs) nonprofits or NGOs; they can challenge the core of an institution's conceptual and practical framework, presenting serious dilemmas. If all stakeholders are not on board at the start, resources will be squandered fighting institutional resistance.

Set "SMART" Targets

Social enterprise programs cannot be the panacea for all social and economic ills. Setting goals to change the human condition or eradicate poverty is grandiose and unrealistic. Even targets such as clients' accumulating assets or increasing self-esteem are slippery and hard to measure. Two types of targets are appropriate to set, however: first, objectives for each business function, including a viability goal; and second, social impact. Set "SMART" targets—those that are **S**pecific, **M**easurable, **A**chievable, **R**elevant, and **T**imebound.

CITED AS THE NO. 1 REASON WHY SOCIAL ENTREPRENEURS FAIL:

"BUT WE ARE A NONPROFIT! WE'RE NOT SUPPOSED TO MAKE MONEY!"

"[Socially oriented practitioners] (and their sympathizers) are raised by experience and training to distrust money, business, and capital. We develop a mind-set that views money as evil. Grow up. Money is valueless; it's what people do with money that counts. Your job is to get as much of it as you can so you can stay in business, hire people in need, pay a good wage, contribute funds to your program, and stabilize your community. Greed may not be good, but money is. After all, there is no glamour in poverty. Go out there and get your piece of the pie and then feed it to the masses. If you aren't comfortable with that idea, don't start the game."

— *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation* by Jed Emerson and Fay Twersky

Write a Business Plan

A concrete business plan is the road map to accomplishing social enterprise program goals and objectives. Simply put, you will be lost without one.

CONDUCT A THOROUGH MARKET ANALYSIS

Although subsectors were examined in excruciating detail for Haiti and the Philippines, relatively little attention was given to studying the larger markets. Subsector analysis, though an important tool, is not a sufficient measure of the market potential for a specific industry to justify launching a social enterprise program. A thorough market analysis must be done on two levels: the market environment and the enterprise. The first analysis examines external factors that influence the operating environment and industry forces, and the second analysis focuses on industry trends, customers, costs, and competitors. Finally, a market test must be conducted to verify solidity of the business concept and potential for financial viability.

Understand Market Demand

To sell a product or service, there must be a market for it. Simple market and pricing research helps to clarify who the customers are, what their needs are, and whether they have the ability to pay for the services or products. A customer's willingness to pay for a product or service is a good real-world indication of demand.

Analyze Viability Potential

Financial viability hinges on selling a product or service that customers want. To be viable, a program must be cost-effective, i.e., offer a demanded product or service at a price and volume that cover costs without continued external subsidy or assistance. Banking financial viability, yet overlooking the final customer, could be the epitaph of a social enterprise program.

Market Test Products and Business Concept

Before investing in a social enterprise program, and after analyzing the market, conduct a feasibility test. Use market-driven criteria to evaluate how products and ideas actually fare in the marketplace on a small scale. Find out if the target customer buys product or services at the price projected to achieve financial viability. A market test determines which products, services or business concepts are feasible to support a social enterprise.

Do Not Try to Outmaster Subsector Players

In the short term, a donor or parent organization-backed enterprise can wield awesome power, but it cannot endure the pressures of a free market once heavy subsidies cease. Competition and traders are part of the market mosaic, and a business intervention must be designed according to this reality.

Study the Industry

Understanding the attractiveness of a particular industry largely shapes the structure of the program: the design of the intervention, the number of clients who can be served, and ultimately the viability of the program. Market research probes essential questions to determine if an industry is attractive enough to realize healthy revenues and sustain its comparable advantage while still assisting the poor.

Be Market Driven

The market should drive the business intervention, not the target population. Even if these two are the same, Save the Children advocates first conducting market research that leads to selection of a target population based on a business that can compete in the marketplace. This approach by no means dismisses working with the poor; it merely encourages identifying poor populations in subsectors, industries, and markets that offer a healthy potential for viability. If the market leads, the enterprise will be better positioned to serve its target population.

Create a Dynamic Model

A successful social enterprise model has the ability to maneuver in the marketplace by identifying and entering new markets. The only constant in business is change. Program models cannot be based on fixed designs and left to stagnate; they must be dynamic and flexible, responding to new opportunities and circumventing arising threats, if they are to survive in the long run. Dynamic models build in a feedback loop whereby practitioners' eyes and ears are constantly attuned to what is happening in the strategic and operating environment. Processes and products are continually retooled based on information transported back to the enterprise.

The Intervention as a Business Entity

The structure of enterprise interventions can vary dramatically. Whether the program remains an nonprofit enterprise or formalizes into a business, Save the Children takes the perspective that the intervention should be recognized as an *enterprise* that is distinctly separate from other programs and activities. Cost recovery, return on investment, cost per client, management capacity, etc. are quantified using this entity as the measure.

Clearly Define Ownership

Ownership status of the social enterprise program and assets at the close of external funding and support should be stated in the beginning and factored into program design. This has been an issue of hot debate in Haiti, where SC has attempted to set up shared ownership of TOPLA Enterprise by the clients and APV, the local implementing nonprofit, whose visions for TOPLA are divergent. Although APV, as a social organization, in theory has the clients' best interests at heart, it also sees itself as benefiting from enterprise returns in the future, which is an unsettling temptation for any nonprofit hard-pressed for funds.

Include External Audits

External audits should be a de facto practice to develop enterprise professionalism. Audits evaluate the capacity of enterprise management and staff from an objective, nonemotional vantage point. When incorporated into a performance-based plan, audits can be constructive tools. Their results serve as benchmarks to appraise progress and can be linked to either "sticks" or "carrots" to encourage continued proficiency.

Keep the "Entrepreneur" in Microentrepreneur-Based Enterprise Models
The centralized enterprise model has to some extent presented a challenge to the preservation of entrepreneurial integrity. To avoid slipping into a "job creation" mode that moves simply to employ poor people as laborers, Save the Children is in the process of building, entrepreneurial components into the program. The key is for microentrepreneurs to be stakeholders in the enterprise. Profit sharing, bonuses, piece rate pay are some mechanisms that motivate microentrepreneurs' performance and gives them control over income generation, rather than relegating them to being wage laborers. Developing technical competence or specializations in production tasks places microentrepreneurs in the role of team leaders and puts the onus on them to achieve targets. Equity or ownership stakes in the social enterprise are another means of elevating the poor to the rank of entrepreneurs. Finally, electing microentrepreneur representatives to the governing board gives them a voice in management, oversight, and decision-making.

Design for Risk Aversion
Risk aversion, although a known characteristic of the target population, was not appreciably factored into the WMEN design. Living on the fringes of society and many competing financial priorities compound clients' risk aversion, making them extremely reluctant to reinvest their earnings in the business and consequently making it infinitely more difficult to give them ownership of the enterprise. Two ways to mitigate this problem are 1) to build a savings component into the program that can serve as a financial buffer in emergencies (illness, death, natural disaster) and 2) to establish criteria for selecting clients who are willing to take risks.

Plan for "Comparative Disadvantages" and Capacity Building
Although the goal is to create a social enterprise that can compete in the free market, this must be done within a realistic time frame and with technical and financial support. Social enterprise programs need time for capacity building, which is one distinction between such programs and the private sector. The fragile nature of the target population as customers, owners, or laborers; the low skills and business acumen of the social enterprise management; and the developing-country environment are costs of doing business—or "comparative disadvantages"—unique to social enterprises. Long learning curves, poor infrastructure, limited expertise, and the general frailty of clients must be considered in capacity-building plans and viability forecasts.

"Delight the Customer"
The famous words of Philip Kotler, the grandfather of marketing, are worth remembering for their wisdom. Social enterprises must set high standards of professionalism and be directed by a vision to render the best possible services and products to their customers. "Underpromise and overdeliver" should be their mantra, not only as it applies to customers but also as it applies to investors (the donor). Giving customers or investors more than they expect engenders loyalty (repeat patronage) and a good reputation.

Market Research Is a Continuous Process
Market research should not end when the social enterprise begins; it must be a constant part of the feedback loop. Customer satisfaction, derived through market

research, is a barometer that indicates whether the enterprise continues to meet its customers' wants and needs. Market research also acts as a watchful eye on the changing environment—so the enterprise can stay ahead of the curve and respond to changes rather than get crushed by them.

Have an Exit Strategy
Plan the parent organization's departure at the start of the social enterprise program. Issues related to type of structure—i.e., nonprofit business, subsidiary, local enterprise, nonprofit program, franchise, etc.—and ownership of assets and revenue often are sticking points for social enterprise programs. Next steps can be sketched at a program's outset, framing an unambiguous vision for the future of the enterprise.

Install Good Management and Human Resources

Select a Business-Oriented Partner
The right partner (implementing organization)—one with common values—is essential. For social enterprise programs this usually means a business-oriented partner. At this juncture, SC favors teaming with private businesses or operating without a conduit and directly creating a local enterprise. Before embarking on any partnership agreement, thoroughly screen potential partners to ensure that they are committed to a business strategy and understand the rigors it entails and are not just looking for cash. Multisector or charity-oriented organizations without strong business acumen generally have limited capacity and lack the business values necessary to develop their programs into sustainable enterprises. Much unnecessary grief on the part of the partner and the parent organization can be avoided by teaming with organizations that share core values.

Use Performance Contracts
Sign contracts that outline performance expectations and specific targets or deliverables and detail how the partnership will be conducted. Performance contracts serve four purposes. First, they set concrete results that advance larger goals. Second, targets and expectations specified in the contract function as a program management tool, reducing the need for the parent organizations to micromanage partners. This system promotes partners' integrity, enabling them to "opt out" of the relationship through nonperformance if they so choose. Third, performance contracts can be used as an evaluation tool or incentive if renewed funding is linked to them. Finally, performance targets define boundaries and deter potentially emotive relationships that can deteriorate to the level of parent-child interaction.

Clearly Delineate Roles and Responsibilities
Most social enterprise programs serve a multitude of players, including the donor, the parent organization, the technical assistance provider, the implementing organization, the enterprise, and the target population. Save the Children has discovered that a lack of clarity about roles and responsibilities complicates the social enterprise, decreases efficiency, creates tension, and muddles objectives. It is important to clearly delineate the role of all players in the social enterprise program and their respective reporting lines.

Hire the Right People
Social enterprise programs require human resource skills that are not typically available within nonprofits. Unlike in the private sector, where a shortage of capital often leads to business failure, in social enterprises poor management is usually the reason for failure. Weak management has been one of the main pitfalls of the program in the Philippines. And in Haiti, TOPLA Enterprise had to hire a business and market-

ing manager from the private sector and contract for technical assistance in marketing and food processing. Sales agents were also hired externally. Only the production and inventory managers were brought through APV's staff ranks and trained for their jobs. External hiring may unsettle nonprofit leaders who hope to underwrite salaries of existing staff with the social enterprise program budget.

Accounting for human resource needs during the design phase dispels any misconceptions the local institution may have about money for salary allocations. It also improves budget estimations, since private-sector personnel may be more expensive. Social enterprises need both development practitioners and business professionals. To be successful, they need a marriage of skills.

Build Local Capacity

The crux of a *social* enterprise program is building local capacity to sustain business operations in the absence of third-party assistance. This requires well-targeted technical assistance and training and the appropriate resource allocation to underwrite these activities. Capacity building can also be managed structurally, through a human resource plan that supports professional development and skills transfer.

Incorporate Monetary Incentives

Monetary incentives are one of the best ways to dramatically shift a "program mentality" to an "enterprise mentality." Incorporating incentives for both enterprise staff and clients motivates performance and helps self select entrepreneurs who are not risk averse.

SELECT PRODUCT/SERVICE MIX CAREFULLY

Aside from analyzing market conditions for products or services, designers should be cognizant of certain product/service characteristics that might present complexities that could threaten the enterprise's viability. A product or service that is highly vulnerable to seasonality, spoilage, or technological change may be beyond the enterprise's capacity to manage or may require cash in excess of the social enterprise's resources (i.e., high technology). To some extent, all products or services face these market challenges. Designers must determine which ones are navigable and which ones pose imminent peril.

Specify and Budget for R&D

Businesses are under constant pressure to improve their products and services and to develop new ones that respond to changing market forces and customer desires. To this end, investments in research and development should not be overlooked. In the original SC/Haiti program budget, ample resources were earmarked for client training but none for product development. Although R&D needs vary depending on the industry, social enterprises should include a specific plan for R&D, including budget allocations for technical expertise, personnel, equipment, product testing, etc.

Choose Viable Products/Services and Markets

Income is a function of price, volume, and efficient operations. One challenge in this equation is to select products or services that offer sufficient margin potential to sustain the enterprise. The products in both SC's social enterprise programs, peanut butter (Haiti) and cleaning rags (Philippines), have extremely narrow margins, which makes viability difficult. Social enterprises that sell products or services directly to clients face the additional challenge of finding products with mass-market appeal that they can sell for a low price while still recovering their costs. The financial service industry has been able to meet these criteria, but business service programs have yet to arrive at a magic formula.

Save the Children is not convinced that selling products and services to clients should be the focus of social enterprises. "Market" denotes customers who are "willing and able" to purchase a product or service. Poor or disadvantaged people rarely constitute a feasible market, despite the assistance they may need. Based on its experience, SC/US believes that social enterprise programs are more aptly suited to assist the poor and disadvantaged, and achieve viability by focusing on markets for client-made products (see chapter 1, exhibit 1A, model 2, "Market-led," for further explanation) than by selling services directly to clients. This approach not only works to provide much-needed technical assistance to poor clients but also allows for greater cost-recovery flexibility for the social enterprise (through price markups, income percentages, commissions, etc., rather than income from fees for services paid by poor and disadvantaged clients), and creation of wealth in the community.

FINANCIALS

Plan for Capital Requirements

As much as social enterprise programs have tried to set themselves apart from microfinance programs, capital, particularly as it relates to cash flow, is a social enterprise reality. Money for both fixed assets and working capital is needed to run a business program, and like credit the latter usually increases relative to growth. Financing for SC's programs was on a typical percentage disbursement schedule that did not correspond with the ebbs and flows of the business cycles.

Manage Cash Flow

Poor ***cash flow*** management is one of the principal reasons micro and small businesses all over the world go under. Ironically, a good product or service and a well-targeted market are not enough to ensure success; unforeseen cash shortages for even relatively short periods can render a crushing blow to these fragile businesses. Building capacity of social enterprise management to manage cash flow is a critical element of sustainability.