Developing a Strategic Plan for a Social Venture

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Learning Objectives

• To gain an understanding of the importance of strategic planning to a new social venture
• To provide an understanding of the relevant information needed within a social venture plan
• To explain how to develop an initial concept summary for a social venture
• To provide a framework and steps for structuring a social venture plan
• To demonstrate how to put all the social venture plan sections together in a compelling and concise manner
• To provide an example of a social venture plan to review and critique
What is Strategy?

- *Defined:* “The patterns of decisions that shape the venture’s internal resource configuration and deployment, and guide alignment with the environment”
  - *Strategy Formulation* – Planning and analysis
  - *Strategy Implementation* – Execution and evaluation of the activities that make up the strategy
So, Why Plan for a Social Venture Business?

• Increases the probability for success and sustainability:
  1. Creates a framework for making the idea happen
  2. Managerial leaders can more effectively adapt to change by thinking about scenarios
  3. Provides a meaningful context and direction for employees and volunteers
  4. Internal due-diligence tool by aligning controls to key social and economic objectives
  5. Method of external communication
Then, What is a Business Model?

- An abstract visualization of how the mission will be achieved and how the enterprise will create and capture value to sustain itself
- Specifies how it obtains and uses its resources (people, money, materials) and structures its internal and external relationships to profit from serving its customers, beneficiaries, and partners
- A clearly articulated business model:
  - Assures all the elements fit together in a holistic manner
  - Describes why the network of participants needed to make a business idea viable are willing to work together
  - Articulates a company’s core logic to all its stakeholders
Key Components of a Business Model

**Value Proposition**
- Business mission
- Product / market scope
- Basis for differentiation

**Resources**
- Core competencies
- Strategic assets (tangible and intangible)

**Value Network**
- Suppliers
- Partners
- Other key relationships

**Profit Formula**
- Target customer
- Fulfillment and support
- Pricing structure
Components of a Business Model (Cont’d.): Value proposition

- **“BHAG”** (Collins & Porras, *Built to Last*)
  - Big, Hairy, Audacious Goal
- Unique product or service offering
  - How a firm competes relative to its rivals

<table>
<thead>
<tr>
<th>Primary Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission Statement</td>
<td>Describe why you exist and what your business model is supposed to accomplish</td>
</tr>
<tr>
<td>Product/Market Scope</td>
<td>Define the products and markets on which you will concentrate</td>
</tr>
<tr>
<td>Basis of Differentiation</td>
<td>Must differentiate from competitors in some way that is important to your customers/clients</td>
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Components of a Business Model (Cont’d.): Value proposition (cont’d.)

- What other solutions exist and what are the implications for your team?
- What is distinctive about your venture?
- How much money is distributed to your “cause” annually and how can your venture capture it?
- What other service providers or models are there?

Who are the Customers?
- E.g., Age
- Knowledge
- Location

Which Needs Fulfilled?
- E.g., Appreciation
- Experience
- Participation

What Price?
- E.g., Free
- Membership
- Fee per use
- Funders support
Components of a Business Model (Cont’d.):
Value proposition (cont’d.)

Competitor Analysis

The worst error in strategy is to compete with rivals on the same dimensions
Components of a Business Model (Cont’d.): Resources

- For a new venture, key resources may initially be limited to the competencies of its founders, the opportunity they have identified, and the unique way they plan to serve their market

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<tr>
<td>Core Competencies</td>
<td>A resource or capability that serves as a source of your competitive advantage</td>
</tr>
<tr>
<td>Strategic Assets</td>
<td>Anything rare and valuable that your firm owns, both tangible and intangible</td>
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Components of a Business Model (Cont’d.) : 
Resources (cont’d.)

• A sustainable competitive advantage is achieved by implementing a value-creating strategy that is rare and not easy to imitate as well as organizationally-embedded and complex ("VRIO")

• This type of advantage is achievable when a firm has key resources and the ability to use them

• Therefore, combine your core competencies and strategic assets to create a sustainable competitive advantage
Components of a Business Model (Cont’d.): Value network

- New ventures in particular typically do not have the resources to perform key roles because the majority of tasks needed to build a product or deliver a service are not core to a company’s competitive advantage

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<td>Suppliers</td>
<td>A company that provides parts or services to another company (you might have suppliers or be one yourself)</td>
</tr>
<tr>
<td>Other Key Relationships</td>
<td>Partner with other companies to make your business model work because your ability to launch a firm that achieves a competitive advantage may hinge as much on the skills of partners as on your own skills</td>
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### Components of a Business Model (Cont’d.):

*Value network (cont’d.)*

<table>
<thead>
<tr>
<th>Partnership Form</th>
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<tbody>
<tr>
<td>Joint Venture</td>
<td>An entity created by two or more firms pooling a portion of their resources to create a separate organization</td>
</tr>
<tr>
<td>Network</td>
<td>A hub-and-wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms</td>
</tr>
<tr>
<td>Consortia</td>
<td>A group of organizations with similar needs that band together to create a new entity to address these needs</td>
</tr>
<tr>
<td>Strategic Alliance</td>
<td>An arrangement between two or more firms that establishes an exchange relationship but has no joint ownership involved</td>
</tr>
<tr>
<td>Trade Association</td>
<td>Organizations in the same sector that collect and disseminate information, offer advice, furnish training, and provide collective lobbying</td>
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Components of a Business Model (Cont’d.): Profit formula

- How a firm obtains its returns (“surplus”)
- The way a firm interacts with its customer hinges on how it chooses to compete

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<td>Target Market</td>
<td>The limited group of individuals or businesses that you will go after or try to appeal to</td>
</tr>
<tr>
<td>Fulfillment and Support</td>
<td>The way your product or service reaches your customers, including the channels used and level of customer support provided</td>
</tr>
<tr>
<td>Pricing Structure</td>
<td>Pricing models vary, depending on the target market and pricing philosophy</td>
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Components of a Business Model (Cont’d.):

Profit formula (cont’d.)

**Arenas:** Where will we be active?

**Staging:** What will be our speed and sequence of moves?

**Vehicles:** How will we get there?

**Differentiators:** How will we win?
Unique Characteristics of a Social Venture

• Social/Environmental Innovation:
  o Which actions will lead to the results you want to achieve?
  o Do you have a “social impact” theory of change (logic model) that identifies the resources, activities, and results necessary for an initiative’s success?

• Sustainability/Scale:
  o How do your plan to survive and replicate your operations?
  o What is the potential of the social business for other customer groups and locations around the world?

• Social/Environmental Impact:
  o How will you assess and measure your social impact?
  o Relate your venture’s outcomes and impact to your theory of change

Note: Covered in future sessions!
Value Creation and Capture

• The fundamental purpose of any enterprise is to create value

\[
\text{Value} = \frac{\text{Financial + Social Benefits}}{\text{Cost of Delivering Them}}
\]
Value Creation and Capture (Cont’d.)

Create Value for Customers / Clients, Entice Payments, and Convert Payments to Profits

- Identify market segments to be targeted
- Design mechanisms to capture value
- Confirm available revenue streams
- Select features to be embedded in the product / service
- Determine benefit to customer / client from using / supporting product / service

Value = Financial + Social Benefits

Cost of Delivering Them
Value Creation and Capture (Cont’d.): A “logic model” for a social venture opportunity

**Mission???

**Resources**
Consider: Management, employees, volunteers as well as securing financial capital to launch the social venture

**Activities**
Consider: Strategic planning and processes, marketing, operations, personnel, etc. that need to be implemented for the launch of the social venture

**Outputs**
Consider: Evidence of service delivery

**Outcomes**
Consider: Changes in 1-3 years, then 4-6 years

**Impact**
Consider: Changes in 7-10 years

Increasingly intangible, broader, longer-term

Value = Financial + Social Benefits
Cost of Delivering Them

Paul Miesing, “Developing a Strategic Plan for a Social Venture”
New Venture Team

• The group of founders, key employees, and advisers that move a new venture from an idea to a fully functioning firm

• Usually, the team doesn’t come together all at once
  - Instead, it is built as the new firm can afford to hire additional personnel

• The team also involves more than paid employees
  - Many firms have boards of directors, boards of advisers, and professionals (lawyers, accountants, consultants) on whom they rely for direction and advice
New Venture Team (Cont’d.): The founder(s)

• Characteristics of founder(s) and early decisions have significant impact how new venture team takes shape:
  o 50%-70% of all new ventures are started by more than one individual
  o New ventures that are started by a team rather than a single individual have an advantage
    • Provide greater resources and diversity of viewpoints
    • Higher education enhances entrepreneurial skills
    • Prior entrepreneurial experience avoids costly mistakes
    • Relevant industry experience offers better established professional networks and more applicable skills
    • “Network” offers additional know-how, capital, and customer referrals
New Venture Team (Cont’d.): Board of directors

• If a new venture organizes as a corporation, it is legally required to have a board of directors:
  o An inside director is also an officer of the firm
  o An outside director is not employed by the firm

• Formal responsibilities:
  o Most board of directors meet 3-4 times a year
  o Appoint the officers of the firm
  o Declare dividends
  o Oversee the affairs of the corporation
  o Provide guidance and support to the managers

• Well-known and respected board members bring instant credibility
• New ventures are more likely to pay their board members in company stock or ask them to service on a voluntary basis rather than pay a cash honorarium
New Venture Team (Cont’d.): Board of advisors

- A panel of experts who are asked by a firm’s managers to provide counsel and advice on an ongoing basis
- Unlike a board of directors, possesses no legal responsibility for the firm and gives non-binding advice
- An advisory board can be established for general purposes or can be set up to address a specific issue or need
- Many people are more willing to serve on a company’s board of advisors than its board of directors because it requires less time and there is no potential legal liability involved
- Like the members of a board of directors, the members of a company’s board of advisors provide guidance and lend credibility to the firm
New Venture Team (Cont’d.): *Lenders and investors*

• Have a vested interest in the companies they finance, often causing them to become very involved in helping the firms they fund

• Like other non-employee members, help new firms by providing guidance and lending advice:
  - Help identify and recruit key management personnel
  - Provide insight into the markets that the new venture plans to enter
  - Help the venture fine-tune its business model
  - Serve as a sounding board for new ideas
  - Provide introductions to additional sources of capital
  - Recruit customers
  - Help to arrange business partnerships
  - Serve on the board of directors or board of advisors
  - Provide a sense of stability and calm

• In addition, assume the natural role of providing financial oversight
Planning Pitfalls

• Threats that can derail a social enterprise:
  1. Product or service that finds no market – people don’t want it
  2. Value not accepted by clients
  3. Substitute ways for clients to meet their needs
  4. Competition for donors who support other non-profits
  5. Competition with other groups serving the same clients
  6. Socio-economic or demographic changes in client needs or interest
  7. Public policy changes in regulation or funding levels
  8. Bargaining/market power of sellers and buyers (e.g., paid workers, lenders, land owners, third-party payers)
  9. Too much capital needed or too costly to sustain itself
Planning Pitfalls (Cont’d.)

• Assembling:
  – Fail to communicate realistic goals
  – Fail to anticipate problems
  – Lack commitment or dedication to the venture
  – Lack experience
  – Fail to demonstrate market niche (e.g., complete misread of the customer)

• Presenting:
  – Too sloppy or too slick
  – Does not get to the point quickly enough
  – Unrealistic financial projections (e.g., utterly unsound economics)
  – Unclear stage of the venture
  – Unclear qualifications
Conclusions

• Your USS Social Enterprise should be a “BHAG” that is innovative, sustainable, scalable, and measurable in creating and capturing value ... all within five years!
• Business models are abstract visualizations of what you want to do
• The strategic plan is a concrete statement of how you will get it done
• For more information and sources, see http://pinterest.com/mgt460/business-plans-cases-examples/ and “Writing A (Social) Business Plan” in the course syllabus
Course Purpose

• Summarize key principles of social entrepreneurship
• Identify the challenges and opportunities of social entrepreneurship
• Use evidence to analyze, evaluate, and exploit a social opportunity for an entrepreneurial venture
• Apply business functions to create and sustain a social venture
• Prepare a business plan for a social enterprise
Questions?