

Scaling the Social Venture



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Learning Objectives

- To understand the salient reasons for scaling a social venture
- To appreciate and address the obstacles to scaling
- To identify the organizational capacities essential to a scaling effort
- To master the strategies available to social entrepreneurs for scaling their ventures and the strengths and limitations of each of those strategies





Key Course Considerations

Innovation:

- New idea
- Market solution
- BoP

Sustainability:

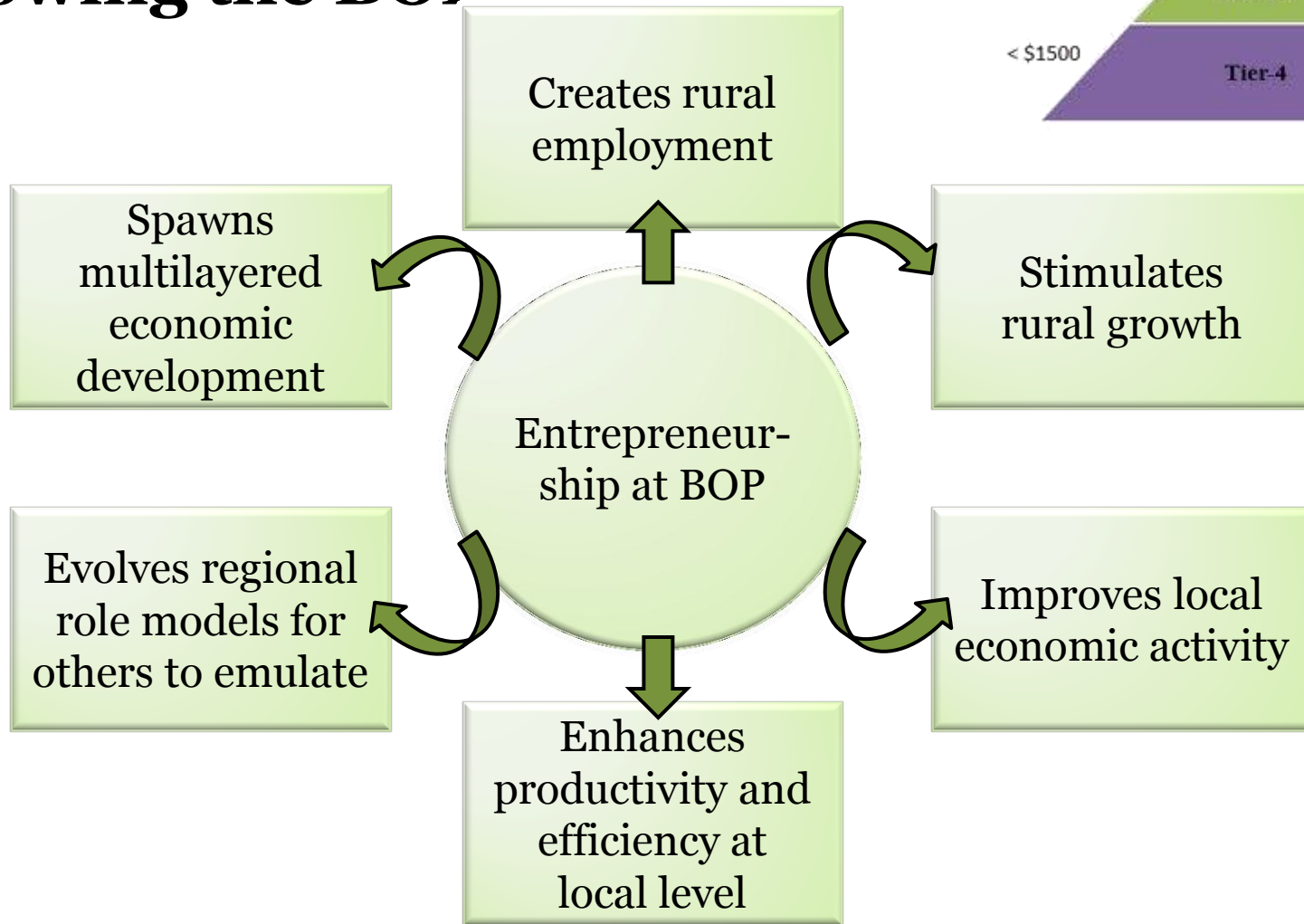
- Triple bottom line
- Efficient

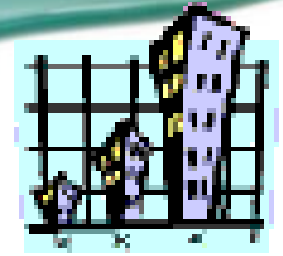
Scale:

- Max SROI
- Grow/expand
- Replicate the model



Growing the BOP

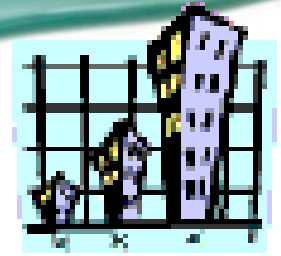




How Do Commercial Firms Grow?

- *Economies of Scale* – Increasing production lowers average costs per unit
- *Economics of Scope* – Range of operations creates efficiencies
- *Market Leadership* – Desire to hold dominant market position
- *Survival of the Fittest* – Larger businesses usually have influence and power
- *Growing Customers* – Accommodate a key customer
- *Attract and Retain Talented Employees* – Generate promotional opportunities
- How About Social Ventures?
 - Scale to achieve as much impact as possible to match magnitude of the problem
 - High-impact social entrepreneurs focus on maximizing social return on investment (SROI)
 - Funders want their grant dollars to achieve as much social mission as possible
 - The emerging paradigm is to strive to expand the triple bottom line





Myth vs. Reality

Myth

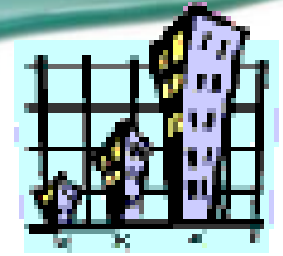
- A social venture will not grow quickly unless it is in a high-growth sector
- Rapid growth requires a venture being the first of its kind

Reality

- Growth is more a characteristic of the specific venture and business model than the overall sector
- First-mover advantage is not as critical when there is unmet need that an enterprise can address

Is it really over for the “little guy”?

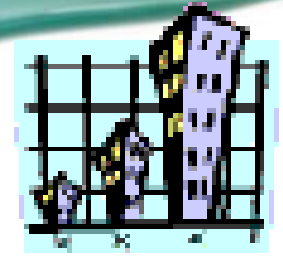




Challenges to Growth

- Staff and board do not see the urgency for growth or support entrepreneur's vision
 - Internal culture feels growth would detract from its mission
 - Funders and stakeholders do not support the entrepreneur's impetus for change
 - Cannot demonstrate success in achieving its mission or how change will make a difference
 - Lacks necessary human resources and skill sets to support growth
- Required Capacities:
 1. A clear mission
 2. An appropriate legal and organization structure
 3. A unified and supportive culture
 4. Good and relevant data
 5. Necessary physical and human resources
 6. Effective leadership capability and a functional governance apparatus
 7. Copy what works for others





Day-to-Day Challenges to Growth

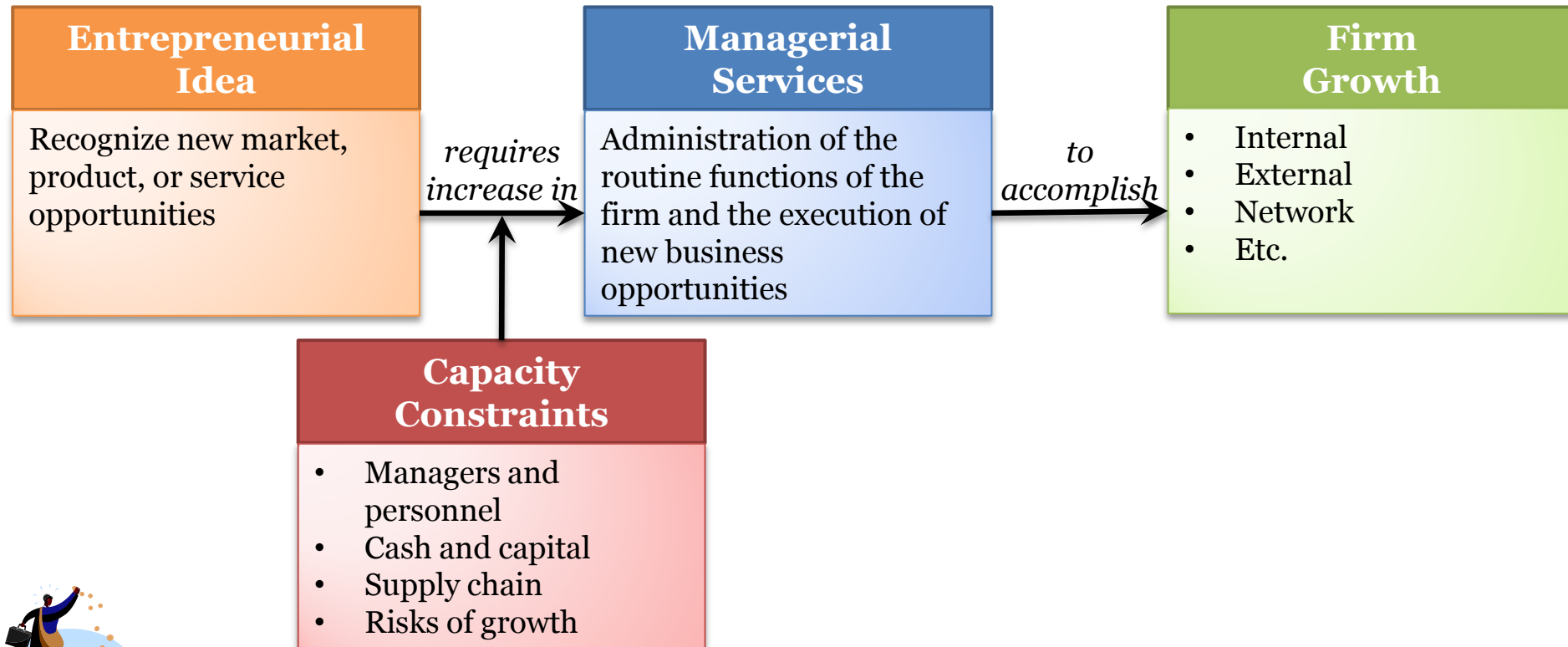
- *Cash Flow Management* – Need increasing amounts of cash to grow
- *Price Stability* – Growth at competitor’s expense could result in a price war
- *Quality Control* – Increasing firm activity can result in quality issues if cannot increase resources to handle the extra work
- *Capital Constraints* – Investment limits are an ever-present problem for growing firms
- *Capacity Building* – Managerial resources are insufficient to take advantage of its new product and service opportunities





Day-to-Day Challenges to Growth (Cont'd.)

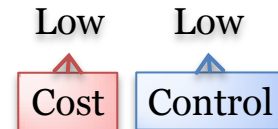
Basic Model of Firm Growth





Social Venture Strategies for Growth: *Dissemination*

- Make your social venture's model and intellectual property (IP) widely available to people and organizations who want to use them:
 - Implies trust and openness
 - *Advantages* – Cost, speed of adoption, maximizing mission accomplishment, fostering relationships with social sector players
 - *Disadvantages* – Lose control over the quality of the product or service as well as the IP





Social Venture Strategies for Growth (Cont'd.): *Branching*

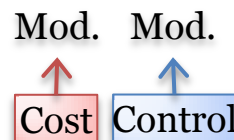
- The antithesis of dissemination – Creating multiple offices in locations says: “We don’t trust you to do our work in your community”:
 - *Advantages* – Maximizes control, making it best for consistent quality of service and/or protection of IP
 - *Disadvantages* – Inefficient because it requires buying or leasing additional facilities and office equipment, hiring and training additional staff, and managing from a distance





Social Venture Strategies for Growth (Cont'd.): *Affiliation*

- A compromise between dissemination and branching, creates a relaxed connection with outlying locally-managed and staffed offices:
 - *Advantages* – Less expensive to implement because local affiliates are financially self-supporting and might even make regular donations to the home office; also
 - *Disadvantages* – Less threatening to local communities because reduced outside control

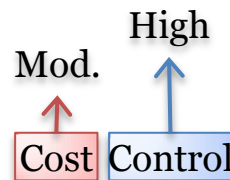




Social Venture Strategies for Growth (Cont'd)

Social franchising

- A hybrid of branching and affiliation that permits scaling at a faster rate and a lower cost while maintaining control over quality and the brand:
 - A franchisor with a successful product or service licenses its business format to a franchisee in exchange for a fee and ongoing royalty payment
 - Difficult to establish the value of what the franchisor brings to the relationship because social return on investment (SROI) is more difficult to measure than financial return on investment





Social Venture Strategies for Growth (Cont'd.)

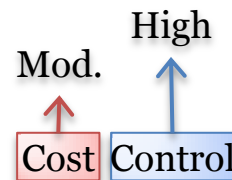
Social franchising (cont'd.)

Advantages

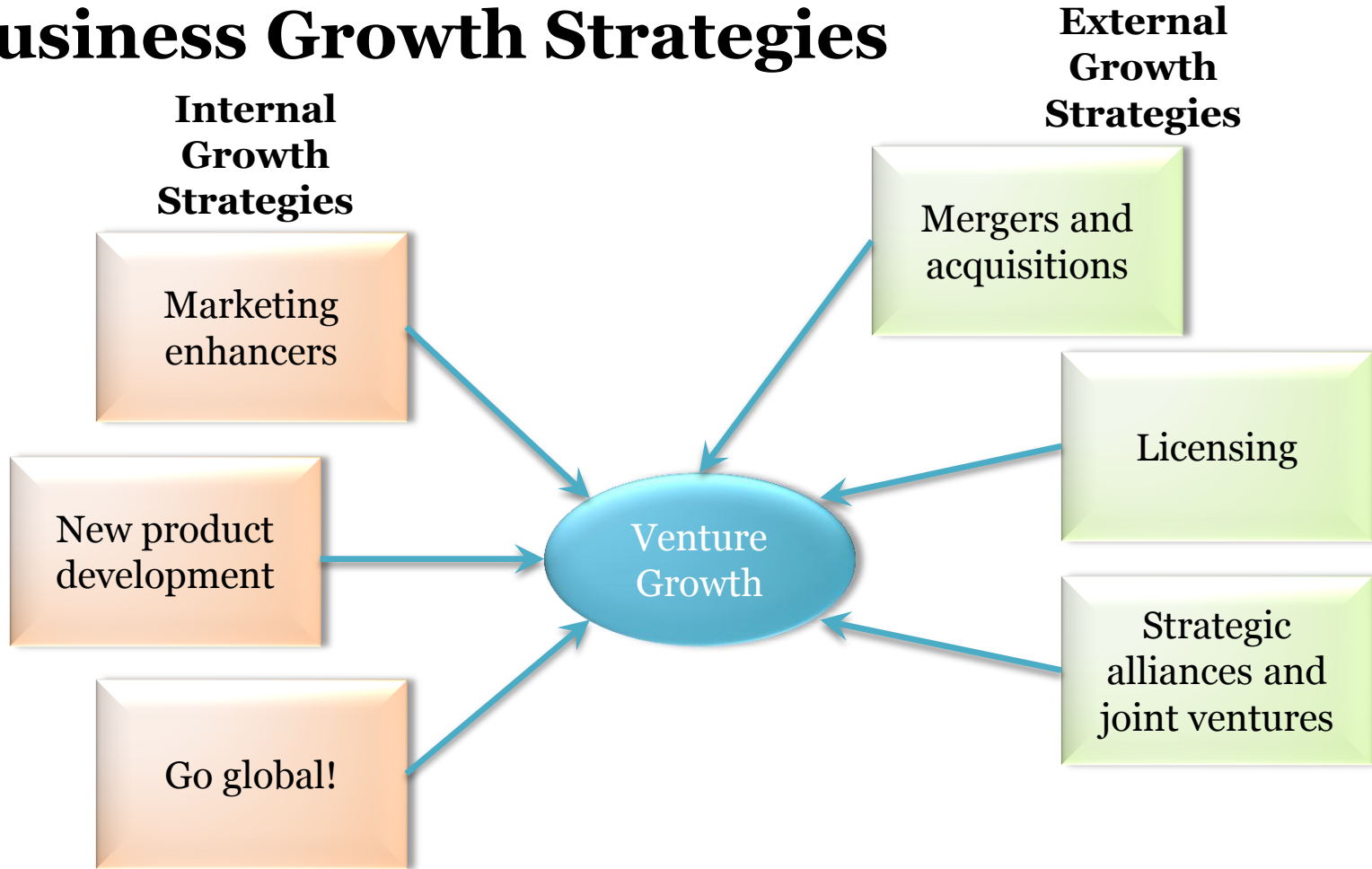
- Rapid, low-cost market expansion
- Income from franchise fees and royalties
- Franchisee motivation
- Access to ideas and suggestions
- Increased buying power

Disadvantages

- Profit sharing
- Friction with franchisees
- Managing growth
- Differences in required business skills
- Legal expenses



Business Growth Strategies





Business Internal Growth Strategies

Advantages

- Incremental, managed growth
- Provides maximum control
- Preserves organizational culture
- Encourages intrapreneurship
- Allows firms to promote from within

Disadvantages

- Slow growth
- Must develop new resources
- Investment in a failed internal growth can be difficult to recoup
- Adds to industry capacity



Business Internal Growth Strategies (Cont'd.): *Marketing enhancers*



- Heighten awareness of venture and its mission to drive customers or beneficiaries
 - **Marketing plan** consists of:
 - *Market Analysis* – Identify customers’ demographics, behavior patterns, lifestyle
 - *Competitive Analysis* – Identify social value proposition and uniqueness
 - *Marketing Strategy* – Product or service pricing, promotion, distribution
 - **Branding** makes you unique in a way that will stick in customers’ minds by emotionally connecting to the customer and stakeholders
 - **Cause-related marketing** can be a very effective way for a social venture, particularly one with a non-profit structure, to raise money for expanding its reach



Business Internal Growth Strategies (Cont'd.): Marketing enhancers (cont'd.)



	Existing Markets	New Markets
Existing Products	Improve product or penetrate market (e.g., increase quality, marketing efforts, capacity)	<i>Market-Driven Growth:</i> Find new consumers for existing services (e.g., take business model to new segments or geographies)
New Products	<i>Product-Driven Growth:</i> Add activities or programs (e.g., develop new services or additional variations; extend product lines)	Product diversification (move beyond current offerings)



Business Internal Growth Strategies:

New product development



- Creating and selling new products (or services) to increase revenues

Keys to Effective New Product Development:

- Find a niche and fill it
- Develop products that add value
- Get quality and pricing right
- Focus on a specific target market
- Conduct ongoing feasibility analysis

Common Reasons for New Product Failure:

- Inadequate feasibility analysis
- Overestimate market potential
- Bad timing
- Inadequate advertising and promotions
- Poor service

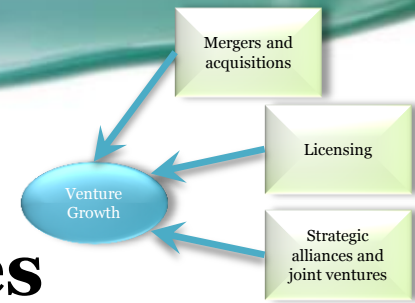


Business Internal Growth Strategies: *Go global!*



- *Exporting* – Producing a product at home and shipping it to a foreign market.
- *Licensing* – A firm with the proprietary rights to a product grants permission to another firm to manufacture/sell that product for specified royalties or other payments
- *Joint Ventures* – Establishing a new firm that is jointly-owned by two or more otherwise independent firms
- *Franchising* – An agreement between a franchisor and a franchisee
- *Turnkey Project* – A contractor from one country builds a facility in another country, trains the personnel that will operate the facility, and turns over the keys to the project when it is completed and ready to operate
- *Wholly Owned Subsidiary* – A company that has made the decision to manufacture a product in a foreign country and establish a permanent presence





Business External Growth Strategies

Advantages

- Reduce competitors
- Access to proprietary products, new products or markets, technical expertise, established brand name
- Economies of scale
- Diversify business risk

Disadvantages

- Incompatibility of top management
- Clash of corporate cultures
- Operational problems
- Increased business complexity
- Lose organizational flexibility
- Antitrust implications

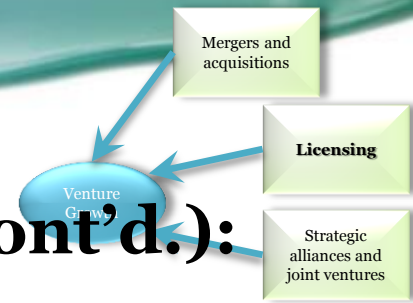


Business External Growth Strategies (Cont'd.):

Mergers and acquisitions

- Pool interests to combine two or more firms into one (merger) or outright purchase of one firm by another (acquisition):
 - Expand product line
 - Access to distribution channels
 - Economies of scale
- *Questions:*
 - Willingness to partner?
 - Which organization?
 - What are the stakes?
 - Is there a catalyst leader in both organizations?
 - Other supporters / stakeholders?
 - Enough (but not too much) time to discuss?
 - Do missions align?
 - Can productive personal relationships develop?

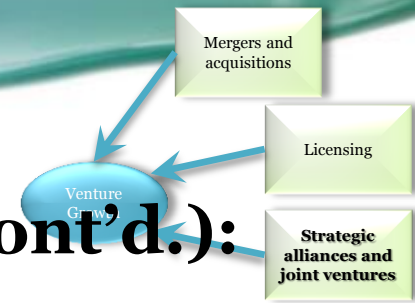




Business External Growth Strategies (Cont'd.): *Licensing*

- One company grants permission to another company to use a specific form of its intellectual property under clearly defined conditions
- Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party
- The terms are spelled out by a licensing agreement:
 - *Technology Licensing* – Proprietary technology that the licensor typically controls by virtue of a utility patent
 - *Merchandise and Character Licensing* – A recognized trademark or brand that the licensor typically controls through a trademark or copyright



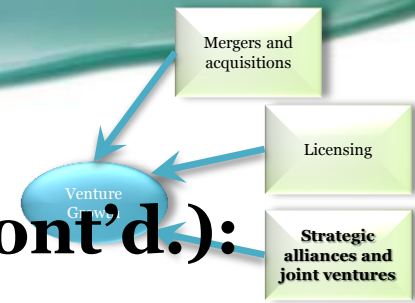


Business External Growth Strategies (Cont'd.):

Strategic alliances

- A partnership between two or more firms developed to achieve a specific goal:
 - *Technological Alliances* – Feature cooperation in R&D, engineering, manufacturing
 - *Marketing Alliances* – Typically match a company with excess distribution capacity with a company that has a product to sell
- Usually informal and does not involve the creation of a new entity
- Can boost product innovation and foreign sales



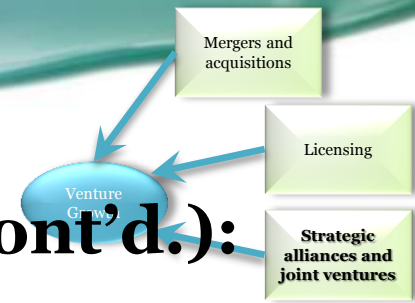


Business External Growth Strategies (Cont'd.):

Joint ventures

- An entity created when two or more firms pool resources to create a separate, jointly-owned organization
 - *Scale Joint Venture* – Partners collaborate at a single point in the value chain to gain economies of scale (e.g., production or distribution)
 - *Link Joint Venture* – Positions of the partners are not symmetrical, so help each other access adjacent links in the value chain
- Often necessary to gain access to a foreign market





Business External Growth Strategies (Cont'd.):

Strategic alliances and joint ventures

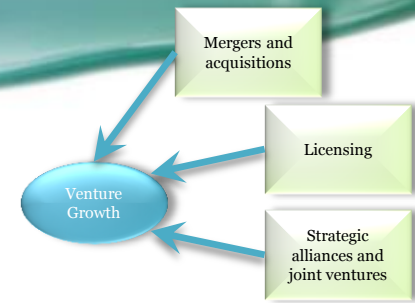
Advantages

- Gain access to a specific resource
- Speed to market
- Enter a foreign market
- Economies of scale
- Share risk and cost
- Learn
- Neutralize or block competitors

Disadvantages

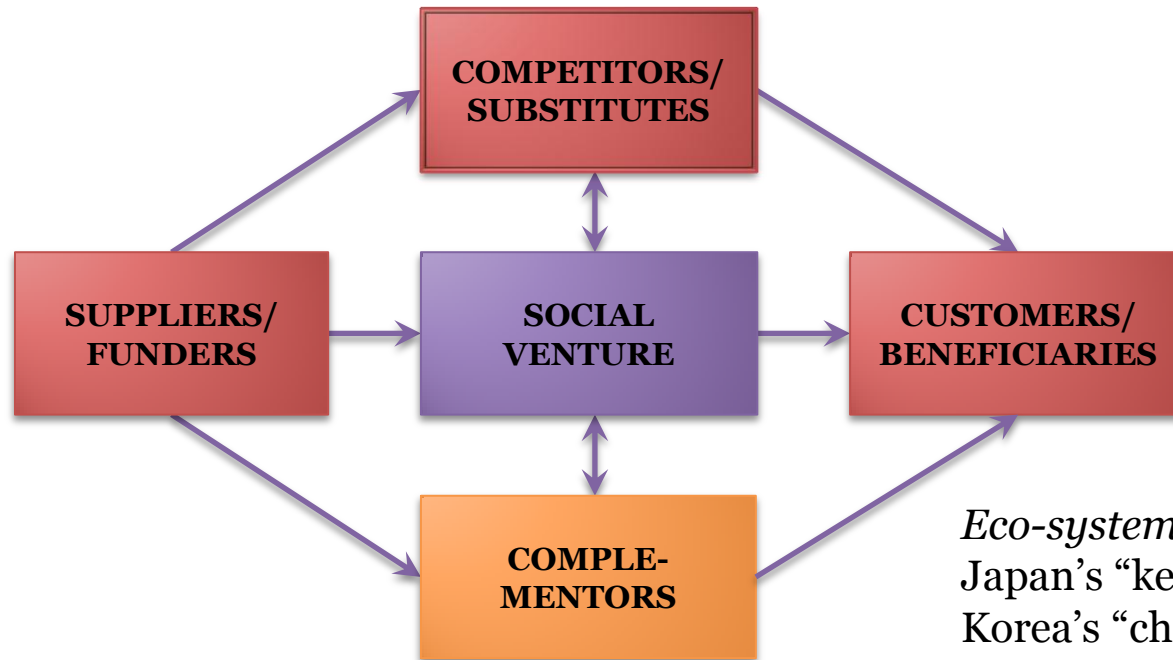
- Lose proprietary information, organizational flexibility, decision autonomy
- Management complexities
- Financial and organizational risks
- Might depend on a partner
- Clash of cultures





Value Net(working): Eco-systems for external growth strategies

- Question #1: With whom should I partner (e.g., merge, license, build alliances)?

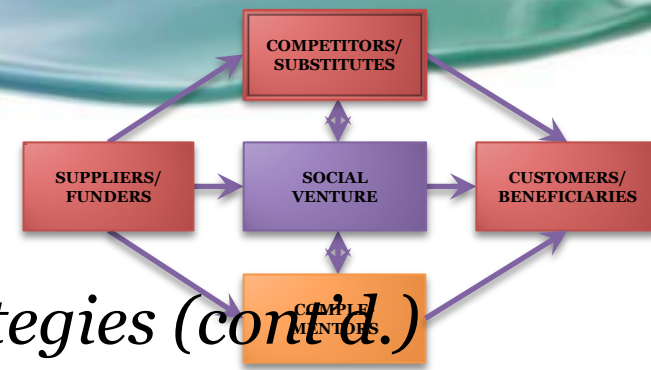


*Eco-system examples:
Japan's "keiretsu" and
Korea's "chaebol"*



Value Net(working) (Cont'd.):

Eco-systems for external growth strategies (cont'd.)



- Question #2: Why is networking necessary and beneficial under the present circumstances?
 - Resource scarcity and growing competition for resources
 - Growing societal mandate for greater efficiency
 - Increasing demand for documented performance
- Question #3: How should I approach successful alliance building?
 - Shared mission, vision, values
 - Members roles clearly defined and understood
 - Effective leadership necessary to move forward
 - Number and type of networks required varies with life cycle stage

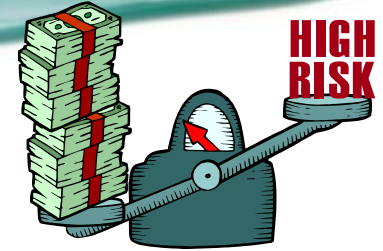


Preparing For Growth



- Appreciate the important realities of business growth:
 - Not all businesses will become “gazelles”
 - A business can grow too fast
 - Business success doesn’t always scale
- Establish growth-related plans:
 - Determine the growth strategy as soon as possible
 - Do not become distracted or pursue every growth opportunity
 - Write a business plan





Managing Risks of Growth

- Get help from experts and network with others
- Gather and use data to find signs of volatility or change
- Plan with realistic models, updated frequently
- Diversify the support base to spread the risk
- Grow and make commitments in stages
- Fix organizational weaknesses
- Avoid all-or-nothing bets – work steadily towards your BHAG





The End

- Many enterprises fail:
 - Just as in commercial ventures, there are high failure rates among social ventures
 - Environmental, religious, arts seem to be particularly fragile
 - Interpreting failure:
 - Social enterprises close because of market mechanisms
 - Failure of a social enterprise is not a moral lesson, but neither do social entrepreneurs have “moral immunity” from failure
 - One organization’s failure is an opportunity for another one to succeed
- Some enterprises succeed – make yours one of them!
 - Attaining goals is the last stage of entrepreneurship
 - Harvest the gains when you cannot divide or distribute wealth:
 - Integrate into another social venture
 - Win and move on
 - Redefine to meet a new social mission
 - Shut down and distribute to other non-profits
 - The needs for creating the social enterprise are likely to continue to exist even if successful





Conclusions

- True social entrepreneurs scale their ventures in order to maximize the reach of their mission
- There are challenges to growth that must be faced; however, there are also strategies that can help social entrepreneurs to overcome these challenges
- Prepare for growth but be aware of the risks, the odds are against you!
- For more information and sources, see

<https://pinterest.com/mgt460/scaling-growing-social-ventures/>



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?

