

Inside Inclusive Business

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Striking a balance between profits and impact

How scenario modeling can be used to create a successful inclusive business plan

A word from the authors...

Designing business strategies to deliver both commercial and social outcomes is an exciting task. But finding the right balance between these competing priorities can be difficult. The trade-offs are not always clear, which can complicate business planning decisions.

In order to build consensus on the Jita venture and create the most effective business plan possible, we used scenario modeling to demonstrate the consequences of choices made between social and commercial objectives. The steps that we took and the results that emerged are detailed in this 'Insider' document.

We hope that by describing the models that we used, how they were applied and the results they produced, we can provide a useful insight for other practitioners and companies who are trying to strike a successful balance between their profit and their impact.

**Christina Chou and
Malcolm Ritchie,**

Accenture Development Partnership

How can a social enterprise determine the right balance between financial and social returns when developing a business plan?

This edition of 'Inside Inclusive Business' looks at the case of Jita, a new joint venture set up by CARE Enterprises and danone communities. It explores the way in which scenario modeling (figure 1) was used to find the right balance between financial and social returns when developing Jita's business plan.

Jita provides income-generating opportunities to rural women in Bangladesh. Both investors have firm social objectives for the business and both are equally committed to making it a commercial success. In 2011, Jita received support from the Business Innovation Facility to help the company develop its business plan. The scenario modeling approach used to develop this plan was a groundbreaking application of a business process which is traditionally used to only model financial outcomes.

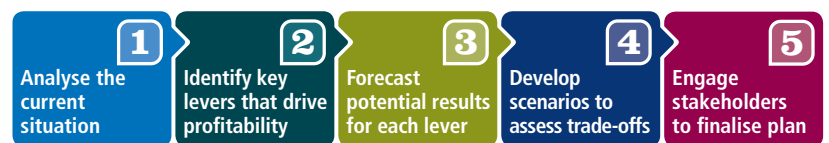


Figure 1: Scenario modeling

The 'Inside Inclusive Business' series is based on the real-world experiences of companies who are actively expanding opportunities for people at the base of global economic pyramid through their core business activities.

Each edition explores one aspect of inclusive business. The aim is to share practical ideas, challenges and solutions, as they emerge, in ways that are relevant to other business and development professionals.



Aparajita, Rajeda Begum of Mirkumulli Village

Context

Understanding the Rural Sales Programme and how it is changing

Jita is a new joint venture set up by CARE Enterprises and danone.communities. The company is an example of an existing non-governmental organisation (NGO) programme converting into a social business. Jita was created to operate and expand the Rural Sales Programme (RSP) developed and run by CARE since 2004.

Under RSP, rural sales women known as Aparajitas become distributors in their local community, selling a basket of branded goods to other low-income households and earning a decent income.

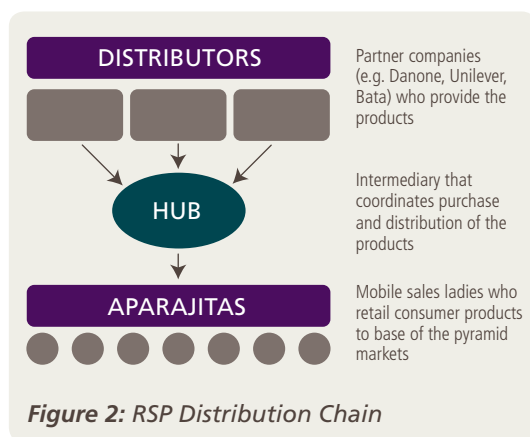


Figure 2: RSP Distribution Chain

Main revenue source: Commission on sales. Earnings are dependent on volume of sales.

Main social impact: Illiterate rural women earn a livelihood as Aparajitas. Scale of impact is dependent on the total number of hubs and sales women.

In 2010, danone.communities approved an investment to set up a joint venture social business, the first undertaken by CARE International in Bangladesh.

An initial business plan was developed to:

- Rapidly grow from 80 to 400 hubs
- Increase the number of rural sales ladies six fold, creating meaningful employment for 12,000 women
- Add four regions to the current three, creating a national distribution network.

	2007	2008	2009	2010	2011(est)
# of Hubs	12	44	58	60	100
# of Aparajitas	400	1320	1740	1800	3000

Figure 3: Jita growth over five years

The joint venture initially developed relatively slowly. So in May 2011, the Business Innovation Facility provided CARE with a team from Accenture Development Partnerships, Challenges World Wide and Renaissance Consultants to:

- Support the redesign of the business plan
- Speed up the development of the governance structure, supply chain, financial model and key performance indicators
- Help manage the transition from NGO programme to inclusive business.

The decision to convert the Rural Sales Programme into a commercial business creates considerable opportunities for expansion, but also challenges. These include:

- Ensuring the new commercial entity operates under the values of both danone.communities and CARE
- Building commercial good practice into a very successful social programme to ensure a sustainable commercial venture
- Effectively managing the expectations of all stakeholders.

'Aparajita' is a Bengali word meaning "women who never accept defeat"

Recent RSP Highlights

RSP is working with new and established distributors to broaden the RSP product portfolio and improve revenues. BIC joined as a new distributor in 2011 and is making significant contributions to Aparajita training. Development of a product trolley has also begun, which will enable the Aparajitas to carry more goods than in the bags they currently use.

Approach

Understanding scenario modeling and why it was used

As danone.communities and CARE Bangladesh were forming their partnership arrangements, a robust business plan was a priority. This was vital since:

- A 2010 business plan existed but was outdated. Since this first plan, RSP had grown and developed in new ways which needed to be reflected
- A sophisticated business plan was needed to finely plan their investment needs and allocate resources
- Prioritising either social impact or financial return makes a significant difference to the business plan. These choices affect both costs and revenues, and so the trade-offs needed to be better understood and agreed by investors.

The team chose to use scenario modeling to demonstrate the consequences of prioritising social and commercial goals in different ways. The approach was a groundbreaking application of a business process traditionally used to only model financial results.

The process of developing and choosing business plan scenarios allowed the team to forecast outcomes depending on which element of the business was given greatest emphasis: boosting Aparajita numbers, boosting financial returns or minimising capital. This enabled them to select the appropriate strategy and build consensus on the direction for the social business.

Both danone.communities and CARE have firm social objectives for the business, and both are equally committed to making it a commercial success.



Purpose of scenario modeling

1. Estimate the financial returns and social impact (numbers of Aparajitas) that can be achieved under alternative scenarios.
2. Illustrate trade-offs and choices between boosting Aparajita numbers, boosting financial returns, or minimising capital.
3. Provide a basis for sound business planning and investor agreement.

Figure 4: Scenario modeling process

Step 1

Analyse the current situation

- What information is already available?
- What additional data should be collected?
- Who should be engaged for added insights?

Engaging various stakeholders at the outset leverages existing experience, ensures analysis is based on actual results, and helps build buy-in to the process.

The team undertook four key activities to gather and analyse the information needed to comprehensively update the business plan:

1. Detailed review of initial business plan and financial appraisal, to identify gaps and needs.
2. Extensive discussion with RSP management, to understand key opportunities and challenges.
3. Real-time documentation of RSP operations through field observation and interviews of RSP participants (Aparajitas, hub managers, service persons etc).
4. Qualitative feedback on programme operations and objectives collected from several RSP distributors (Unilever, Grameen Phone, BIC).

This process meant that data was current and based on the real experience of RSP over the years.

Step 2

Identify key levers that drive profitability

- What are the major factors that determine revenue growth and need to be build into the business model?
- How does each lever affect social impact too?

Identify and focus on levers that have the potential to make the most significant impact.

The team identified six levers that drive business performance (figure 5). This enabled an in-depth analysis of the workings of the business and raised awareness of aspects which would need to be monitored closely as the business developed.

Over three weeks, the BIF team built Jita's model starting from the 2010 business case. The new model incorporates the six levers and reflects the cost increase of adding new hubs to the network. Costs were also revisited and updated with the RSP management team. Three new cost categories were added, and adjustments were made to costs that change over time, such as inflation and fuel expenditures.

Obtaining accurate costs for the Jita was one of the biggest challenges in this stage. Some had to be researched, while others were already integrated as part of CARE Bangladesh's cost structure.

Lever Name	Revenue Stream Impacted	Description	Effort to Implement
Hub Expansion	Commission on Sales	Rate at which Jita increases the number of rural sales hubs	High
Distributor Penetration	Commission on Sales	Percentage of hubs which carry products from each distributor	High
Sales Growth	Commission on Sales	Rate at which Jita grows product sales at each distributor	High
Commission Percentage	Commission on Sales	Percentage of sales paid to Jita by distributors	Low
Other Fees Growth	Other Fees	Revenue potential for Jita from non-RSP programs	Medium
Distributors Added	Distributor Training Contribution	Rate at which new distributors are integrated	Low

Figure 5: Six levers that affect Jita's revenue, costs and social impact

Step 3

Forecast potential results for each lever

- **What is the conservative, likely and optimistic case for each driver of revenue?**

Forecasting potential results for each revenue lever helps plan around business uncertainty.

Jita's consultants developed three cases – *conservative, likely, and best case* – and then applied these cases to each of the identified revenue levers. By adjusting the case settings on each of the levers, the team was able to dynamically update Jita's financial and social impact.

Conservative Case

A cautious approach that accounts for unplanned interruptions to revenue generation. High confidence that this, at a minimum, will be achieved.

Likely Case

Based on RSP operational experience and activity. Confidence by management that this is achievable.

Best Case

An optimistic approach where all goes exactly as planned. While there is a likelihood this might happen, use of this case is not recommended for business planning and certainly not across all levers.

A '**Minimum Capital Case**' was also developed for the Hub Expansion lever. Hub expansion requires investment in people, training, vehicles and other equipment. The Minimum Capital Case shows what would happen if no additional investment capital was secured beyond the initial pool of capital invested by shareholders.

Applying the cases to the revenue levers demonstrates the difference in outcomes depending on the level of optimism. The results show substantial differences in the rate of hub expansion and growth of distributor penetration between the most and least optimistic cases. For example, hubs expand more than twice as fast in the best case scenario as compared with the minimum capital case. The differences in distributor penetration growth rates had a comparable variations.

Hub Expansion

Minimum Capital Case	Slow hub expansion rate; 40% slower than conservative case
Conservative Case	Minimal hub expansion rate
Likely Case	Moderate hub expansion rate; 40% faster than conservative case
Best Case	Fastest hub expansion rate; 60% faster than conservative case

Hub Expansion: Hubs are the local coordination points, each supplying and supporting approximately 30 Aparajitas

Distributor Penetration

Conservative Case	Slow growth rate of distributor penetration
Likely Case	Moderate growth rate; 67% greater than conservative case
Best Case	Fastest growth rate; 233% greater than conservative case

Figure 6: Scenario detail by lever

Distributor penetration: The percentage of distributors (and products) represented at each Hub.

Similar analysis was done for each of the other revenue levers.

Step 4

Develop scenarios to assess trade-offs

- What levels of return and social impact can be achieved in alternative scenarios?
- How does a focus on financial return or geographic expansion affect results?

Scenarios help determine how 'business' or 'social' the shareholders want the enterprise to be. They reflect different priorities (financial return vs social/geographic expansion) or constraints (capital), and contain different combinations of likely and conservative cases for each lever.

The results demonstrate the trade-offs between levers, and can be used to tease out choices between social and commercial objectives.

Over two weeks the consultants and RSP management jointly defined four scenarios to help determine Jita's three year growth strategy.

Recommended Scenario

Represents a suitable balance between social and financial outcomes for Jita. It doesn't assume best case for either financial or social returns, but rather the most likely case for both.

Financially Focused Scenario

Achieves higher financial returns by directing management attention more towards increasing 1) the total number of distributors, and 2) the number of distributors per hub.

Geographically Focused Scenario

Achieves higher social impact by directing management attention more towards hub expansion, thereby increasing the number of Aparajita's who benefit from the business.

Minimum Capital Scenario

Achieves expansion without further investment. Assumes an extra slow rate of expansion of hubs and directs management attention towards improving distributor penetration.

When applying the scenarios to each lever, the team had two guiding principles:

1. Keeping the commitment to roll out to 400 hubs and training 12,000 sales ladies by the end of year three as per the initial 2010 business plan.
2. Each scenario offered had to be considered achievable by Jita's management team and the consultants.

	Recommended Scenario	Financially Focused Scenario	Geographic Focused Scenario	Minimum Capital Scenario*
Hub Expansion	▲	■	●	◆
Distributor Penetration	■	▲	■	▲
Sales Growth	■	■	■	■
Commission Percentage	▲	▲	▲	▲
Other Fee Growth	▲	▲	▲	▲
Distributors Added	▲	●	■	●

▲ Likely Case
● Best Case
■ Conservative Case
◆ Minimum Capital Case

* Takes the same settings at the Financial Focused Scenario but with slower hub expansion

Figure 7: Cases applied to scenarios for each lever

Scenarios reflect different priorities for the business. Each contains different combinations of likely and conservative cases for each lever.

Applying actual numbers to the scenarios reveals that each scenario generates an adequate financial rate of return, but with some variation. However, though the Financially Focused and Minimum Capital Scenarios do have higher commercial returns, they do not meet shareholder goals for social impact (i.e. number of hubs and Aparajitas).

The **Recommended Scenario** does meet the social criteria to roll out 400 hubs and train 12,000 Aparajitas by the end of year three and also requires less investment than the geographic scenario. It doesn't maximise either social or financial returns, but does provide an optimal combination of both. In the recommended scenario, management attention is more evenly balanced between rolling out hubs and working with the distributors to increase revenues.

	Recommended Scenario	Financially Focused Scenario	Geographic Focused Scenario	Minimum Capital Scenario*
# of Aparajitas employed by end of Year 3	12,000	9,900	12,900	6,900
% gap: Aparajita earnings to typical local female earnings	277%	305%	298%	327%
# of hubs developed	400	330	430	230
Additional investment required	€€	€	€€€	N/A
Commercial returns	√	√+	√-	√+

Figure 8: Results of scenario modeling

Step 5

Engage stakeholders to finalise plan

- Is there consensus to adopt the recommended scenario?
- Is there consensus on implications and next steps?

The final step in the process involves engaging the business's stakeholders to develop an understanding of the various alternatives and build consensus for moving forward.

Jita's business plan was finalised through discussions with shareholders and current RSP management. The process took three weeks and involved a number of conference calls with danone.communities, CARE Atlanta and two members of their board of directors with venture capital backgrounds.

Two important insights came out of the experience:

1. Engage stakeholders separately

Due to varying availability, separate sessions were held, but this turned out to be an appropriate approach, as each was able to independently carry out their own due diligence.

2. Prioritise face-to-face meetings

Explaining a complex document to shareholders over the phone proved to be challenging. Although more costly, face-to-face meetings make it easier to build understanding and reach consensus.

Results

Outcomes and lessons learned

Scenario modeling allowed the Business Innovation Facility team to develop and propose an actionable business strategy for Jita that successfully balanced the different priorities of company's stakeholders. As of Decemer 2011, Jita has been formally registered and launched.

An important success factor for the scenario modeling approach was the participation of RSP's Management Team. Being active participants in the process resulted in more accurate scenarios while also building the Management Team's capacity to lead Jita's transition from a non-profit programme to a profitable social business. Lessons learned included:

Understanding business costs and the actions that can be taken to manage them

The process led to a better understanding of business costs and an appreciation of the trade-offs that can be made to reduce capital expenditure. For example, renting rather than purchasing expensive items such as vehicles.

NGO approaches to managing capital may not be appropriate for a business start-up

An appreciation was gained of how the social business will be accountable for how it spends its capital. The purchasing approaches of large NGOs such as CARE may not be appropriate for a start-up.

A financially healthy social enterprise needs the right cost-revenue balance

A balance has to be struck between revenue generation and costs. A minor increase in costs or reduction in revenue could have major impacts on the overall financial health of the social enterprise, if not well managed.



Aparajitas

No business revenue, no social benefit

Jita is now fundamentally viewed as a business and generating revenue as the essential first step to create wealth for the Aparajitas. Simply put, if Jita goes out of business, it can have no social benefits.

Engagement builds credibility

RSP's Management Team gained credibilty with their shareholders through engagement with the due diligence process.

Build on existing revenue drivers that are already proven

An understanding was developed of how to extend current revenue-generating initiatives to other distributors by integrating them into the three year strategy.

Project information:

The project on which this 'Insider' document draws is Jita, a rural sales venture that generates income and employment opportunities for rural women called 'Aparajitas',

Jita was legally registered as a Bangladeshi company on December 12th 2011. Currently there are 2580 Aparajitas engaged through 86 'hubs' selling products of seven companies. The shareholders of Jita are Care Enterprises (US) and danone.communities (France): thus Jita is a 'multinational social enterprise'.

Between April and August 2011, support from the Business Innovation Facility was provided by several team members including, Matt Badenoch, Christina Chou and Malcolm Ritchie from Accenture Development Partnerships, Ken Bell from Challenges World Wide and Parveen Huda from Renaissance Consulting.



Jita Bangladesh is a joint venture social business of Care International and danone.communities, dedicated to empowering women through a network of enterprises, creating employment opportunities, and improving access to markets for the base of pyramid consumers.

www.jitabangladesh.com



CARE International is one of the world's leading aid agencies – we fight poverty and injustice. In the last year, we worked in 84 countries, supporting 1015 poverty-fighting projects that reached more than 122 million people.

www.careinternational.org.uk/



Our mission is to support and develop local businesses, with a sustainable economic model, oriented towards social goals: reducing poverty and malnutrition.

www.danonecommunities.com/en/home

About the authors:



Christina and Malcolm are members of the Accenture Development Partnerships team who worked with Jita to develop a sound operating model for the company. Scenario modeling was one of the tools that the team

applied to this project in a new and innovative way.



Accenture Development Partnerships is a group within Accenture designed to operate on a not-for-profit basis to channel Accenture's strategic business, technology and project management expertise to organizations in the international development sector – helping these organizations achieve their social and economic development goals. It is part of the management alliance for the Business Innovation Facility.

Accenture Development Partnerships: www.accenture.com/adp

Further information on this project, including other resources, articles and case studies, can be found at:

www.businessinnovationfacility.org/page/jita-bangladesh

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The Business Innovation Facility supports companies as they develop or grow inclusive businesses. Inclusive business is profitable, core business activity that actively engages low income people: either as employees, suppliers and distributors, or as consumers of affordable goods and services.

For further information and to join the discussion on inclusive business, go to:
Practitioner Hub on Inclusive Business: www.businessinnovationfacility.org

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