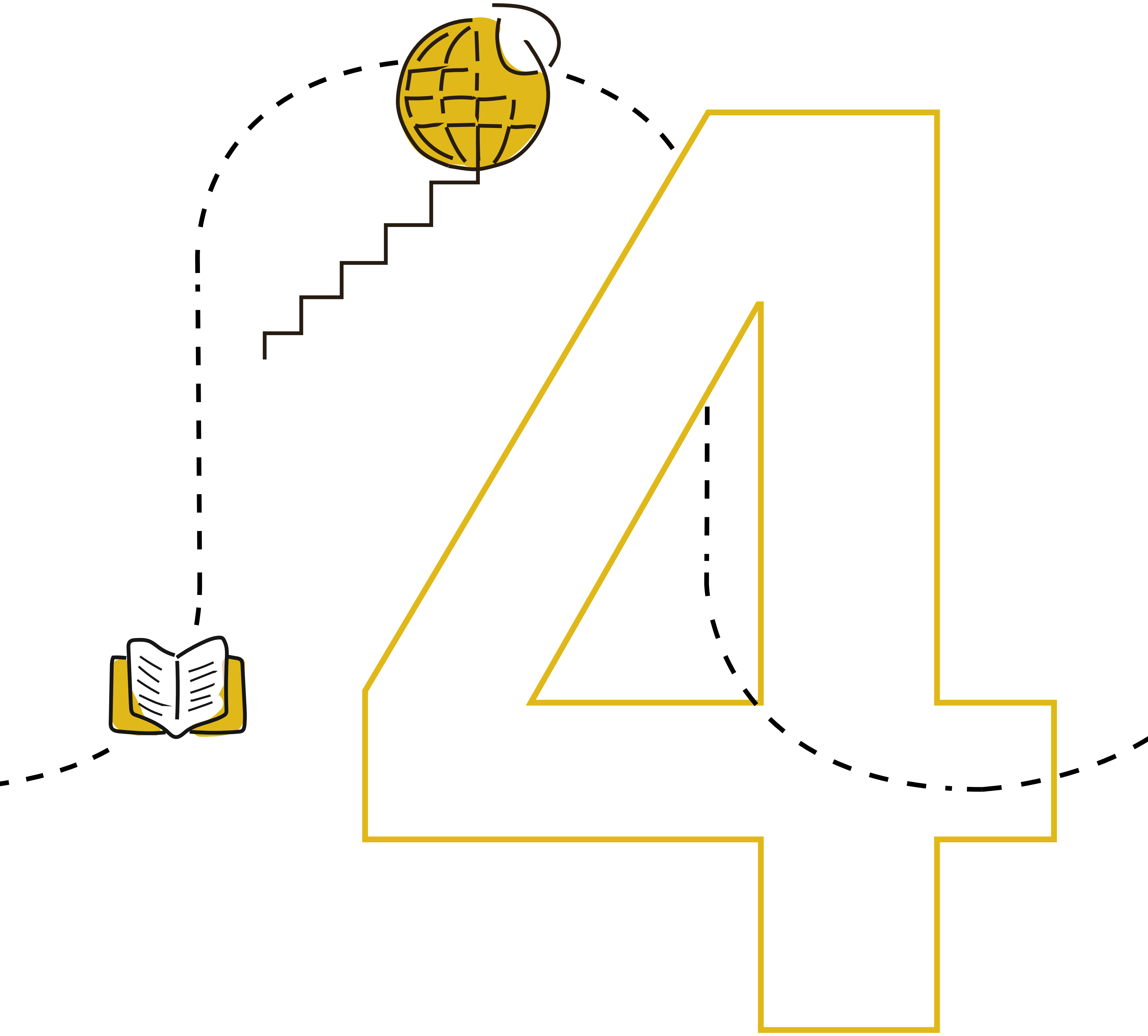
Scaling Strategy

Social Investment Toolkit | Module 4



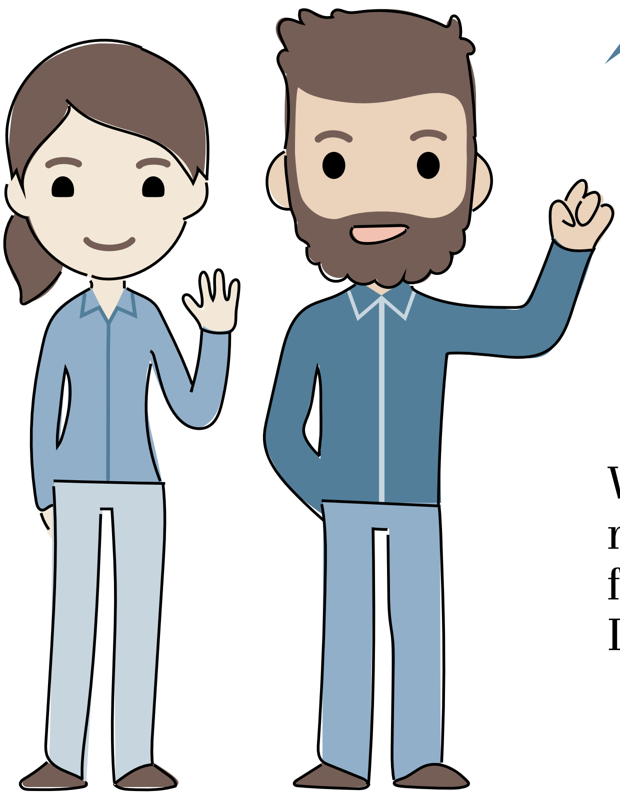
Version 2.0

Content

In this module, we will cover:

– Direct and Indirect Scaling
– Is your Social Business ready to scale up?
– Scaling Strategies: From Branching to Open Source

Before starting this module, you should have a clear sense of your social change model (as developed in Modules 1 and 2) and your core business model (as discussed in Module 3). By the end of this module, you should know whether your current business model is ready for scaling, and which strategy for scaling is most appropriate for you.



We are keen to receive your feedback for the Social Investment Toolkit.

Introduction

In the prior module, we showed how you can develop your basic business model. Once you have developed a business model that is both financially viable and socially impactful, you are ready to develop a strategy for how to scale up.

Let's begin by differentiating between two different types of scaling. We can call these **Direct** and **Indirect** Scaling. Directly Scaling is about directly growing sales. This first phase of growth is about building a larger organisation that can sell more. It might include expanding to new regions or countries by setting up new subsidiaries in those places.

Direct scaling is typically the first growth phase for any venture, and it is critical: you need to reach a certain size and level of profitability before you can adopt more radical scaling strategies. It can last many years. Indeed for most organisations direct scaling is the only form of scaling that they will ever do. It is certainly possibly to grow very large, and achieve significant impact, through direct scaling alone.

At a certain size, however, some of the most effective social innovators shift from pursuing direct sales growth, and instead switch to Indirect Scaling. What these innovators realise is that, once the organisation has achieved a certain size, there may be more effective ways to increasing impact than simply making more sales.

There are a wide range of strategies that such innovators can adopt in order to reach even more people than they could through direct sales alone. These strategies range from open sourcing (giving away your ideas for free so that others can easily and rapidly adopt the solution), to franchising, to teaching others how to adopt your model. We outline these options for you in this module.

SolaRise Case Study
Throughout this Toolkit, we use the example of a fictional social enterprise called SolaRise to illustrate many of the points. SolaRise is a social business selling 'Solar Kits' in rural villages in east Africa that do not have access to electricity. Their product is a solar panel that can be installed on the roof of a villager's house. It stores enough energy during the day to be able to run 6 high quality LED lights, as well as charging devices such as a mobile phone and radio. This saves local households about $1 per day that would otherwise be spent on the poor quality kerosene wick lamps which they would otherwise have to use for lighting, and whose fumes are dangerous and unhealthy. In areas where average income is only $4–6 per day, this is a significant saving.

Is your Social Business ready for Scaling?

Before you start scaling up, you need to know if your social business is ready to do so. In Module 3 ('Business Model') of this Toolkit, we showed how a start-up social business needs to develop a core set of products or services before trying to scale up. Until you know exactly what is the basic core product that you wish to scale up, and whether that core product is financially viable or not, scaling can be premature.

Here are three questions to ask:

1) Is your core product or service clearly defined?

Are you very clear on what your core product or service looks like? Can you describe clearly how it is delivered and exactly what specifications it has? Could you put these into a manual and have someone else replicate it exactly? In other words, have you successfully completed the phase which we described in Module 3 as 'standardization' of your products and services?

In the case of our solar company SolaRise, for example, their core product is very clear: the Solar Kit. For micro-lender Fair Finance , it is a single small personal loan made to a financially excluded customer (see Module 3 for more on Fair Finance). For an education venture, the core product might be a workshop or class. For a healthcare venture, it might be a training program for patients in how to manage diabetes.

2) Is your core product or service financially viable?

Can your core product or service be sold for a price that more than covers the costs of delivering it? In other words, can you sell each unit with a positive gross profit margin?

In the SolaRise case, suppose one solar kit is sold for $250, but the actual cost of the kit is only $150. This can be scaled: if they were to franchise their technology and allow others to sell their solar kit, it could be done profitably. If the gross profit margin was negative, scaling up wouldn't work – more units sold would drive the company deeper into losses. Have you already worked out the economics of your core product, such that you are confident that more sales means more profit?

3) Does your business model depend on specific people or other factors that are not scalable?

Many ventures depend on the skills or knowledge of a particular person or group of people (this might be true for consultancy firms, for example). Is this team stable and mature enough to be able to dedicate time to a scaling process? Other ventures depend on the unique characteristics of a particular location, or special relationships with particular institutions or people. These ventures will be hard to scale up.

If your venture falls into this category, you need to consider how to help it evolve beyond these characteristics or else accept that you will be remain a specialist, niche venture.

If you can answer yes to these three questions, you are ready for scaling.

Exercise: are you ready for scaling?

Please review the set of core products and services that you defined in Module 3. For each of these, ask 3 questions:

1) Is this product or service sufficiently 'standardized' that it can be rolled out at mass scale?
2) Is this product financially viable? (i.e. can it sell with a healthy gross profit margin?)
3) Is delivering this product or service dependent on any special factors that might limit your ability to roll it out at mass scale in other regions?

If you answer 'no' to any of these questions, can you find ways to get around the bottleneck that you have identified? For example, can you standardize your product further? Can you find a way to replicate or reduce reliance on the 'special factor' that you depend on? Can you adjust price or reduce cost to make your core product profitable?

Strategies for Scaling

Once you have a viable, replicable core product or service, how will you ensure that you can reach as many people as possible? We can define a spectrum of scaling strategies. The spectrum ranges from those where you have the most control (i.e. you simply grow your team and deliver more yourself) to those where you have little or no control on how your innovation is delivered (such as 'open source', where you give your ideas away for free).

Typically the options that give you more control are also the options with the lowest potential to reach people quickly, but this trade-off is not always true.

Here are some scaling strategies (set out in terms of decreasing order of control):

The first two strategies outlined here are what we referred to above as 'Direct Scaling', or 'Growth' strategies. In each case, the prime objective is to increase the number of sales that you are making of your core product. The difference is whether you make those sales yourself ('branching') or through others ('social franchising').

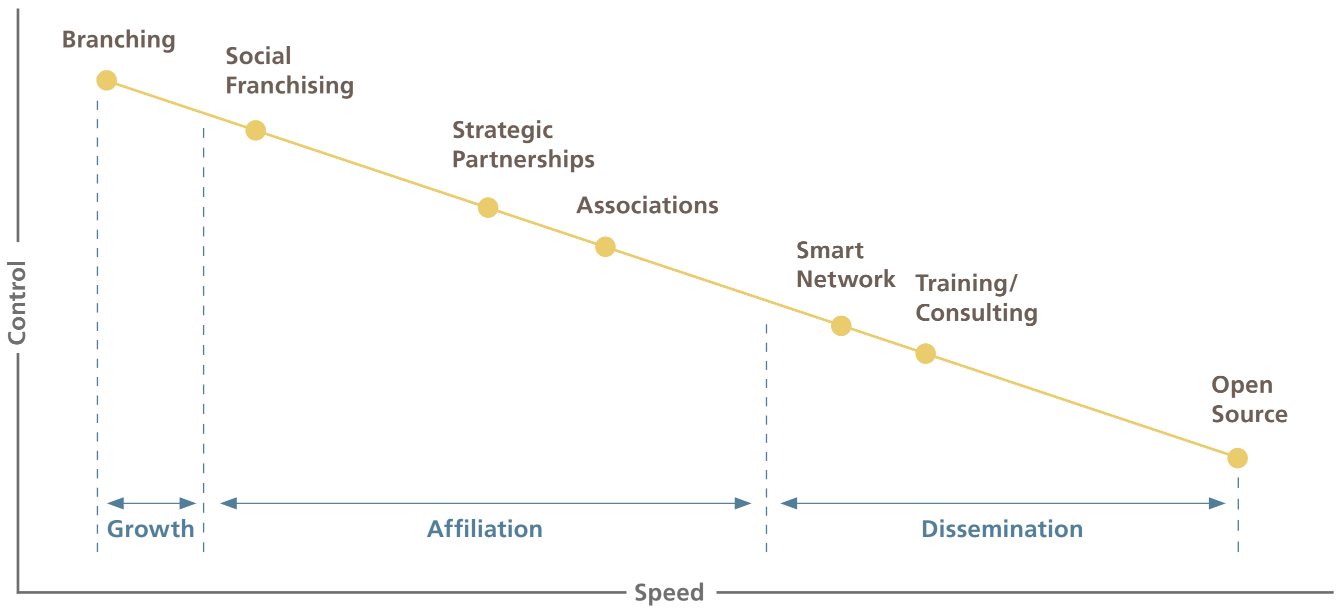
The later strategies (from 'Partnerships through to 'Open Source') shift to Indirect Scaling: these strategies are around trying to get your ideas around impact (i.e. the 'Social Change Model' which you developed in Module 1) to go viral and be spread by many others, rather than simply increasing the sales of your organisation.

The Indirect Scaling strategies can be split into 'Affiliation' strategies and 'dissemination' strategies.

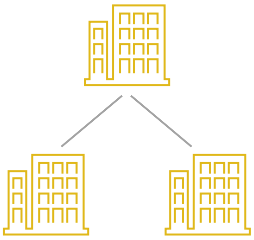
- **'Affiliation'** strategies are about joining forces with partners and similar organisations so that your collective impact can be magnified. This might involve creating Associations, or coalitions towards achieving a common social objective.

- **'Dissemination'** strategies are about spreading your core ideas as far and wide as possible, through sharing, teaching and even open sourcing.

Indirect Scaling strategies have a much higher chance of reaching more people – however the consequence may be that you need to 'let go' of the idea, and let others adapt and run with it elsewhere. For many social entrepreneurs, 'letting go' of their idea is fine. In contrast to commercial entrepreneurs, social innovators are less concerned about acquiring market share at the expense of others. What they care about more is finding the best ways to positively improve the lives of as many people as possible. Social entrepreneurs often actively welcome 'competition': the more people working on the problem, trying out different solutions, the better.



Here are seven strategies for scaling:

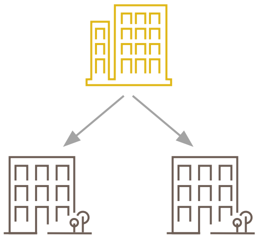


1. Branching
In the branching model, you simply grow a larger business and sell more over time. This is almost certainly the model during the start-up and early growth phase, and is the model adopted by most commercial businesses. You have complete control over how your innovation is delivered.

'Branching' is so-called because most businesses find that after a certain level of growth, they need to form a new 'branch' or subsidiary to manage a new region, area or even country. This might be a simple as opening a new shop in a new area once your current area is saturated. There will be a step jump in costs at this point as the new branch will need to be set up. This is particularly true if you are expanding to a new country. Once established, the new branch can then manage/serve the local customers in its area.

You are likely to have a headquarters that will manage all of the branches. The HQ remains responsible for group sourcing (supplies and manufacturing), financial management, and hiring and training of staff in the branches.

Investors will be very interested in your roll-out strategy for new branches. You will need to demonstrate the economics of launching a new branch (using a Financial Model which is the subject of Module 5) as well as explain how many branches you think you can launch over the next 3-5 years, and a time-line for roll-out. You will also need to explain the pre-conditions for launching a new branch – in other words, how will you know when a new area is ready for a branch?



2. Franchising
In a franchise model, you package up your core product(s) into highly standardised units which others can sell under the same brand that you have created, just as McDonalds packages up its entire restaurant format, with completely standardised menus.

To make the franchise model work, you need to have

i) a **widely recognised brand** that franchisees can benefit from,
ii) a **standardised set of product(s),** and
iii) a **developed supply chain** capable of providing your franchisees with the products and services that they need to sell on.

An example of a social venture using franchising is **SaniShop**, a social business created by Ashoka Fellow Jack Sim. SaniShop's product is a low-cost, high quality toilet, which can be used to improve sanitary conditions in areas where public sanitation and hygiene quality is poor. Local entrepreneurs become franchisees, selling the toilets under the SaniShop brand. The venture has successfully operated in Cambodia, India and Mozambique.

For more information about scaling through social franchising, we recommend the 'Social Replication Toolkit' created by the International Centre for Social Franchising, a copy of which can be downloaded here: http://toolkit.the-icsf.org/Home

Franchising is typically funded through 'franchise fees' paid from the franchisees to the franchisor. It may also be possible to earn a margin on the sales made through the franchisees.

3. Partnerships

Building partnerships with other organisations is often the fastest and most efficient way to expand. Rather than directly replicating your business in new regions, why not work with existing partners on the ground who already have some of the infrastructure set up to deliver your innovation?

SolaRise, for example, is considering expansion to India, a country where it has no team on the ground. It notes that there are many micro-finance organisations that are lending to rural off-grid households, its target customer base. SolaRise develops a partnership strategy with one of the largest micro-lenders whereby a SolaRise sales agent will go door-to-door with a loan officer. If a household makes a purchase, the micro-finance agent can offer a loan to pay for the Solar Kit. When the loan officer returns in future months to collect loan repayments, they can also check that the Kit is still working, and even bring a supply of replacement components if needed. Thus both organisations can benefit tremendously from this partnership, sharing resources, and providing a value add to each other that neither could do by themselves.

You should ask yourself the following questions:

1) Which potential partners are already serving your target customers or beneficiaries?
2) Who provides a product or service (such as a micro-loan) that could be a complement to your own?
3) Who has a distribution channel or a supply chain that you could benefit from?

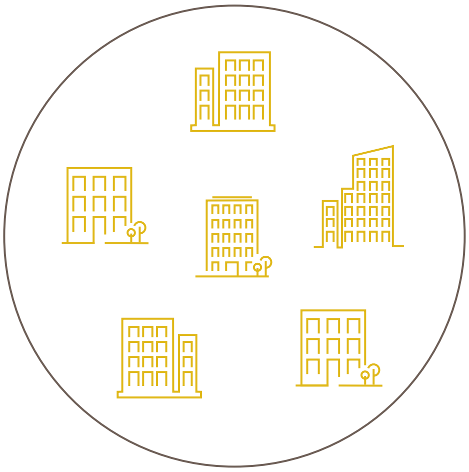
Case Study on Partnerships

Partners for Youth Empowerment / Dream a Dream (India)

A good example of a successful scaling partnership has been the collaboration between Partners for Youth Empowerment (PYE) Global (co-founded by Ashoka Fellow Charlie Murphy) and Indian NGO 'Dream a Dream' (founded by Ashoka Fellow Vishal Talreja). PYE delivers workshops to improve the creative teaching skills of teachers and youth workers, helping them run classes better and find better ways to engage young people through arts-based facilitation skills. Dream a Dream is an organisation working in thousands of schools across India supporting teachers.

When their founders met, they realised that PYE could scale far more quickly across India by teaming up with Dream a Dream. PYE switched to a 'train the trainers' model where PYE trained Dream a Dream staff in its methodology. The Dream a Dream staff were then able to take these insights and techniques back to their own schools, and put them immediately to effect in the classroom. They have collectively reached many more teachers and children than PYE could ever have done by itself.

PYE had the methodology but not the access to a large network of schools. Dream a Dream had a great schools network but wanted to upgrade its teaching methods. Bringing the two together has been a great partnership. Dream a Dream CEO Vishal Talreja credits the partnership with PYE as having had a 'transformative effect' on the impact of Dream a Dream.



4. Associations

Many social enterprises create associations of similar organisations under a common umbrella brand. This can be a way to campaign together on a common cause and create public awareness. In this model the organisations are self-selecting and remain independent, but cooperate.

An example of an association is Alcoholics Anonymous. Each AA 'chapter' around the world is independently organised and self-managed. Each one however adopts a common set of principles and approach (the famous 12 Steps Program), and to be part of the global association, each chapter needs to subscribe to running their meetings in a particular way and to certain standards. The advantage of the Association structure is resilience (no single chapter can bring down others if it fails), as well as common branding and common standards (association members act to proven common standards, which are internationally recognised).

Associations are typically funded through membership fees or through voluntary donations.

Case Study on Associations

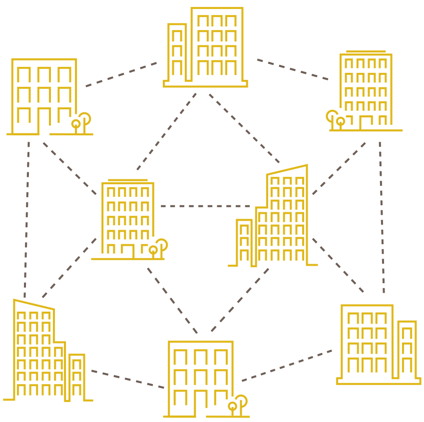
Teach for All

Teach for All is another outstanding example of a major social innovation that is spreading globally. Founded by Wendy Kopp and Brett Wigdortz in 2007, Teach for All is now a global association of over 40 partners on six continents working to "expand educational opportunity around the world by increasing and accelerating the impact of social enterprises that are cultivating the leadership necessary for change".

By 2017, Teach for All partners had recruited over 65,000 teachers and reached more than 6 million children, with an annual budget of over USD 20 million.

The core innovation which Teach for All helps promote is the same as that established by founder Wendy Kopp when she set up the original 'Teach for America' in 1990. The model is to recruit high scoring university graduates onto a two year program during which they will be trained and then sent to schools in low income neighbourhoods that urgently need teachers. Graduates from Teach for America are highly valued for their skills, character and leadership potential by employers. Their employment prospects are enhanced, not diminished, by enrolling in Teach for America, and indeed many stay on in teaching after their initial two year program. Teach for America has therefore been invaluable in drawing many more graduates into the teaching profession.

The partners in the Teach for All network are all independent, self-funded organisations. However they receive support, advice and best practice sharing from the Teach for All foundation, as well as from each other. Alignment with the Teach for All brand gives them greater credibility and visibility, and is a powerful endorsement which enables them to secure funding and to recruit teachers.

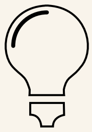


5. Smart Networks

Building networks or communities of practice can be a way to reach millions of people. In this strategy, the social innovator brings together a coalition of partners united by a common purpose or interest. Unlike associations, the members of a smart network may be very different in operation and function. For example, this may include government agencies, businesses and non-profits working together towards a common goal.

The social innovator does not necessarily lead the community (indeed hierarchy may be impossible or undesirable to establish), but rather provides the framework, tools and common vision under which a community can come together. The social innovator identifies what the systemic challenges are, as well as which actors are needed to solve the challenge, and seeks to play a co-ordination role.

The funding model for a smart network depends on the nature of the network, and the players within it. In some cases, there are revenue streams possible from business opportunities within the network. The 'Housing for All' example described here is one where each of the 3 main actors – the housing developers, banks and NGOs, can each charge for their role in the network. In other cases, the network needs to be funded through donations and grants.



Case Study on Smart Networks

Housing for All (Ashoka)

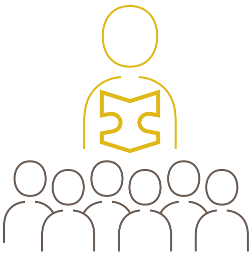
From 2010–15, Ashoka developed a project in India called 'Housing for All' with the aim of bringing affordable housing to millions of low wage workers in the informal economy who were unable to get access to decent housing. Ashoka realised that there were several systemic barriers:

i) lack of affordable, high quality homes being built for this customer base/income group
ii) inability of informal economy workers to get access to mortgages for homes
iii) inability of mortgage lenders to assess the credit-worthiness of informal economy workers.

Ashoka therefore built a coalition to tackle this problem.

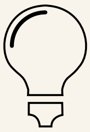
It comprised:
- **Housing developers** to design and build affordable high quality housing units
- **Bank Lenders** to provide housing loans to informal economy workers and
- **NGOs** skilled at assessing and supporting the credit worthiness of informal economy workers,

The NGOs provided their credit assessments to the Bank lenders, who could then provide the demand for the home builders. By bringing together a smart network in this way, Housing for All was able to catalyse a whole new market for affordable housing in India that did not previously exist. In its first five years, Housing for All was able to mobilise more than $120 million of new funding to build affordable homes in India, and more importantly create a permanent coalition dedicated for this previously overlooked customer base.



6. Consultancy / Capacity building

A consultancy and/or capacity building model can be adopted by ventures that have developed an expertise in a new approach to tackling a particular social issue. If you have worked out how best to reach last-mile customers in rural Rwanda, for example, or how to acquire meaningful health data across a wide population, you may have skills that others would be willing to pay for. Providing consultancy services to other social organisations in your area of expertise may be an efficient way to spread your methodology and impact without having to grow your organisation. Consultancy is typically funded through a fee model.

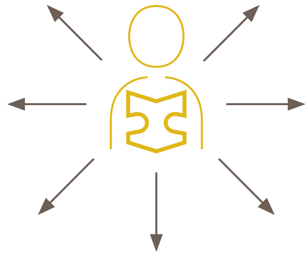


Case Study on Open Source

Kaboom!

An example of a successful open source strategy adopted by a social venture is Kaboom!, launched in the United States in 1996 by Ashoka Fellow Darrell Hammond. Kaboom! seeks to ensure that children growing up in urban environments have access to fun outdoor areas for play. Instead of running a business selling playground designs, Hammond adopted a completely open source model where hundreds of ideas around how to transform a local space into a safe, fun, creative area for kids to play could be downloaded by anyone.

The model has been incredibly successful: to date, more than 1 million local volunteers have been mobilised, building or improving over 16,000 playgrounds and reaching 8 million children. All with a very lean organisation.



7. Open Source

Our final example of a scaling strategy is to open source your innovation. In an open source strategy, you place your intellectual property online and allow others to freely access it, and generally to even add to it and build on it. The aim is to spread the knowledge as far and wide as possible, and aim for widespread adoption. Ideally a community of best practice will form around your ideas, and take on a life of its own.

Perhaps the most famous example of an open source social innovation is **Wikipedia**, the online encyclopaedia which is curated by millions of individual users. Open sourcing an idea is far more than just simply posting it online. Successful open source strategies are able to achieve the following:

- Place ideas in an open forum where users are able to access
- Create a community around the Open Source platform so that ideas can be added/updated
- Provide a means for updates and new ideas to be added from the crowd
- Provide a mechanism to police and accept/reject new inputs. This is typically done either through a group that acts as the 'guardian' or gate-keeper of the open source community, and determines what becomes the new 'standard' for the open source, or through some form of community management (people voting on what gets accepted).

Open sourcing is often a difficult model to fund, as it relies on the goodwill and support of volunteers (which is also its great strength – it's a low cost model precisely because all of the work is done by the community). Wikipedia continues to this day to be reliant on donations.

Exercise:
Explore Multiple Scaling Strategies

Imagine your social venture as if it were to scale using each of the above strategies. How would your model operate if you were going to go the open source route? What about franchising? If you went the partnership route, which partners could you work with? Don't automatically assume that one strategy is the best for you.

Try out each one, and imagine what your venture or innovation would look like in each case. There might be different solutions that work better for your venture at different stages of your business' growth, so think about which of these fit best now, given your constraints and the trade-offs that you think make most sense for your venture, and which might be possibilities into the future. Ultimately, you will need to pick the strategy that works best for now, and thinking through all the options will help you make the best decision.

Investor Tip

Investors care about the size of your impact and the size of the financial return. Your scaling strategy is core to both of these. For example, organic growth might increase revenue but, depending on your model, it might also be expensive. Open sourcing, on the other hand, might not increase your revenue, but, depending on your model, might be less expensive for greater impact. Different investors will prioritise social return and financial return differently,

Case Study: SolaRise

SolaRise reviews its options and realises that it can adopt a mix of different strategies for scaling up. It is confident that it's basic product – the Solar Kit – meets all the criteria for scaling. It is a proven, standardised product that customers have shown that they will pay for. Selling the Kit does not require anything special or unique about the original company and could be done by anyone with the right team. The Kit has a positive gross margin (every Kit sold makes money), is financially viable and they have written up procedures and manuals that enable standardised delivery of the product.

SolaRise concludes that although organically growing its team would work, franchising would be a faster way to grow. SolaRise therefore develops a franchise offer whereby it agrees to sell its product to local sales agents who are willing to act under the 'SolaRise' brand and market the solar products. Its business model therefore switches from direct selling, to recruiting and growing local franchisees. SolaRise provides them with the products, helps them market, and trains them in sales and after-sales support.

SolaRise also enters into partnerships where useful. In some parts of rural Kenya, SolaRise realises that customers typically don't earn enough to be able to buy its products outright. It therefore partners with local micro-finance organisations to provide loan finance to help the customers take on a loan and pay for the products over a 1-year period.

In the long term, SolaRise might even consider a 'smart network' strategy. For example, it might decide to form the 'Coalition to eradicate Kerosene from Sub Saharan Africa', bringing together many players under this common goal. Providing solar products would then be only one part of the solution. Others, such as a campaign to end government subsidies on dirty fuels, might be another complementary part of the strategy, or to remove tariffs on the import of solar equipment.

Investor Recap

Once you have defined your core business model, investors will wish to know about your scaling strategy.

Scaling strategy can be split into two parts: the first is your growth plan (how will you increase sales for your organisation?), also known as direct scaling. You need to present a 3-5 year plan for your investors, showing how you project to increase sales. This growth forecast should also include costs associated with launching new branches, or launching in new regions or countries.

When your venture is more mature, you may wish to explore indirect scaling strategies, which are around creating more impact through helping spread your social change idea, rather than directly growing yourself. Some strategies (e.g. associations, open source) may require quite a radical adjustment in how you are organised.

In this Module, we've outlined 7 different strategies for scaling up. Two of these strategies are around direct growth. The others are strategies for indirect scaling. Each strategy has pros and cons in terms of control, reach and funding potential. You will need to consider which one is right for you based on your social change and business model.

In Module 5 ('Financial Model'), we will explain how to put your growth projections into a financial forecast which you can use to discuss with investors your financials for the next few years. These projections will then form the basis of assessing how much finance you need to raise, and in what form, and on what terms.

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