

Social Entrepreneur Proof of Concept Training

Introduction

"Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change." – Ashoka

Many social entrepreneurs automatically assume that because they identify a community need and/or a potential business opportunity, it is solvable, scalable, and/or feasible. Nothing could be further from the truth. If every business opportunity were feasible, the failure rate of small businesses would not exceed 80%, and billions of dollars in hard earned savings and person hours could be saved. If every community need were easy to meet, we wouldn't be living in a world with high rates of poverty, homelessness, hunger, and violence. Sustainable and pattern-breaking social change is hard work that takes dedication, persistence, and **proof of concept**.

Regardless of the opportunity or need that has been identified, every for-profit or nonprofit venture, despite who identifies the opportunity, needs to go through a proof of concept process. This proof of concept process is designed to quantitatively and qualitatively show the opportunity is feasible and the potential solution is viable. The opportunity and solution needs to analyzed and evaluated before moving to the process of implementation. By completing this process, not only is the entrepreneur assured that the solution is viable and the opportunity viable, but investors, lenders, donors, and other third parties with interests are assured as well.

Proof of concept also involves identifying the very specific problems in society that the social entrepreneur is planning to solve and what measurable impact the social entrepreneur hopes to achieve. Similar to the for-profit entrepreneur, social entrepreneurs will need to show quantitatively and qualitatively that the social need exists and how success will be measured in order to prove effectiveness to donors and stakeholders. By completing this process, the social entrepreneur will be assured that the need does exist and that the planned approach to solve the problem is one that is not currently being addressed effectively by others in the community.

This module is divided into 3 sections. They include:

1. Critical Questions
2. Concepts

3. Business Application

Critical Questions

Every social entrepreneur should address 19 major questions in order to determine the feasibility of an opportunity and the viability of a proposed solution:

1. What is the specific problem I am trying to solve? What needs in society and the environment are currently not being met? (Back up with research and statistics as much as possible.)
2. What are the needs of the population I am trying to help? What are individuals' experiences of the problem? (Ethnographic analysis, empathy, etc.)
3. Social entrepreneurs have two or more target markets because the population in need often cannot pay market price for the services/product being provided. What/who is my target market #1? (Population in need.)
4. What/who is my target market #2? (Those who can and would pay for my service/product; i.e. government, schools, foundations, individual donors, corporations. Who cares about this problem being solved?)
5. What is the size of the market in which I plan to provide products/services?
6. What is the direction of the market?
7. What are the major market segments?
8. Who are my four major competitors (or potential collaborators) in my proposed target market? (Who else is doing similar work in similar geographies with similar populations?)
9. How do they compete in the marketplace? (How do your competitors raise funds or generate revenue in the marketplace? What foundations and donors give to your competitors?)
10. Who are the customers?
11. What is the direction of the industry I plan to enter?
12. What are the major barriers to starting the social venture?
13. What will it take to overcome the major barriers?
14. How will I measure my social impact quantitatively and qualitatively?
15. What will be my market niche? (What my competitors do poorly and what I do well; what differentiates me from my competitors.)
16. What will be my business model?
17. What is the estimated profit and/or revenue-generation potential (include donations) for my product or service? (Back of envelope and Prepare a 3 year Pro Forma in Finance 101)
18. Can this firm become profitable and/or sustainable?
19. How can I most efficiently pilot or test my model/solution before I scale?

Concepts

Social Entrepreneurs of New Orleans (www.seno-nola.org) and the Kauffman Foundation Urban Entrepreneur Program Gulf Coast (www.uepkauffman.org) has developed this Proof of Concept Training in order to help each social entrepreneur address the 19 major questions above. These questions should be answered by every social entrepreneur in order to improve the probability of social venture success. Participants will engage in an interactive process. This process will:

- Guide them through a discussion and understanding of major concepts
- Engage in research and information gathering from recommended sources in order to answer the major questions
- Allow participants to apply the lessons learned to their individual social ventures to prepare the completion of a business plan

After completing this process, the social entrepreneur will have a better understanding of their market for goods/services, competition, industry, and customers in relationship to the feasibility of their business model and the viability of their solution.

Five worksheets make up this training. They are located at the end of the training module. They consist of:

- **Market data** – Social entrepreneurs often have 2+ markets they serve. The primary market for a product or service is the group of customers who want and need the service/produce I am offering. It may be that this group is unable to pay full cost for the service/product. The secondary market for a product or service is the group of customers who are willing to purchase or subsidize the product/service, have the means and are permitted by law to do so. Market data begins at the aggregate and narrows to the specific market segment or niche.
- **Customer data** - Driving the demand for any product or service is the person/firm that receives or purchases the good or service—the customer. Knowledge of the specific customer, i.e., target market, is key to finding an effective solution and developing a successful business model.
- **Competition data** - For every social venture, there is another one providing the same product/service or something very similar. Social entrepreneurs must know who their “competitors” are and how they service the customer in order to identify their niche and determine the feasibility of their business model. In addition, many social ventures rely on external resources such as donations, volunteers, and media in order to further their organization’s mission. Social entrepreneurs must know which other organizations are “competing” for the same resources.

- **Business model** – Every social venture should operate according to a model developed for venture sustainability. This model accounts for competition, market and customer niches, competitive strategy and revenue forecasts.
- **Industry data** - Each business is part of an overall industry that describes its primary business activity. Industries represent the supply side of the market. NAICS codes define major industry categories and subcategories.

Now your task is to answer the questions for your own business. (please refer back to the 19 questions).

Information Sources

The goal of market research is to help you understand your market, your customers, your competitors and larger industry trends. The type of data that you will need and how much money it will cost will determine which techniques you choose to utilize. Market research falls into two basic categories: primary and secondary. Your research might involve one or both depending on your needs and resources.

Primary Source Information Gathering

Primary research involves collecting original data about needs, preferences, and “pain points”, buying habits, anecdotes of how the problem is experienced, opinions and attitudes of current or prospective customers. Secondary research is based on existing data from reference books, magazines and newspapers, industry publications, chambers of commerce, government agencies or trade associations. It yields information about industry sales trends and growth rates, demographic profiles and regional statistics. For New Orleans social entrepreneurs, please see the Greater New Orleans Data Center for demographic information, poverty rates, graduation rates, etc.

Five primary source techniques are usually used for market research. They might be used alone or in combination. Techniques include:

- Surveys
- Focus groups
- Personal interviews
- Observations
- Field trials

Regardless of the techniques used, we need to learn as much as we can about the customer if we are to fashion a marketing strategy and plan that will be successful in securing their business.

For social entrepreneurs, you will need to repeat this process for both the population you will be serving (i.e. children at risk) and your donors/buyers if the two are different.

Secondary Source Information Gathering

When primary data is not available or too expensive, one can resort to secondary data - data that someone else has collected. There are numerous sources of secondary data. Some are free, but many more are not. Outlined below are some major sources of free secondary data for use in market research and analysis.

Step 1. Source Market Data

- A. New Orleans-Specific: Greater New Orleans Community Data Center
www.gnocdc.org
- B. <http://www.bls.gov/cex/>
- C. <http://www.censusscope.org/>
- D. <http://www.zipskinny.com/>

Step 2. Source Data on Competition

- A. Google is a great tool for this.
- B. <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsel.pl>
- C. http://www.census.gov/econ/census02/guide/02EC_LA.HTM
- D. <http://www.manta.com/>
- E. <http://www.ibegin.com/directory/us/louisiana/new-orleans/>

Step 3. Source Data on Customers

- A. New Orleans-Specific: Greater New Orleans Community Data Center
www.gnocdc.org
- B. <http://www.censusscope.org/>
- C. <http://www.city-data.com>
- D. <http://factfinder.census.gov/servlet/ACSSAFFacts?>
- E. <http://www.zipskinny.com/>

Step 4. Source Industry Data

- A. <http://www.hoovers.com/free/ind/fr/list.xhtml>
- B. <http://www.virtualpet.com/industry/howto/search.htm#identify>
- C. http://dir.yahoo.com/Business_and_Economy/Organizations/Trade_Associations/
- D. http://sandp.ecnext.com/coms2/page_industry
- E. <http://www.Bizlink.org>

Step 5. Additional Source Data

- A. <http://nolamasterplan.com/>

B. <http://usatoday.com/>

C. <http://thomas.loc.gov/>

By now it should be clear that as one moves from the general to the specific that the availability of information, especially free information, becomes more difficult to secure. At this juncture, primary sources become more important. Larger competitors will probably have D&B reports, articles and features written about them.

Social Entrepreneurship Business Models

Social entrepreneurship business models range from for-profit models, non-profit models, and hybrids. Outlined below are examples and explanations of different business models:

I. For-profit (LC3, LLC, and Corporation) with a social mission:

<http://www.inc.com/magazine/20110501/the-social-entrepreneurship-spectrum-for-profit-with-a-social-mission.html>

II. Nonprofits with earned income/social enterprise:

<http://www.inc.com/magazine/20110501/the-social-entrepreneurship-spectrum-nonprofits-with-earned-income.html>

III. Classic Nonprofits:

<http://www.inc.com/magazine/20110501/the-social-entrepreneurship-spectrum-nonprofits.html>

IV. Hybrids:

<http://www.inc.com/magazine/20110501/the-social-entrepreneurship-spectrum-hybrids.html>

Once we have collected, analyzed and summarized the data, we can now complete our Worksheets, compare our firm to those in the industry and conclude whether the opportunity is feasible.