How to Trigger Markets for Millions
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"Ten years ago, social entrepreneurship was an unknown term in Germany. This analysis shows just how profoundly our markets are changing."
Prof. Dr. Dr. Ann-Kristin Achleitner, Professor of Entrepreneurial Finance at the Technical University of Munich

"Looking through the lens of social entrepreneurs means anticipating market changes for the good of all."
Christian Boehringer, President of the Shareholders' Committee of Boehringer Ingelheim

„With more and more social innovations impacting commercial markets, companies will need new strategies well beyond CSR."
Dr. Matthias Daub, Partner, McKinsey & Company, Berlin

"For me, this view of the early phases of markets is revolutionary. We will need new investment paradigms to be successful in this game."
Michael Phillips, Investment Partner at Castik Capital Partners, Luxemburg

"More and more business leaders are asking themselves how they can make social impact central to their lives and their companies. Social entrepreneurs are providing an answer to one of the most important management questions of our time."
Frank Trümper, Managing Director of the Baden-Baden CEO Forum

How to Trigger Markets for Millions

by Felix Oldenburg

Who did it? The encyclopaedia industry has already disappeared. Media and electricity companies are struggling. Car manufacturers and hotels sense they could be next. There is no sign of the usual suspects like low cost competitors. Yet following the money trail does reveal a set of big winners. The online education sector is set to become a 30-billion-euro industry. Green, decentralised energy is already a 35-billion-euro market in Germany alone. Providers of car sharing and other new transport services will, according to a recent study, reach a revenue of seven billion euros in Europe within five years. And new hospitality businesses such as private accommodation platforms, fair trade and slow food are growing at similar orders of magnitude.

However, double digit growth rates are not the only thing these nascent billion dollar markets have in common. They were pioneered by a new type of disruption. In each case, social entrepreneurs pulled the trigger. Instead of starting their organizations with the primary goal of making money, they look to solve a social problem - and create huge business opportunities.

Silently, social entrepreneurs have pioneered some of the largest market changes of the last decade. The thick books of the encyclopaedia publishers have been rendered obsolete by the big idea of Wikipedia founder, Jimmy Wales. His vision: to make the world's knowledge accessible to everyone. Electricity providers are faced with a revolution in the energy sector that turns millions of households into producers of green electricity. It was social entrepreneurs like Ursula Sladek, opponent of nuclear energy and founder of EWS (Electricity Works Schönau), who proved the idea against all odds and conventional wisdom. The beginning of the car-sharing industry can also be traced back to social entrepreneurs. Since then it has grown from a niche interest into a real market shift for car makers. The founder of the Couchsurfing movement, Casey Fenton, turned the competitive environment of hoteliers on its head by empowering everyone with an Internet connection and a sofa to offer accommodation to anyone. In the food and catering sectors, social entrepreneurs like Paul Rice and Carlo Petrini are responsible for market upheavals like Fair Trade and Slow Food. Education providers like universities find themselves confronted with new competitors like Khan Academy or the Shai Reshef's University of the People that offer content and even degrees without the established barriers to entry.

The founding stories of the above examples may differ in many ways, but one pattern is very similar. Changemakers who set out to create a better world have turned out as pioneers of billion dollar markets (see box "The Other History of Banking").

This is a global phenomenon. Everywhere, more and more social entrepreneurs are challenging existing models with big ideas. And while markets resulting from social innovations can be found throughout history, they used to emerge over decades. Today, this happens within a few years. In order to find out what is making social entrepreneurs so disruptive, Ashoka (the global association of leading social entrepreneurs, including all innovators named in this article) have, along with the consultancy McKinsey & Company, conducted a study into the phenomenon, based on the network of more than three thousand "Ashoka Fellows" from 80 countries.

The Other History of Banking

The banking sector, rarely suspected of having an exaggerated intention to improve the world, provides an excellent example of the enormous power of social innovation. Just 150 years ago, only one per cent of society were customers of banks. The rest of the population did not grace their sumptuous halls. It was Friedrich Wilhelm Raiffeisen, a social entrepreneur by today's terminology, who developed a model to support poor farmers and agricultural cooperatives (initially known as "bread associations"). This later led to the system of cooperative banks. A few decades later, a similar thing happened in the cities. The German Sparkassen ("savings banks") were created as banks for ordinary people, whom the existing capital institutions had deemed unprofitable. Outside of developed countries, it was another social entrepreneur, Muhammad Yunus, whose invention of microcredit created a way to give poor women access to banking services. In the early 2000s, social entrepreneurs like South Africa's Brian Richardson with Wizzit and the Vodafone "intrapreneurs" at MPesa in Kenya used mobile banking to make banking services available to the citizens of countries that had no access to bank branches. Now, mobile banking has revenues of 600 billion dollars, mostly bypassing traditional banks. And just a few years ago, the social entrepreneur Matt Flannery founded Kiva, establishing the principle of Peer-to-Peer (P2P) credit, which makes it possible to grant loans directly from user to user. This idea was not only an answer to the financing problems of small businesses, but also an answer to the inflexible, traditional business of banking. Today "only" 2.5 billion people are without the security of a bank account. The history of the banking sector is also a history of the accelerating inclusion of new customers through social innovation. (see also this Ashoka/Capco study about Hybrid Value Chains in Banking)

The analysis revealed that the business models of social entrepreneurs do not lead to these kinds of massive changes and market upheavals by accident. Instead, they follow certain patterns from which business strategists can learn key lessons. Up to now, many social entrepreneurs believed that they had to learn from the business sector. Today, the evidence suggests, it is as much the other way around: the social entrepreneurs understand some of the new mechanisms much better than the established commercial players. The perception is often blurry because the innovations of social entrepreneurs do not, as a rule, resemble the business models of established companies, at least initially. Decoding them reveals strategies that are partially already known, and partially surprising.

From Customers to Co-Creators

The principle of "sharing, not owning" is a characteristic of many transformative businesses that belong to a movement popularised under the moniker "sharing economy". They all assign new and expanded roles to customers in their value creation strategies. For example, the Wikipedia Foundation considers anyone an author. Car sharing leads to the idea that every customer is also a provider of transportation (at least in its original form of sharing cars between neighbours). Couchsurfing turned anyone into a hotel owner. For the most part of its history, business was about reaching everyone as a customer (including much of the social business at the bottom of the pyramid). Social entrepreneurs are leading business to understand that everyone can be far more than that. Many of these new business models have now attracted purely commercial intermediaries and their reach has since exploded.

And this is only the beginning. New applications are appearing all the time. The German social business Glovico uses Skype to enable people anywhere to become language teachers. The "Grow Your Own“, „Edible Cities“, and similar movements turn even city dwellers into food producers. No market seems immune.

At the root of this transition lies not only the internet and its elimination of transaction costs. Even more importantly: Never before in history have there been as many healthy, well-educated people with as much time and as extensive networks as today. A rapidly increasing number of people are able, and keen, to adopt more and more powerful roles than ever before – including even the role of investors through crowdfunding.

For the Good of All

The fact that the number of people participating in the market has multiplied makes a second strategy possible that many companies still seem to find somewhat counterintuitive. Exactly because more people are becoming an active part of the value-creation chain, markets are becoming much easier to scale – at least when these new market players are allowed to grow and companies restrict themselves to a small part of the value chain. One example is the consulting company Specialsterne („specialists") that has created a jobs market for people with autism who have superior skills in complex, repetitive tasks. The founder Thorkil Sonne, himself the father of an autistic son, does not attempt to monopolise this market – instead, he actively encourages other organisations to copy his example. He formulates his motivation as follows: He wants there to be one million jobs for people with autism, and there is no way he can reach this goal alone.

Jeroo Billimoria from India works in a similar way. Twenty years ago, she started spreading the idea of Childline, a free telephone hotline for street children manned by street children themselves. None of today's operators in over a hundred countries is owned by her or even pays fees for training or quality control. Like many social entrepreneurs, she moved on to solving the next problem: her work led her to the realisation that one quarter of the world's children are economically active to (help) make a living for their families. In order to free children from dependency on adults, Billimoria founded the organisation Aflatoun, which teaches them financial and business skills. The pattern established by Childline repeated itself: Aflatoun campaigned for its ideas to be adopted by established education players. Of course, their openness meant that new competitors with similar business models started appearing. The serial problem-solver could again move on to the next problem. She had noticed that minors in many locations could not open bank accounts, and therefore had to entrust their money to adults. With ChildFinance in Amsterdam, Billimoria nowadays campaigns for the financial sector to develop solutions for children that can release them and their families from dependency. Her goal is not to wear herself out competing for market share by implementing established ideas, but to create new fields that lay the foundations for the next innovation. Jeroo demonstrates how social entrepreneurs do not work for their own good but for the good of all, rapidly multiplying value generation and innovation.

Financial Hybrids

Consequently, the rules of the game are changing: Rather than capturing profits for organic or acquisition growth, rapid expansion requires attracting people as co-creators. Social entrepreneurs are particularly good at this for a reason. Solving a social problem is a powerful and credible motivator to supporters outside the tight limits of the organisation itself. And there no money in the world can buy the kind of goodwill and trust that makes customers and funders ready to give time, talents, and of course their hard earned cash.

Dealing with funds that are given not as (commercial) fees but as (philanthropic) support requires shifts that go beyond either being a for profit or a not for profit business. Take the example of Aravind eye hospitals in India. They have two separate entrances: one for poor patients who can only pay limited amounts, and one for more wealthy patients who even pay a premium over traditional clinics. This covers a higher quality of service for the wealthy patients, but also the operations for their poorer fellow patients. Incidentally, doctors are unaware of which entrance any particular patient has chosen. The model unifies a highly profitable eye hospital with a cross-subsidised clinic for the poor under one roof, saving one hundred thousand people from blindness since it started. In addition, it has also provided a role model for the hospital chain Narayana, which has expanded the same principle to cover other types of surgery.

One does not have to travel to India to find more of these hybrid models. More than half of the Germany-based social entrepreneurs in the Ashoka-McKinsey analysis run a commercial sister organisation alongside their not-for-profit social organisation. To put it simply, this maximises two different directions to penetrate the market – one that focuses on attracting more voluntary contributions and one that exploits more payment-based market opportunities.

As a side benefit, this also allows social entrepreneurs to avoid having to decide between using donations or repayable investments when financing their growth. They can use both. This becomes especially interesting when donors and investors begin to not longer act independently and without knowledge of or connection to each other. In combination of their risk return profiles, commercial and philanthropic investors can finance business models that were not feasible according to either investor paradigm in isolation.

The Financing Agency for Social Entrepreneurship (FASE), founded in Munich in 2013, has already set up several deals that intentionally combine the different yield expectations. Interestingly, the managing directors Ellinor Dienst and Markus Freiburg as well as Ashoka leaders in the London-based Hybrid Finance initiative, experience the financial crisis as an accelerating force in a framework change that is gathering momentum among even hard nosed investors. In times of small returns in commercial markets, ever more players are opening up to the idea of not only considering social impact as a type of return but accepting far lower or no profits on social investments.

Accelerating change

All three of these factors are characteristics of the profound market transformation of the last ten years. However, there is yet another phenomenon that has perhaps even more important consequences: The enormous acceleration.

Traditionally, innovation processes are visualised as S-curves. Progress is barely noticeable at first until a new development leads to a previously unknown technology, a new market connection or to new entrants in the market. As soon as higher demand and supply meet, the curve rises sharply, until the market is saturated and once more stagnates at a higher level. For example, it took the telephone more than half a century to achieve 80% penetration of households in the OECD countries. The refrigerator made it in thirty years, the personal computer in fewer than twenty. In contrast, mobile telephones have gone through the S-curve in barely a decade.

This acceleration phenomenon also applies to social innovations. It took cooperative banks (originally started as a social project) more than fifty years, a similar length of time compared to the telephone, to conquer its market. Set against this, the Wikipedia Foundation managed to destroy an existing industry and create a basis for many new businesses at the breathtaking pace of less than five years.

When several decades separate a social innovation and its commercial market adoption, profit-oriented businesses and investors generally tend to lose interest. This is one reason why governments, foundations and philanthropists engage. However, this traditional division of responsibilities is rendered obsolete when solutions to social problems can turn hundreds of thousands or even millions of people into active participants in a market worth billions in just a few short years.

Four Lessons

Social entrepreneurs who change global markets call into question every part of the conventional wisdom learned by previous generations of managers. Their old formula states that a business innovation is conceived of for commercial purposes, pushed forward by a company using internal or external investments, and is protected from competitors while it attempts to win customers. Almost every element of this formula could be rewritten. Deeper insight into some of the largest market phenomena of the last ten years reveals a dominance of socially motivated innovations, initially driven by non-commercial organisations, who, with minimal or primarily philanthropically motivated financing, pursued their goal of empowering as many market participants as possible to create and capture value for themselves.

Up to now, the incumbents in each of the markets outlined above were caught by surprise and had no strategy for the new challengers. Publishers, car manufacturers, banks, hotels and universities have to radically rethink their value chain, and consider four transformations to their thinking and practice.

1. Opening Value Chains

Social innovation is the new, early end of the value creation process. This means that engaging social entrepreneurs is driven by a business rationale as much as by charity. Examples of hybrid vale chains and systems are becoming increasingly common in some markets. However, they have yet to show in the pitch decks of consulting firms or the syllabi of MBA schools. Large companies have the longest distance to travel. Individual entrepreneurs, philanthropists and family businesses are ahead in investing in social entrepreneurs as business partners. Perhaps a leading indicator, top graduates and internet entrepreneurs are now frequently seeking inspiration from social entrepreneurs when starting their „next big thing".

2. Repositioning "Social"

When looking for market opportunities, business strategists in particular should orientate themselves towards goals that people like to identify with. No sum of money in the world can buy millions of creatively contributing co-producers. However, strategies for this have to go deeper than pretty "Corporate Social Responsibility" reports or project mania. Businesses who really take this seriously have to consider restructuring their Profit Centres into "Impact Centres" that align with the problems they want to solve.

3. Breaking Down Walls

The third lesson concerns the new type of business organisation and cooperation moulded by many changemakers. They create cultures of intrapreneurship that encourage everyone to spot social and other challenges and pioneer solutions, often without waiting for permission. The walls between departments and locations, and especially the wall between companies and their stakeholders, are becoming an increasing hindrance. This is also demonstrated by successful examples of cooperation such as that between the tool manufacturer Hilti and groups of social entrepreneurs whose early success demonstrates they may succeed in constructing millions of new homes in slums (see this HBR article detailing the idea and examples of Hybrid Value Chains).

4. Closing the Financing Gap

The fourth lesson challenges financing models stuck on either side of the for-profit and non-profit spectrum. The space in between so far largely is a no-man's land. As a result, many great ideas fail because of internal budgeting problems or a lack of external investment. Most businesses fail to understand and invest in ideas that fit neither the corporate strategy nor the communicative effects of sponsoring and donation silos. Corporate Venture Philanthropy or Corporate Impact Investing may play useful roles but only when driven by what one could describe as a new discipline in finance. Hybrid Finance masters the art of combining and aligning funds from sources with radically different risk-return profiles, including foundation and government funds (see this Forbes article introducing the idea of Hybrid Finance).

For the social entrepreneurs themselves, the sudden proximity of commercial markets is a double-edged sword. Within years rather than decades, their ideas can grow to a scale previously unimaginable for social projects. However, potential billion dollar markets also invite players that cause as much or more damage than good. To protect innovations meant to provide access to goods for the poor, empower local over central production, or reduce consumption to protect resources, social entrepreneurs and co-creators alike need to foster awareness. AirBnB and Uber are two prominent examples of companies that have developed aggressive commercial models from the trails blazed by social entrepreneurs.

Evidence shows, though, that even when lured by the potential for large profits, leading social entrepreneurs stick to strategies aligned with the fastest path to solving social problems. According to Ashoka's Impact Studies (most recent study here), most Ashoka Fellows report using not only market mechanisms but strategies for policy change, shifts in mindsets, and non-commercial coalitions. In fact, many are committed to solving problems in areas such as human rights, transparency, justice that remain largely untouched by the promise of market solutions, or in over-regulated fields that prevent new entrants from achieving commercial impact any time soon. However, a different type of market mechanism may soon kick in to support these innovations: Many cities, regions and countries are beginning to realise they do better when more people are involved in solving problems themselves rather than purely demanding change from authorities. As a result, geographies actually compete with each other to attract social entrepreneurs and other changemakers. In the not too distant future, competitiveness will be measured by the number and density of people launching ideas for the good of all.

Recommended Reading

- Beverly Schwartz: Rippling, John Wiley & Sons 2012
- Valeria Budinich / Olivier Kayser: Scaling Up Business Solutions to Social Problems, Palgrave MacMillan 2015

translation pro bono by tint - many thanks!