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For-Profit Social Enterprise: Creating Value for Consumers & Society in the Face of Competition

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Abstract

The goal of social enterprises is to attain social, cultural, community, economic, or environmental outcomes. They achieve this by generating revenue from the goods or services they sell. In recent years, social enterprises have grown notably in popularity, number, and profitability worldwide, as the model for social enterprise has been refined. This paper aims to answer the question, what makes for-profit social enterprises successful? Is it their product, price, place, promotion, social mission, the prior success and capital of the social entrepreneur, a cult-like following, or the aspirational nature of socially minded consumers? This thesis will examine real-life social enterprise case studies to find how for-profit social businesses are able to successfully compete with their corporate competitors.

Keywords: social enterprise, social business, social entrepreneurship, philanthropic capitalism, competition, responsible business, creative capitalism, green business, new capitalism, sustainable capitalism

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Introduction

There are over 50,000 self-proclaimed triple bottom line[1] businesses in the U.S. today (Gilbert, 2010). Through this thesis paper, the author wanted to investigate how social businesses vying for the same market share as traditional profit maximizing businesses develop competitive advantages that enable them to succeed against established industry participants.

The paper begins by defining social enterprise and describing the legal landscape that affects it. The operating forces of competition in general and in the context of social enterprise are then discussed before reviewing several case studies of social enterprises that have succeeded in obtaining competitive advantages in their respective industries. Finally, this thesis concludes with an analysis on what critical success factors are necessary for a social enterprise to have in order to succeed, primarily against traditional profit-maximizing competitors.

[1] Triple bottom line businesses value people, profit, and planet.

Defining Social Enterprise

I. What is Social Enterprise?

Academic literature on social enterprise is limited, as it is still a relatively new concept, but while existing definitions may vary, the principal idea behind the social enterprise is that it is a profit-generating businesses with the aim of creating value not only for shareholders as traditional businesses do, but also for stakeholders who exist both inside and outside of the business ("Benefit Corp Information Center," 2014). A social business is managed like a traditional business, raises capital from investors, hires employees, charges a price, and sells goods or services to customers (Yunus, 2007). According to James Woulfe of Connecticut's Social Enterprise Trust, a social enterprise is, quite simply, "an organization structured to solve social and community problems through business" (Woulfe, 2014).

The benefit to society that a social enterprise provides is an integral component of the social enterprise's business model ("Benefit Corp Information Center," 2014). A social enterprise cannot be separated from its social mission (Lapowsky, 2011). This social mission propels the business forward by helping attract customers, recruit top talent, or attract investors, and oftentimes all of the above. Potential beneficiaries of the social enterprise may be the immediate community, the environment, or the greater good in any number of ways.

II. Social Enterprise & Philanthropy, Corporate Social Responsibility

i. Philanthropy.

Social business[2] is not philanthropy. Nonprofits and charities must rely on donations, grants, or government support to carry out their operations. They can only help their beneficiaries so long as they have donors supporting their cause (Mycoskie, 2012, p. 5). Unlike a business, nonprofits and charities do not recover costs, and as such, are oftentimes forced to spend a significant amount of time and energy raising money (Yunus, 2007). According to Yunus (2007), a social business "is a business in every sense. It has to recover its full costs while achieving its social objective" (p. 22). In order to be considered a social business, an organization must achieve "full cost recovery, on a sustained basis" (Yunus, 2007, p.23).

ii. Corporate social responsibility.

Social business is not corporate social responsibility (CSR), either. When for-profit companies with no explicit social aim do good work in the world, it is referred to as Corporate Social Responsibility, or CSR for short (Mycoskie, 2012). CSR has become increasingly popular movement among traditional profit-maximizing companies in recent years (Yunus, 2007). These days, many companies have a section on their website entitled "Social Responsibility" dedicated to explaining their CSR efforts to the public. Although marketing motives often drive corporate participation in CSR programs, the good work these programs do should not be discounted; many positive social outcomes have been the result of CSR programs. The problem with CSR, however, occurs when companies with large-scale, harmful

[2] Social business and social enterprise are used interchangeably in this paper.

business practices adopt a socially beneficial but small-scale CSR program as a means of self-protection in the public eye.

The difference between CSR and social businesses lies in the priorities of the company. At a traditional company with a CSR program, profit ultimately takes precedence over being socially responsible, whereas for a social enterprise, being socially responsible always takes precedence over profit, although it is true that in some cases, a company is fortunate enough that it does not have to choose between profit and social responsibility (Yunus, 2007). According to Yunus (2007), companies with CSR programs are essentially saying, "We will do the socially responsible thing—so long as it doesn't prevent us from making the largest possible profit" (p. 17).

III. Muhammad Yunus' Definition of Social Business

i. Definition.

Many consider Muhammad Yunus the thought leader of social enterprise. In 2006, Yunus and his social enterprise Grameen Bank[3] were conjointly awarded the Nobel Peace Prize (Yunus, 2007). According to Yunus (2007), "A social business is a company that is cause-driven rather than profit-driven" (p.22). In Yunus' eyes, pursuing social goals should be the sole purpose of a social enterprise, and as such, all profits earned should contribute to sustaining or growing the business so that it can create more social impact. Under Yunus' definition of social enterprise, the social enterprise is a "non-loss, non-dividend business" (p.24). According to Yunus

[3] Grameen Bank is a social enterprise founded by Yunus that provides financial services for the poor in Bangladesh.

(2007), shareholders exist only to fund the social enterprise, not to profit from it. This is an important distinction between Yunus' definition of social enterprise and other definitions in the field, which permit shareholders to profit from the company. Under Yunus' model, once the business achieves a self-sustaining status, shareholders are returned what startup capital they contributed, after which point they continue to remain owners of the company and collectively have the ability to decide its course of action (Yunus, 2007). In place of financial return, these types of social enterprise shareholders derive satisfaction from the social impact yielded by their investment (Yunus, 2007).

ii. Types.

Yunus describes two models of social business, each of which works uniquely to create positive social impact. The first type of social enterprise sells a socially beneficial product, such as solar panels, reading glasses, or educational services, sometimes below market value to enable access for the disadvantaged (Yunus, 2007). Here, the product itself is the vehicle bringing about social change (Yunus, 2007).

The second type of social business is operated and owned by the poor or disadvantaged. Oftentimes organizations, sometimes social businesses themselves, help such individuals to launch their businesses (Yunus, 2007). Here, the financial prosperity created by business is the vehicle bringing about social change, as this enables the entrepreneurs to rise above poverty and become valuable change-makers in their communities (Yunus, 2007). For this type of social business, it is not necessary that 100% of profits be re-invested into growing the business (Yunus, 2007).

iii. Hybrid business models.

Yunus (2007) believes that operating a "hybrid" business that has a shared focus on creating social impact and maximizing profit would be impossible to sustain, as "the executives of these hybrid businesses will gradually inch toward the profit-maximizing goal, no matter how the company's mission is designed" (p. 33). But not all academics and social entrepreneurs agree that a social business cannot provide wealth for investors, founders, executives, and employees in addition to accomplishing its social mission. In fact, for many successful social enterprisers, the social objective of their business accompanies a profit-maximizing objective. Furthermore, as U.S. states increasingly pass statutes creating a separate legal status for social enterprises, merging social and profit objectives should become easier to accomplish.

IV. Legislation Affecting Social Enterprises

i. What are benefit corporations?

Social enterprises can be legally defined under state law as benefit corporations, or "B Corps," for short ("Benefit Corp Information Center," 2014). Benefit corporations are a new class of corporation, and the highest standard for socially responsible business ("How Business Can Change the World," 2011).

Nonprofit B Lab[4] calls benefit corporations "profit-generating companies" that consider social issues in their decision-making, with the purpose of creating "material positive impact on society and the environment" ("Benefit Corp Information Center," 2014). These corporations blend traditional for-profit structure with nonprofit idealism (Denlinger, n.d.). William Clark, author of the model Benefit Corp Legislation, believes that through benefit corporations, the public sector can fix problems such as poverty, inequality, pollution, and environmental issues that government has failed to focus on due to bureaucracy and budgetary restrictions (Clark, n.d.).

The difference between benefit corporations and traditional companies is corporate purpose and a heightened level of social responsibility ("Benefit Corp Information Center," 2014). Benefit corporations must produce an annual benefit report assessing their overall social and environmental performance against a third party standard ("Benefit Corp Information Center," 2014).

Being a benefit corporation does not affect a company's tax status ("Benefit Corp Information Center," 2014). Benefit corporations are no different from all other for-profit companies in that they are allowed to deduct up to 10% of their income in charitable contributions (Lapowsky, 2011). Aside from the accountability and transparency requirements that come with being a benefit corporation, these corporations are otherwise the same as traditional companies ("Benefit Corp Information Center," 2014).

[4] B Lab is a nonprofit whose mission is to use the power of business to solve and environmental problems.

ii. How do benefit corporations gain?

Companies gain from becoming benefit corporations in two major ways. Firstly, they gain from a marketing perspective. As a benefit corporation, consumers and investors looking to purchase from or invest in socially responsible companies can easily identify these companies as such ("Benefit Corp Information Center," 2014).

Secondly, with the legal status of a benefit corporation, companies are legally able to consider non-financial interests when making decisions. In contrast, managers of companies that are not benefit corporations are legally obligated to maximize profit for their shareholders, unless shareholders mandate otherwise (Yunus, 2007). For companies that want to maximize profits, but not at the expense of society or the environment, registering as a benefit corporation is imperative for eliminating risk of litigation. It ensures that the social mission will be preserved as the company grows, regardless of changes in management or financing sources (Emery, 2014). This is especially important in the case that the business takes on traditional equity partners, merges, or goes public (Lapowsky, 2011).

Benefit corporations fill a current gap in the federal legal system governing corporate entities. According to Clark, "Broadly speaking, at the federal level the system is structured as a binary one, dividing business organizations into either for-profit or not-for-profit" (Clark, Vranka et al, 2011). Past cases in several jurisdictions nationwide have reiterated that the traditional company's sole duty is to maximize stockholder wealth (Clark, Vranka et al, 2011). As a benefit corporation, the company's social mission takes precedence over fiduciary duty to shareholders ("Benefit Corp Information Center," 2014).

iii. Current benefit corporation legislation.

Today, benefit corporation legislation has been enacted in 33 states[5] ("Benefit Corp Information Center," 2014). Most recently, on May 8, 2014, bill S.B. 23 passed in Connecticut, giving social enterprises the opportunity to register for legal status as benefit corporations ("S.B. 23 Bill Tracking," 2014). The language in the Connecticut bill is the most comprehensive in the United States in that it allows benefit corporations to lock their social mission into perpetuity after at least two years of operation (Emery, 2014). The movement to create benefit corporation statutes is currently ongoing in state legislatures across the nation. As of May 2014, fifteen states were working on passing B Corporation legislation ("Benefit Corp Information Center," 2014).

iv. Certified B corporations

Companies in jurisdictions without benefit corporation legislation can still become Certified B Corporations by the nonprofit B Lab. Certified B Corporations do not have the legal status of benefit corporations, but are similarly required to meet an array of requirements to maintain their certification ("Benefit Corp Information Center," 2014). Becoming a Certified B Corporation is a viable option for all social enterprises around the world wishing to publicly display a commitment to their social mission.

[5] Statistics reported as of May 2014.

According to Yunus (2007), "Many customers will avoid patronizing companies that harm society" (p.15). The problem is that customers do not know which companies are socially responsible, and which companies may be harming society through their business practices, as corporations are very adept at concealing this. B Corporation certification solves this problem with its certification requirements and by ensuring ultimate transparency. As of January 1, 2014, there were over 900 Certified B Corporations in 60 different industries ("Benefit Corp Information Center," 2014).

Defining Competition

I. What is Competition?

A company's competition includes both direct competitors and substitutes (Mullins, 2010, p. 204). Competition serves the same customer wants that the business in question hopes to serve, whether the competitor is an entity or activity, profit generating or free. According to Mullins (2010), having an economically sound business model and a sustainable advantage offers significant protection against competition (p. 123). A company's sustainable advantage can be achieved through capabilities, resources, organizational processes, patent protection, or any combination of the above (Mullins, 2010, p. 123). Neither a viable business model nor a sustainable advantage provides foolproof protection against competition, however (Mullins, 2010, p. 124). Companies must continuously identify and serve customer needs to outpace competition on a long-term basis (Blank, 2014).

II. Competition in the Context of Social Enterprise

i. Overview

As businesses themselves, social enterprises compete in much the same way as traditional companies. According to Yunus (2007), social businesses "will compete with [traditional businesses], try to outmaneuver them, and seek to capture market share from them, just as other businesses do" (p. 25-26). However, unlike the traditional profit-maximizing competition, social enterprises compete on social mission and rarely do they compete on price, especially if the social enterprise is serving a market that cares about the cause being served. Oftentimes, social enterprises serve consumers of an aspirational nature, so they are able to price their products at a premium in the name of serving the greater good (Jensen, 2012).

ii. Competing against traditional businesses.

The most significant type of competitor threat for a social enterprise is traditional for-profit businesses; these companies do not need to balance a social mission, and can therefore fully pursue profit (Jensen, 2012). These traditional companies can compete on price, while social enterprises may not be able to due to the extra costs that come with supporting a social mission (Jensen, 2012). When deciding whether to buy from a social business or a traditional business, consumers will consider all the normal factors, such as quality, price, brand image, convenience, and availability (Yunus, 2007, p. 26). Some, but not all, of consumers also consider the social impact of the social business in their purchase decision (Yunus, 2007, p. 26).

According to Mullins (2010), “No matter how large and fast-growing a market may be, entering it in the face of other competition is likely to be difficult, since customers are probably already satisfying their needs – though perhaps not optimally – in some way” (p. 10). Traditional businesses are arguably not optimally satisfying a growing number of today’s customers’ desire to support social objectives and causes through their purchases (Bedat & Darabi, 2014). In this area, social enterprises will always have an advantage over traditional competitors.

According to global consulting firm The Boston Consulting Group (BCG), millennials, the world’s youngest generation of consumers, care about something termed “status currency,” which can be described as “the status and values that consumers wish to project through their purchasing decisions and their brand affiliations” (Bedat & Darabi, 2014). In the U.S. alone, millennials already account for an estimated $1.3 trillion in direct annual spending, and that number is growing (Bedat & Darabi, 2014). Furthermore, their consumer attitudes affect the attitudes of other consumer generations, namely Gen-Xers, but baby boomers too (Bedat & Darabi, 2014).

Companies can monetize millennials’ craving for status currency by having and conveying their socially responsible values, incorporating transparency into their business practices, and ultimately, by convincing millennial consumers that they are ‘doing good’ when they buy their brands (Bedat & Darabi, 2014). According to Gilbert, over 20% of Americans care about the social and environmental impact of the products they buy and the companies that sell them (2010). The shift in consumer attitudes toward socially and environmentally friendly purchasing decisions presents a massive opportunity for social enterprises to flourish.

iii. Competing against other social enterprises.

As social enterprises grow in popularity, social enterprises may eventually find it more common that they are competing for market share with other social enterprises. When this is the case, serial entrepreneur and startup coach, Tyler Jensen (2012), says “the social enterprise must push itself to operate on lean principles and continue to seek out waste in the business.” Improving profit margins and effectively conveying the social impact to the consumer will be equally important in this scenario.

Successful Social Enterprises

I. TOMS Shoes

i. Overview.

TOMS Shoes is a social business that has been very successful since it was founded in 2006. Like many social enterprises, TOMS arose from a desire to solve a social problem (Mycoskie, 2012). On a trip to Argentina, CEO and Founder Blake Mycoskie took note of the extreme poverty he found outside the capital, and that many children were without shoes (Mycoskie, 2012). Looking to create “a constant, reliable flow” of shoes for these children, Mycoskie considered charity, but ultimately decided that the best way would be through a for-profit business (Mycoskie, 2012, p. 5). Mycoskie (2012) says of TOMS, “When we first began, the goal was to create a for-profit company that could help relieve the pain and suffering felt by children around the world who do not have shoes" (p. 182). In eight years of operation, TOMS has given over 10 million pairs of shoes (TOMS, 2014). Today, the company has the two additional objectives of providing eyewear and water to those in need (TOMS, 2014). TOMS now sells women's, men's, and kids' shoes, eyewear and sunglasses, apparel, accessories, and coffee (TOMS, 2014).

ii. Marketing the social mission.

The company has marketed its giving campaign as "One for One," because with every product purchased, TOMS helps a person in need (TOMS, 2014). Specifically, for every pair of shoes purchased, the company donates a pair of shoes to a child in need; for every pair of sunglasses purchased, the company helps give sight to a person in need, and for every bag of coffee sold, the company donates a week of clean water to a person in need (TOMS, 2014).

Since the very first pair of shoes sold, the company has matched sales with giving (Mycoskie, 2007). According to Mycoskie, making the TOMS One for One model a central part of the business from the beginning was strategically necessary for the company's success. "I could have waited until the business was mature and then created some tax write-offs," Mycoskie (2012) says, "but it was an important decision to move forward early, because if you wait a long time before you act, you won't gain all the benefits" (p. 167). Benefits such as customer involvement in spreading the company's mission and strategic partnerships would have evaded the company had it not started as a social enterprise from the beginning (Mycoskie, 2007). It is largely due to its social mission that the company got to where it is today.

iii. Customers as brand representatives.

Being a social enterprise is helpful in marketing to customers (Mycoskie, 2012). "When giving is incorporated into your model," Mycoskie (2012) says, "your customers become your partners in marketing your product." Many customers of TOMS Shoes are like brand representatives, sharing and promoting the TOMS story because they want to share the company's unique story and mission. Mycoskie (2007) heavily emphasizes the importance of using a social enterprise's "story" to advance the brand.

Some customers, especially of the younger generation, have even started various initiatives based on TOMS (Mycoskie, 2012). A college student from Ohio State University organized an event named "Style Your Soul," for which she reached out to local high schools to tell them about the social impact TOMS is making (Mycoskie, 2012, p. 157). Since he founded the company, Mycoskie has seen countless customers take matters into their own hands to further the mission of the company. According to Mycoskie (2012), "If you are doing good, customers have a greater reason to care about your work" (p. 159). This level of involvement and excitement for a brand is uncommon among non-social businesses.

iv. Partnerships.

According to Mycoskie (2012), social enterprises have an advantage when it comes to strategic partnerships, because "businesses want to partner with other businesses that are doing something good" (p. 161). Over the last several years, TOMS has partnered with Microsoft, AOL, Facebook, YouTube, Teen Vogue, Ralph Lauren, and Element, and others (Mycoskie, 2012). Mycoskie (2012) views charity as a core competency, which large companies can outsource just as they would other functions. According to Mycoskie (2012), "Just as TOMS outsources technology because we are not a technology company, these large companies partner with cause-related organizations because it's not their core competency" (p. 163).

Partnerships between large profit-maximizing corporations and growing social enterprises are undoubtedly mutually beneficial relationships. Large companies rarely have giving programs that resonate with the public, and when companies do have a CSR program in place, it often seems like strategic tax write-offs or publicity gimmicks to customers (Mycoskie, 2012). Through this kind of strategic partnership, the large company can tap into the customer engagement and loyalty created by the social enterprise, thereby gaining positive publicity for its brand, while the social enterprise gains exposure, free marketing, and potentially other benefits from sharing the large company's ample resources. Mycoskie (2012) says of profit-maximizing companies, "They need us as much as we need them, and that's what makes these partnerships so great" (p. 162). Traditional profit-maximizing companies are increasingly realizing the importance of giving programs for their business and moving such initiatives to their brand marketing departments (Mycoskie, 2012). Mycoskie (2012) says, "partnerships have made our global giving possible, as well as more powerful" (p. 163).

v. Conclusion.

When Mycoskie decided to start TOMS Shoes, he had neither experience nor connections in the shoe industry (Mycoskie, 2012). In many ways, it seems that the mission of the company to provide shoes to children in need has helped the business gain traction and sustained demand. Mycoskie (2012) has said, "If you incorporate giving into your business…you will see greater returns than you ever imagined" (p. 156). TOMS is one example of how social enterprises can create social change while being very profitable, too.

II. Cascade Engineering

i. Overview.

Cascade Engineering, a West Michigan plastics manufacturer, was founded in 1973 as a traditional for-profit enterprise (Bluestein, 2011). Today, the company is a Certified B Corporation[6] due to the efforts of founder and CEO Fred Keller, who in 2010 decided that getting B Corporation certified would be in the company's best interest (Bluestein, 2011). Keller views the additional requirements that come with being a B Corporation as an asset to Cascade, as they push the company to be better than the competition (Bluestein, 2011). Cascade has 15 business units comprising a diverse product line, and serves both developed and developing markets (Bluestein, 2011).

ii. Attracting customers.

By being proactively environmental, Cascade is able to better attract customers and position itself ahead of competitors. The company's commitment to sustainability has acted as a differentiator for customers with sustainable objectives

[6] Certified B Corporation is a certification conferred by the nonprofit B Lab. It is not to be confused with Benefit Corporation legal status administered under U.S. state law.

of their own. As one example, home improvement giant Lowe's struck a partnership with Cascade largely because of its sustainability reputation (Bluestein, 2011).

Cascade sells products that are themselves the vehicles for environmental impact. In the auto-parts business unit, for example, plastics are engineered from lightweight materials so that they may be used as substitutes for heavier materials (Bluestein, 2011). These auto-parts reduce the end-consumers' overall oil usage, thus saving them money. This makes Cascade's products extremely attractive to the businesses Cascade sells to, which sell to these consumers. All of the Cascade's business units have been refocused around helping customers reduce oil usage and move toward zero waste (Bluestein, 2011).

iii. Financial sense.

Keller often hears the argument that his company is not being competitive because of its social and environmental aspirations. He says he could not disagree more (Bluestein, 2011). From Keller's perspective, going "beyond compliance" has certainly saved his company money in the long-term, and sometimes even in the short-term as well (Bluestein, 2011). The company's waste-reduction program, for instance, has drastically reduced landfill expenses from $250,000 in 2002, to below $10,000 in 2010 (Bluestein, 2011).

Keller's decision to register as a Certified B Corporation seemed strange to many, as he did so during a time when large numbers of U.S. manufacturers were shutting down due to unprofitability (Bluestein, 2011). According to the Bureau of Labor Statistics, in the ten years prior to 2011, 40% of manufacturing facilities with more than 1,000 employees were shut down or moved offshore (Bluestein, 2011).

However, with the B Corporation certification, Cascade finds itself thriving financially (Bluestein, 2011).

iv. Free advertising.

Cascade has won several prestigious awards over the years for innovation in technology, sustainability, and employee programs (Bluestein, 2011). If the company did not have to comply with extra regulations to maintain its B Corporation certification, Cascade may not have achieved these awards that brought extra publicity to the company. Being a social enterprise, Cascade Engineering often draws attention to itself as a rarity in an industry known for being dirty (Bluestein, 2011). The company has realized the power of certifications for drawing attention to itself as a leader in its industry. For this reason, the company has voluntarily registered for other certifications, such as the ISO quality management certification and LEED green-building certification (Bluestein, 2011).

v. Conclusion.

Keller views his company's proactivity in sustainability and socially beneficial practices as a strategy for positioning his company ahead of competition in the plastics industry (Bluestein, 2011). Cascade Engineering is a perfect example of how social enterprises can thrive in any industry.

III. Grameen Shamogree

i. Overview.

Since founding Grameen Bank, Muhammad Yunus has helped found a host of other social enterprises to help the poor in Bangladesh (Yunus, 2007). To provide local handloom textile weavers with a sustainable source of income, Yunus created two social enterprises. The first company, Grameen Uddog, founded in 1993, sold a line of fabrics to the international markets (Yunus, 2007). The second company, Grameen Shamogree, was founded three years later in 1996 and sold a similar line of fabrics, but focused exclusively on the domestic market (Yunus, 2007). Both Grameen Uddog and Grameen Shamogree products were branded as "Grameen Check" (Yunus, 2007). Today, Grameen Check is still a thriving brand in Bangladesh; Grameen Shamogree has achieved great success targeting the domestic market (Yunus, 2007). Grameen Uddog, on the other hand, has had little success targeting international markets, and today its sales are almost dormant (Yunus, 2007). According to Yunus (2007), either misgauging the market or failing to create a self-sufficient business model were the usual culprits of Grameen companies that faltered (p. 101).

ii. Uncovering latent demand.

Grameen Shamogree found sustainable success by uncovering a market with latent demand (Yunus, 2007). Before Grameen Shamogree, the handloom industry in Bangladesh was unattractive (Yunus, 2007). Bangladesh was filled with small-scale handloom weavers crafting beautiful fabrics, but few possessed the business acumen to market their creations on a large scale (Yunus, 2007). Grameen Shamogree revitalized an age-old craft and monetized local weavers' talents with proper marketing and management (Yunus, 2007). Today, "young Bangladeshis take great pride in wearing shirts, saris, and other garments made in traditional patterns with cloth produced by local hand-loom weavers" (Yunus, 2007, p. 85). According to

Yunus, Grameen Shamogree has created "a much bigger market than before" for the handloom weavers of Bangladesh (2007, p. 85). As a result, many competitors have entered the space, hoping to capture a share of the market revitalized by Grameen Shamogree (Yunus, 2007).

iii. Conclusion.

Grameen Shamogree effectively transformed an industry question into a market question and achieved dramatic results. Social enterprises designed to empower the disadvantaged through employment and business ownership may find it advantageous to begin by looking at skills or resources already present in the community, such as the skills of the handloom weavers in Bangladesh. Building a business from a preexisting community asset provides the business with a competitive advantage early on and helps it in the long-term should competitors enter the industry.

Common Success Factors of Social Businesses

I. Business Model

i. Sustainability.

For social enterprises, a sustainable business model is critical for success (Choi, 2014). Yunus said that he always prioritized business model sustainability when creating his many social enterprises (Yunus, 2007). If a social enterprise is not equipped with a sustainable business model, it will not be able to sustain the profit it needs to survive.

ii. Scalability.

A business must be sustainable to survive, but to achieve high profits and social impact it must be scalable too. Scalability is one of the greatest challenges social enterprises face (Choi, 2014). Social enterprises can use partnerships to help them scale, as did TOMS Shoes (Mycoskie, 2012).

Furthermore, social enterprises should not be afraid to invest in the overhead they need to grow (Pallotta, 2013). Overhead includes functions such as recruitment, customer service, accounting, and other backend functions. We've been taught to believe that charitable organizations should spend as little as possible on overhead in the interest of serving the cause as much as possible, but investing in overhead produces greater returns that can be used to help the cause (Pallotta, 2013). According to Silicon Valley entrepreneur Steve Blank, a startup is "a temporary organization designed to search for a repeatable and scalable business model" (Blank, 2014). Like any startup, a social enterprise must obtain sustainable scale in order to be successful.

II. Product Design

Evidence suggests that product is one of the most vital success factors for social enterprises. When customers love a product, they not only become a repeat customer, but also tell others about it. Because of this, having a good product partially ensures good promotion at no cost to the company. Such was the case with TOMS Shoes (Mycoskie, 2012).

Providing customers with a product they want to buy is absolutely necessary for obvious reasons. According to Jensen, “no matter what the cause is, if people do not want the product, they will not buy it (2012). No matter how charitable a social enterprise is customers will not make purchasing decisions on the basis of social good alone. To outpace the competition, social enterprises should find what works best by looking to the customers and providing them with exactly what they want, according to David Mrotek, speaker at UConn’s Panel on Social Entrepreneurship (2014). Yunus (2007) has said of his Grameen family of businesses, “When we’ve succeeded, it has been because we…met genuine market needs” (p. 101).

III. Marketing

Jensen advises that social enterprises know how their customer audience differs from their beneficiary (2012). The further apart the two groups are, the more the social enterprise will need to engage in marketing tactics that compete with traditional for-profit companies (Jensen, 2012).

i. Marketing the social mission.

A social mission is “a potent marketing tool,” according to Lapowsky (2011). Social enterprises that do best tend to have a social mission that cannot be separated from the business (Lapowsky, 2011). For example, the social impact of TOMS Shoes is intrinsically tied to the business proposition that for every pair of shoes sold, one pair will be donated. Their social value proposition is easy to explain and understand. TOMS’ social mission is the primary distinction separating the company from other shoe companies, and elevates the brand’s status in its customers' eyes. Promoting the social enterprise's mission is important because it effectively differentiates the social enterprise from the competition (Lapowsky, 2011).

ii. The power of the story.

According to Rosie Gallant, Program Manager at Connecticut's Social Enterprise Trust, if a social enterprise is able to get consumers to connect with the "why" behind their business, those customers will share the company's story in a way that will positively impact future sales (2014). Hoin Choi, Operations Coordinator at Library for All, also views an organization's story as imperative to its success. When asked how social enterprises can best compete with non-social competitors in their industry, Choi (2014) answered, "If there's a story behind it, it works."

iii. Prominent branding.

Many social enterprises create an easily recognizable brand for themselves. On the back of each pair of TOMS shoes is the iconic TOMS logo. Even Grameen Shamogree and Grameen Uddogg realized the importance of branding and gave a name, "Grameen Check," to their line of fabrics (Yunus, 2007). Like many brands have before them, social enterprises, too, are capable of creating iconic brand images. It is not only the product, but also the brand and what it stands for that customers of social enterprises want to buy. Social enterprises with strong brands can reach the same level of success as their profit-maximizing counterparts.

IV. Strategic Pricing

Many social enterprises serve aspirational customers and engage in value-based pricing, in which the company tries to charge the value that the customer ascribes to the product (Blank, 2014). When customers buy from a social enterprise, they also receive the satisfaction of knowing that they are helping a cause they care about. If the brand is promoted on the exterior of the product, they also get the recognition for being charitable in their purchase decisions. Smart social enterprises take advantage of these truths by charging higher prices for their goods.

For social enterprises headed by disadvantaged individuals and serving the needy prices are kept fair and reasonable to help as many people as possible, but also to ensure sustainability of the operation. These types of social enterprises are oftentimes providing goods to customers who could previously not afford them, so keeping prices low, while maintaining a profit, is necessary for the business to succeed.

V. Aspirational Founders

The founders of each of the companies discussed above could be called idealists. Keller of Cascade Engineering wanted to inspire other companies in West Michigan and in the plastics manufacturing industry to consider becoming more sustainable (Bluestein, 2011). Mycoskie believes that business can be used to solve social problems of many kinds (2012). Yunus believes that there will come a day when poverty will only exist in museums (2007). The aspirational nature and commitment of these founders to the causes they care about undoubtedly had a positive effect on their companies.

VI. Balancing Stakeholders

In creating a social enterprise, an entrepreneur will need to persuade many different types of people, from investors to customers to beneficiaries, that their idea is attractive both financially and for achieving social ends (Gallant, 2014). One of the most challenging aspects of social enterprise is balancing the needs of both the customer and the beneficiary (Gallant, 2014). The customer is needed to help the beneficiary, and the beneficiary is needed to attract the customer (Gallant, 2014). Thus, maximizing value for both parties is critical. As many social enterprises set out to help solve a social problem, a common pitfall among them is focusing their efforts disproportionately on helping the beneficiary and losing the customer in the process. Social enterprises that focus exclusively on the beneficiary will almost certainly lose their customers (Gallant, 2014).

Conclusion

To compete with profit-maximizing businesses, social businesses will need to excel in the same ways they do, most importantly in their product offering, promotion, and pricing. In addition, social enterprises must stay focused on business model sustainability in the business's early stages, sell their social mission in a way that resonates with the customer, and effectively balance the needs of all stakeholders involved. These are challenges unique to the social enterprise.

Social enterprise is a growing movement, and the outlook for businesses in this field is promising. The base of so-called “impact investors” targeting for-profit social enterprises has been increasing in recent years, thus increasing the chance of social enterprises receiving venture capital (Lapowsky, 2011). In the U.S. alone, $2.7 trillion has been invested as a result of the socially responsible investing movement (Gilbert, 2010). Companies that are able to excel in the success factors identified above will be the ones to succeed in whatever industry they enter.

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