Aligning Profit and Purpose Through Business Model Innovation

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"Business must be for profit but profit must also be for a purpose."
Mads Kjaer, co-founder of *MYC4*

Introduction

Traditionally, managers and entrepreneurs faced a conflict between pursuing the company's main purpose – maximizing profits – and achieving other purposes, such as generating positive social and/or environmental impact. These purposes conflicted, because one usually came at the expense of the other. In most companies, the answer was to focus on the former, while pursuing the latter as a secondary activity in an organizational add-on, generally in the form of a not-for-profit entity created under the banner of corporate social responsibility.

We believe that managers and entrepreneurs now have another option. Today, a growing number of creative new business models successfully align the profit motive with other purposes. Such models demonstrate that social and environmental purposes do not have to be sacrificed for profits, and that profits do not have to be sacrificed social and environmental purposes. Rather than conflicting, the two purposes can mutually reinforce each other. Even better, these innovative, purpose-driven business models can become a source of competitive advantage.

Illustrative examples include *SunEdison*, which is promoting the adoption of solar energy as a substitute for fossil fuels, *Grameenphone* (Yunus, 2010), which simultaneously brought telecommunications services and new jobs to women in rural Bangladesh, and *Switcher* or *Patagonia* (Chouinard, 2006), which introduced ethical production to the textile industry.

In the remainder of this chapter, we offer managers and entrepreneurs a guide to designing innovative business models that can help them profitably improve the firm's social and environmental footprint. We illustrate this process through the example of Peepoople, a start-up company whose objective is to profitably and sustainably deliver a novel solution to many of the more than two billion people worldwide who still lack access to proper sanitation today.

Business Models that Matter

A business model (Osterwalder & Pigneur, 2010) describes the rationale of how an organization creates, delivers, and captures value. Every organization has a business model, even if the word "business" is not used as a descriptor. To survive, every organization that creates and delivers value must generate enough revenue to cover its expenses. Mohamed Yunus (2010), the microcredit pioneer, founder of the Grameen Bank, and 2006 Nobel Peace Prize winner, wrote *"a social business is designed and operated just like a 'regular' business enterprise, with products, services, customers, markets, expenses and revenues."*

Hence even so-called social businesses have business models. The difference is merely a matter of focus.

We outline this in a matrix plotting focus on profits against focus on social, environmental, and other purposes (Figure 1). The four resulting boxes are A) organizations with no focus, B) organizations focused on achieving a purpose other than profit, C) organizations maximizing profits at the expense of other purposes, and D) organizations aligning purpose and profit maximization.

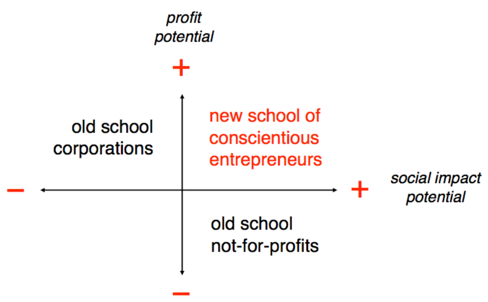

Figure 1

Profit focus vs. Impact focus

Maximizing Profit at the Expense of Other Purposes

A company's main goal is usually to generate profits by creating products and services that it can sell with adequate margins. In some cases, achieving this goal may have negative social and/or environment consequences (e.g. pollution, adverse effects on health, etc.). In other cases, the negative impact may be negligible. Under either scenario, the primary focus remains profit maximization rather than analyzing and addressing other consequences of pursuing the business. In recent years, however, companies have started adding activities related to positive social and environmental purposes – sometimes under public pressure, sometimes under the leadership of "values-driven" individuals.

Companies traditionally separate core profit-generating operations from activities focused on other purposes, such as environmental sustainability or social impact. These activities are typically conducted through foundations, corporate social responsibility (CSR) entities, or other not-for-profit structures. While these worthy efforts should be applauded, they should also be critically analyzed.

Such separation of for-profit and non-profit activities, for example, may lead to conflicts of interest between the not-for-profit entities and the profit-seeking operations of a corporation. An oil company drilling in a poverty-stricken region of an African country, for example, might want to invest in community development through its CSR entity. As such, this effort is virtuous, but will earn little for the company beyond goodwill or public relations accolades. In fact, the CSR entity will likely reduce the company's earnings and thus contradict its profit-seeking purpose. An involved manager may therefore face a challenging choice between putting profits or another purpose first. In a profit-focused company, deciding for the latter may harm his or her career. Hence, purposes other than profit usually have a lower priority.

Focus on Purpose at the Expense of Profits

In contrast to profit-driven companies, there is an entire array of purpose-driven organizations (Dahan et al., 2010), including charities, foundations, government agencies, and corporate social responsibility entities affiliated with corporations. The purposes driving these organizations range from poverty alleviation to community-building, and from cancer research to environmental education. Their common trait is a focus on a purpose other than profit. In other words, profitability takes a backseat.

While focusing on positive social or environmental impact at the expense of profit sounds like a noble endeavour, we suggest analyzing the consequences. For example, donors fund many purpose-driven organizations. Imagine making a donation to an organization focused on poverty alleviation. You would expect most of your donation to be invested in projects aligned with this key organizational purpose. Paradoxically, though, reliance on donors may lead the group to concentrate more on pleasing donors than on creating positive impact through its organizational mission. After all, its survival depends more on donors than on doing a good job alleviating poverty.

Maximizing Both Profit and Purpose

We believe maximizing profit and optimally fulfilling another purpose can go hand in hand, as a number of innovative business models demonstrate (Thompson & McMillan, 2010). The secret is to weave purposeful impact into the DNA of a business model – but without sacrificing profits.

Grameen Bank (Yunus et al., 2010) operates under a widely discussed business model that exerts significant social impact. The Bangladeshi institution makes micro-loans, mainly to women in rural Bangladesh, that allow borrowers to build small businesses and earn sustainable incomes for themselves and their families. *Grameen Bank*'s business model significantly reduced poverty and improved the social status of the rural women entrepreneurs it served.

Inspired by *Grameen Bank,* a more recent business model was developed by *Kiva* and *MYC4*, person-to-person lending organisations that share the goal of eradicating poverty worldwide through microcredit services (Carrick-Cagna & Santos, 2009). *Kiva* and *MYC4* exploit the power of social networks and offer online marketplaces or platforms that allow individuals in the developed world to finance entrepreneurs in the developing world by partnering at the local level with microfinance institutions.

A completely different example is provided by *Max Havelaar* (Multatuli, 1860), a pan-European fair trade label that started in the Netherlands. The organization has self-financed its business model since 2001 through licensing fees. Products bearing its label (e.g. coffee, bananas, flowers) are sold through supermarkets at competitive prices. The label provides consumers with assurance that a fair price was paid to producing farmers in the south. To make that possible, the minimum possible number of intermediaries is used to transport the products to northern markets.

Another inspiring example is the *Acumen Fund*, founded by Jacqueline Novogratz (2009). The fund invests in companies operating under business models that generate both financial and social returns.

The fund concentrates on business models that are effective in reaching the “bottom of the pyramid” (BoP), or the billions of poor who lack access to clean water, reliable health services, or proper housing.

A more ecology-driven example is *SunEdison*, an American solar energy provider promoting the large-scale adoption of solar energy technology through an innovative business model. It sells long-term energy provision agreements to corporate buyers such as retail chains. *SunEdison* then finances the installation of the necessary solar equipment by reselling the agreements to private and institutional investors. This has substantially boosted the adoption of solar energy solutions.

In both examples, positive impact does not come at the expense of profits. In fact, the more the company earns, the bigger its impact. The profit motive is well aligned with the respective health and environment-related purposes. The challenge, of course, is to find business models that successfully integrate both purposes.

Creating such business models is what we should all aspire to as businesspeople. Tackling business issues at this level of difficulty and relevance is a true ambition, as suggested by Mohamed Yunus (2010), who coined the term “social business.” The process is *difficult*, because it’s about creating impact, not simply weaving a profit-generating mechanism into the business model’s DNA. And the process is *relevant*, because innovative business models represent a key tool (besides regulation, etc.) with the potential to bring about systems-level change and substantially contribute to solving some of the pressing global issues of our time (poverty, sustainability, inequality, healthcare, to name a few).

Visualizing Models: The Business Model Canvas

The starting point for any good discussion, meeting, or workshop on business model innovation should be a shared understanding of what a business model actually is (Osterwalder & Pigneur, 2010). We need a business model concept that everybody understands: one that facilitates description and discussion. We need to start from the same point and talk about the same thing. The challenge is that the concept must be simple, relevant, and intuitively understandable, while not oversimplifying the complexities of how enterprises function.

This shared understanding implies a shared language that enables ready description and manipulation of business models to generate new strategic alternatives. Without such a shared language, it is difficult to systematically challenge assumptions about one's business model and innovate successfully.

We suggest a business model can be effectively described using the *Business Model Canvas* (Figure 2), which consists of nine basic building blocks that show the logic of how a company intends to make money. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability.

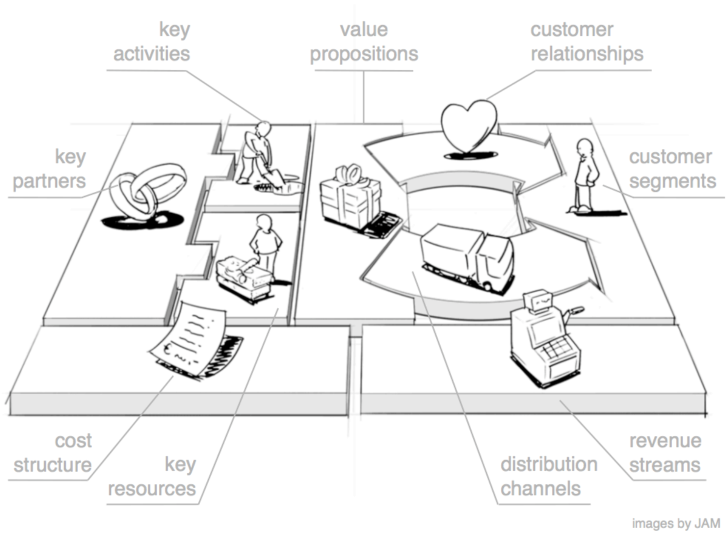

Figure 2

The Business Model Canvas (Osterwalder & Pigneur, 2010)

The *Customer Segments* building block defines the different groups of people or organizations an enterprise aims to serve. Customers are the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviours, or other attributes. An organization must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs.

The *Value Propositions* building block describes the bundle of products and services that create value for a specific Customer Segment. The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific

Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers. Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features or attributes.

The *Channels* building block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition. Communication, distribution, and sales channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience.

The *Customer Relationships* building block describes the types of relationships a company establishes with specific Customer Segments. A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can run the range from personal to completely automated.

The *Revenue Streams* building block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings). If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, “For what value is each Customer Segment truly willing to pay?” Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may feature a different pricing mechanism or technique, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

The *Key Resources* building block describes the most important assets required to make a business model work. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

The *Key Activities* building block describes the most important things a company must do to make its business model work. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues.

The *Key Partnerships* building block describes the network of suppliers and partners that make the business model work. Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

The *Cost Structure* building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others.

The Grameenphone Business Model

To illustrate how the Business Model Canvas can describe an organization that optimizes both profit and purpose, we sketched out the basic business model (Figure 3) of *Grameenphone* (Yunus et al., 2010) as set forth by Iqbal Quadir, a New York investment banker. Quadir's goal was to provide universal access to telecommunications services in remote, rural areas of his home country of Bangladesh.

Bangladeshi villagers were too poor to afford telephones, so *Grameenphone* partnered with *Grameen Bank*, the microfinance institution, to provide local women with microloans to purchase mobile phones. The women sold calling services in their villages, repaid the loans, earned income, and thereby improved their social status.

Iqbal Quadir and *Grameenphone* achieved their aim with a for-profit model that had a profound, positive impact on rural Bangladesh. The company eventually provided over 200,000 women in rural areas with income-earning opportunities, raised their social status, connected 60,000 villages to mobile phone networks, reached 100 million people, turned a profit, and became the Bangladeshi government's biggest taxpayer.

Grameenphone went beyond establishing near-universal access to telephone service and earning a profit. It also had substantial social impact by providing "village phone ladies" with earning opportunities and improved social status.

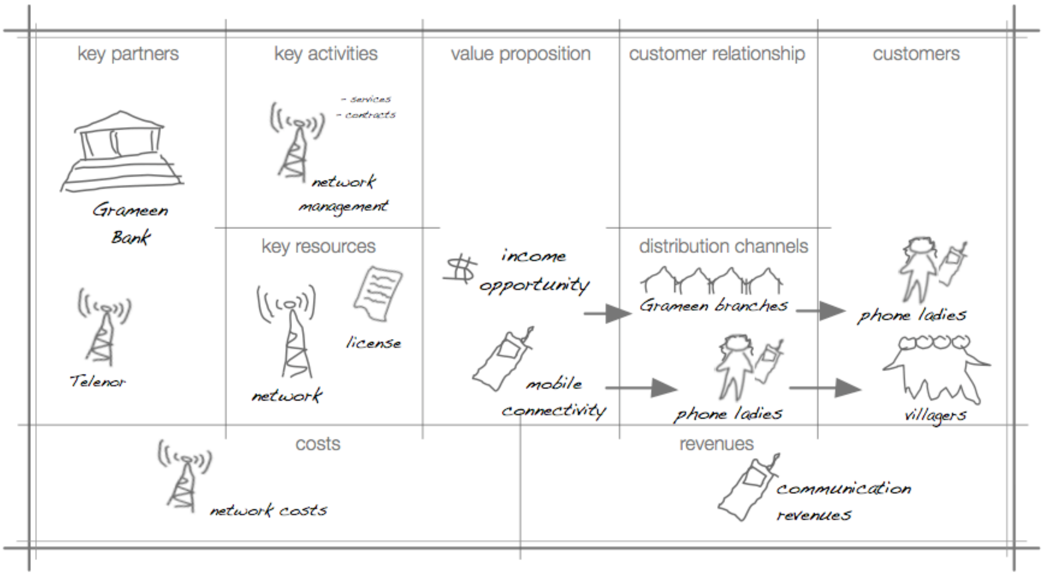

Figure 3

Grameenphone Business Model

Discovering the Right Model: The Peepoople Case

Developing business models that weave both profits and social impact into their DNA is no easy task. Either goal is difficult enough to achieve on its own, so combining the two is particularly challenging. Therefore we briefly describe a design process (Figure 4) to help businesspeople craft such models by designing, prototyping, and exploring multiple alternatives, closely listening to customers, and continuously adapting early models until they discover the right business model to implement at scale. This process, which works for established company managers as well as for entrepreneurs, consists of three rough phases:

- Designing an initial model
- Iteratively adapting the initial model in response to market feedback
- Scaling the model once it is “nailed” (developed and validated)

All three phases are supported by a number of tools and concepts. Osterwalder & Pigneur (2010) provide businesspeople the tools to map, design, prototype, and discuss a business model. Blank (2005) provides the mindset and tools to continuously "test" the model and relevant assumptions with customers until the right business model is found, and is ready to implement at scale.

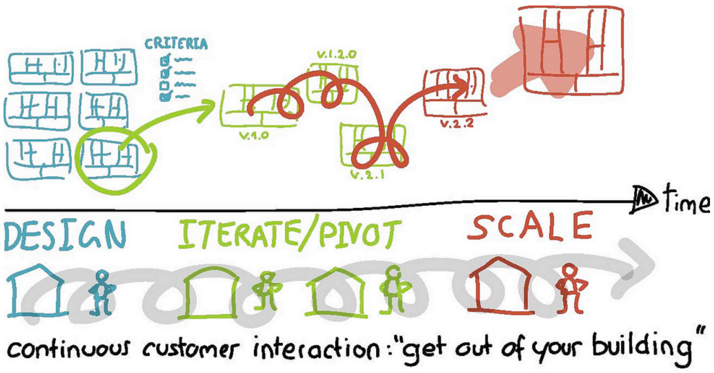

Figure 4

Process for finding the right model

To illustrate, consider a Swedish organization that developed a single-use toilet bag, the *Peepoo* bag, for the so-called "bottom of the pyramid" market of over two billion people worldwide who lack access to proper sanitation.

Peepoople (Peeples, 2009) the company behind the *Peepoo* bag, is a particularly interesting case because it combines a search for the right business model with a quest for meaningful impact – no easy task. As of this writing, Peepoople continues its search for the right business model: one that is both financially viable and scalable in terms of growth and impact.

Designing an Initial Business Model

Managers and entrepreneurs often fail to understand that a great new technology, product, or service may not be sufficient to build a successful, sustainable business. Due to their trust in technology or a particular product or service's superiority, they fail to spend enough time exploring alternative business models, often going with the first model they come up with. Yet innovation history is littered with great technologies, products, and services that bombed.

Managers and entrepreneurs exploring new ventures can greatly improve their chances of success by spending more time searching for and developing empowering business models. Any technology, product, or service can be brought to market by a number of business models. The challenge is to find the best, most scalable model.

In the *Peepoo* bag, for example, Peepoople has a tested, proven product/technology (Figure 5). Yet the company acknowledges that this product/technology is merely a starting point. The management team knows that it must think through several possible business models to find one that is both sustainable and exerts significant impact.

Figure 5

Peepoo bag (Peepoople.com web site)

Let's list up the *Peepoo* bag's characteristics and contextual elements of the potential business as starting points around which to develop alternative business models:

- A single-use toilet bag designed for convenient use by anyone, suitable for disposal in any receptacle as it effectively prevents odors;
- Self sanitizing; it deactivates disease-producing organisms found in feces;
- Biodegradable: made of a high performance, degradable bioplastic;
- Turns into fertilizer: the treated feces constitute a high-value fertilizer with significant market value;
- Low production cost (numbers confidential);
- Aimed at substantially alleviating global sanitation problems;
- In many developing markets people already pay for (limited) access to sanitation (e.g. public latrines in slums)

Based on the above, we can map out several different alternative business models or scenarios for Peepoople's product. Here the emphasis is on "mapping," meaning putting a Business Model Canvas diagram on a nearby desk, wall, or drawing device[1] to quickly develop conceptual prototypes. Here are a few possible models:

Not-for-Profit Model: Traditionally, an organization such as Peepoople would seek donors to fund the distribution of *Peepoo* bags to beneficiaries. But like Peepoople's management team, we don't see this as a sustainable business model, nor one that will achieve the most impact (Figure 6).

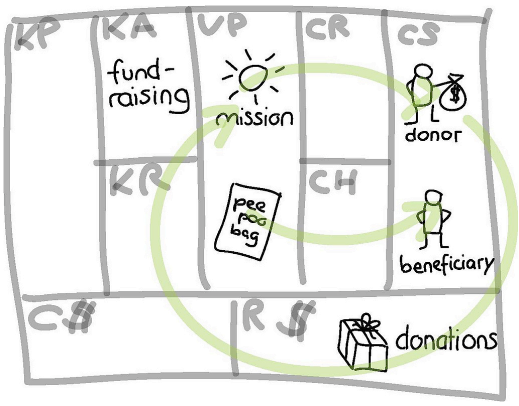

Figure 6

Not-for-Profit (Third-Party Funded) Business Model

Cross-Subsidy Model: Peepoople could sell the bags to a premium segment (e.g. to hikers in the Swiss Alps, or as military supplies) in order to fund the free distribution of the bags to beneficiaries. Financially this model already looks more robust than the first.

Sales/Retail Model: Why not try to sell through traditional retail channels, among the mini-shampoo bottles sold to the BoP market? Sanitation is a basic need and there is already a market for public latrines.

Micro-Finance/Micro-Entrepreneurship Model: Another powerful way to bring the bag to market would be to ally with a micro-finance institution which would finance the purchase of bags by entrepreneurs. The entrepreneurs could then resell the bags (Figure 7).

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[1] Most of the figures (business model canvas and customer development process) have been sketched on an *iPad* device during the writing of this chapter

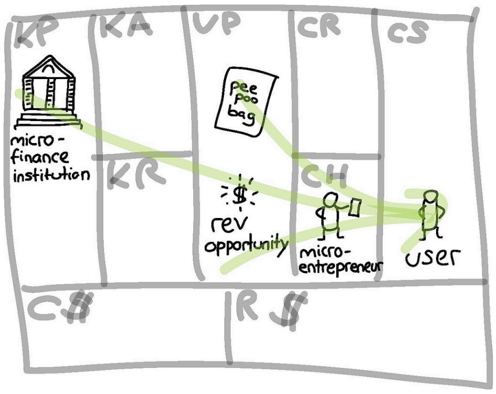

Figure 7

Micro-Finance/Micro-Entrepreneurship Model

Licensing/Franchising Model: Peepoople could go down a completely different path and simply license its technology to different institutions. Alternatively, it could build a franchise model and quickly scale its growth.

Resource Model (Fertilizer): Fertilizer is a valuable good in BoP markets. Why not give the bags away, or even pay people to bring them back full? Revenues would come from selling the fertilizer to farmers.

These are just a few of the potential business models for the *Peepoo* bag. Others could include white labelling the technology, building brand alliances (e.g. distribution with mobile phone prepaid cards), advertising on the bags, and many, many more. What is important is to spend time quickly mapping out alternative business models before defining the criteria by which to select one implementation. Selection criteria could include growth potential, risk, impact, and other factors.

Business models are designed for and executed within specific environments. Developing a good understanding of the organization's environment helps organizations such as Peepoople conceive stronger, more competitive business models. Due to the growing complexity of the economic landscape, greater uncertainty, and severe market disruptions, assessing a business model within the environment under which it will actually operate is more important than ever. Understanding changes in the environment helps us adapt the model more effectively to shifting external forces. We strongly advocate mapping and assessing the business model environment, and reflecting on what identified trends mean for the future of the enterprise. A good understanding of the environment allows better evaluation of the different directions in which the model might evolve.

An essential part of this assessment involves carefully observing and understanding (potential) customers and market forces. The business model alternatives generated should be informed by deep customer knowledge. Steve Blank (2005) nicely describes this as *"Customer Discovery,"* the first of four steps in his *"Customer Development"* process (Figure 8):

> *"you need to leave guesswork behind and get "outside the building" in order to learn what the high-value customer problems are, what it is about your product that solves these problems, and who specifically are your customer and user."*

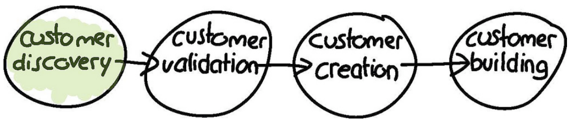

Figure 8

Customer Development – Phase 1 Customer Discovery (Blank, 2005)

Iteratively Adapting the Initial Model in Response to Customer Feedback

When companies have spent substantial time, effort, and money searching for a business model (e.g. for a new product or service), they are often under the illusion that they have "nailed" it – in other words, found the appropriate model by which to bring the product or service to market. Yet an "initial business model" is just that: a starting point, based on a hypothesis and multiple assumptions. Even with the most elaborate design efforts, the smartest people, and the biggest budget, it is rare for entrepreneurs to immediately get the first iteration of a business model exactly right.

Imagine you are an entrepreneur in the process of iteratively adapting your initial business model. The *Customer Development* process assumes that many initial assumptions about your model are probably wrong, something you will discover in *Customer Validation,* the second step of the process. It is only when you start testing your model (or aspects of it) with customers that you will discover whether your hypothesis is right or wrong. Hence, the *Customer Development* process constitutes an iterative loop designed to fix the model's shortcomings. Eric Ries, who built on Blank's work, coined this business model iteration loop the *"Pivot"* (Figure 9).

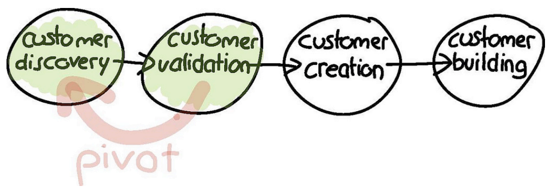

Figure 9

Customer Development – The Pivot

The *Business Model Canvas* powerfully supports this iteration and pivoting process by providing business model terminology, structure, and a visualization method. Steve Blank nicely described this as "keeping score of your pivots."

Peepoople is now entering an iterative phase of business model testing in Kibera, a slum in Nairobi, Kenya. Its challenge is to continuously search for the most powerful model, and to settle only for one that combines maximum scalability with maximum impact.

Scaling the Model After it's Nailed

Only after several iterations and pivots will you really "nail" the right business model. Then it's time to scale. In the terminology of *Customer Development* this is called *Customer Creation*, when you start *"creating end-user demand and drive that demand into the company's sales channel."* Only at the very end should you focus on *Company Building, "where the company transitions from its informal, learning and discovery oriented Customer Development team into formal departments with VPs of Sales, Marketing and Business Development."* (Figure 10).

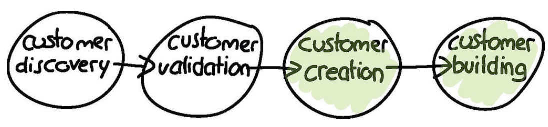

Figure 10

Customer Development – Company building

Unfortunately, we've seen too many companies get caught up in this last (operational) step before they've properly "nailed" the business model.

We are curious to see how Peepoople manages its business model iterations and pivots. It started with a great technology, but only a scalable business model will allow it to create the impact it seeks. Yet we have great confidence in CEO Karin Ruiz. She combines private sector experience, a passion for impact, and the knowledge that only the right business model will allow Peepoople to make a difference in the world.

Conclusion

Traditionally, companies separated their profit-seeking activities from activities aimed at generating positive social and environmental impact. The former represented the company's core focus, while the latter was added on, generally in the form of a not-for-profit entity launched under the corporate social responsibility banner. Yet a growing number of entrepreneurs and executives worldwide are no longer satisfied with this way of operating. They believe that financial profits and positive social impact are not mutually exclusive, and they aim to build powerful new business models that have a deeper purpose — to simultaneously achieve positive economic, social, and environmental impact. In other words, they seek to design and implement business models whereby profit-seeking activities amplify rather than sacrifice positive social impact.

The challenging task faced by these conscientious businesspeople is to combine in one and the same business model two activities that are already difficult to achieve individually: making a profit and generating positive impact. This challenging endeavor may require the invention of entirely new business models, so innovation plays a substantial role.

To assist entrepreneurs with this difficult task, in this chapter we outlined a design tool, the *Business Model Canvas*, and a number of design techniques such as visual thinking, storytelling, prototyping, iterations and scenarios — tools generally more familiar to architects, designers and other design specialists than to managers, executives, and entrepreneurs.

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