

# DESIGNING A SOCIAL BUSINESS THAT BENEFITS THE CORE

By Douglas Beal, Florian Dahl, Sophie Eisenmann, Daniel Nowack, and Frauke Uekermann

**A** GROWING NUMBER OF COMPANIES around the world have launched social-business subsidiaries as part of an agenda to bring about positive change. Such businesses are designed to solve a social problem, such as unemployment, malnutrition, or hunger. Unlike a charity, a social business aims to be financially self-sustaining; profits are reinvested to advance its social mission. It is notable and encouraging that large corporations, in particular, are joining this movement, given their deep expertise and ability to scale up initiatives rapidly.

Since 2012, BCG has been partnering with microfinance and microcredit pioneer Muhammad Yunus—a recipient of the Nobel Peace Prize and the founder of Grameen Bank and Yunus Social Business—to advance social-business initiatives. In the course of this collaboration, we have discovered that a social business does not just have a positive impact on the community it is designed to serve. It also delivers tangible benefits to the parent company. (See *The Power of Social Business*, BCG report,

November 2013.) While some of these benefits are to be expected (such as positive brand perception and strong employee engagement), others are perhaps more surprising. We have also learned that companies do not automatically achieve these benefits when they launch a social business. They must be earned through careful upfront planning and thoughtful execution.

## Seven Pioneers in Social Business

Companies are launching social-business initiatives to innovate, learn about new markets, and engage entirely new customers and stakeholders. This is especially important today, when corporations are under extraordinary pressure to be more innovative and responsive in a fast-changing global environment. To analyze the effects of social-business initiatives, BCG and Yunus Social Business interviewed seven pioneers:

- **Grameen Danone** fights child malnutrition in rural Bangladesh by produc-

ing fortified yogurt and distributing it to impoverished families through a network of “Grameen ladies.”

- **Grameen Veolia** provides safe drinking water in rural Bangladesh by using state-of-the-art water treatment techniques and a network of village tap points.
- **Campo Vivo** creates employment opportunities for farmers in rural Colombia by providing technical and commercial assistance.
- **Grameen Intel** provides easy-to-use IT solutions that address specific social problems, such as low agricultural output and household air pollution.
- **Grameen Euglena** creates employment opportunities in rural Bangladesh by supporting mass production of high-quality mung beans and by developing an export market for them in Japan.
- **FIFCO Nutrivida** fights malnutrition in Costa Rica by manufacturing fortified food products locally and distributing them at low prices.
- **Ambev Ama** sells mineral water in Brazil, with 100% of the profits funding local initiatives to improve access to safe drinking water.

## How Social Business Benefits the Core

The primary measures of the success of a social business are sustainable impact and the reinvestment of profits back into the initiative. But our interviews with company leaders indicated that social businesses also benefit the parent company’s core business in numerous ways.

**Learning and Innovation.** One of the most important business benefits reported by the executives we surveyed is the opportunity for learning and innovation. Companies are discovering that new products, operating models, marketing strategies,

and distribution approaches aimed at the poorest, hardest-to-reach customers can have broad commercial application all along the value chain and can be a source of competitive advantage for their core businesses. For example, after launching its social business, Veolia created POP UP, a network of incubators that support social entrepreneurs in endeavors related to water and the environment. POP UP has allowed Veolia to identify startups that need support and help fledgling social enterprises connect with the larger ecosystem to develop innovative solutions.

**Retention and Recruitment.** Social businesses can inspire employees with a sense of purpose, leading to improved recruitment opportunities and better employee retention. Danone has been a pioneer in this area. The company created a mutual fund to support social-business initiatives; approximately 40% of Danone employees participate in the fund. In addition, more than 300 Danone employees have been seconded to the company’s social business. Executives also report that job applicants, without prompting, often mention the social business as a differentiator. As one executive said, “The social business really gives us a unique selling proposition—and the effect was probably even stronger ten years ago when we were pioneers.” Similarly, the Brazilian brewing company Ambev anticipates that its social business (Ama) will attract new employees who are passionate about the organization’s social mission.

**Reputation and Brand.** Executives also cited the benefits of an enhanced brand and reputation, especially the perception that the company is a thought leader. Euglena, for example, a Japanese producer of the microalgae euglena, established the Genki program to fight malnutrition in Bangladesh by donating 10 yen for every Euglena product sold. Since the program began, the company has donated thousands of euglena-fortified biscuits every day to malnourished elementary-school students across Bangladesh. Beginning in 2018, the product will be commercially available as well. Several Euglena products

refer to the Genki initiative in their branding as a way of reinforcing the company's image with consumers.

**New Markets.** Finally, executives noted the benefits of gaining a license to operate and opening up new markets. Nutrivida, a social business that locally produces and distributes food products rich in vitamins and minerals, earns approximately 20% of its revenue from government institutions and other organizations that provide health and education services. This strong performance led the parent company, FIFCO, to expand into these markets as well.

## Key Success Factors for Capturing Business Benefits

All the business benefits described above are desirable, but companies will naturally prioritize some over others, depending on their strategic objectives. Some may be particularly keen to inspire and engage employees, while others may be more interested in building brand loyalty among consumers. Regardless of their focus, companies must design a coherent strategy and ensure strong execution in order to realize business benefits from their social business. We have identified four key success factors.

**Align with core business functions and expertise.** The unique selling proposition of the social business should be aligned with the core business. This will ensure that all innovations, insights, and new partnerships generated by the social business can readily benefit the core business as well. Thus, when new products for the social business are being developed, ownership by a core R&D unit—ideally at the global level—is crucial in order for product innovations to pervade the parent company.

For example, Intel's social business created a wearable bracelet that detects dangerous levels of carbon monoxide—a global health problem that accounts for the death of more than 4 million people every year. Because this innovation was driven by the

parent company's R&D team, which focused on areas of strategic importance to the business—sensors and analytics—Intel was able to feed a product generated by the social business back into the core business, to the benefit of both.

Similarly, Danone has benefited from leveraging its global R&D function to support innovation within the social business. The company created a technique that allowed its social business to mask the flavor of iron in fortified yogurt. This innovation has since been used in many regions around the world, and the knowledge transfer was simple and straightforward because Danone's core R&D team worked on the project from the outset.

**Locate within a core market.** Ideally, the social business should be located in one of the company's core markets. This makes it easier to engage employees and ensure that insights about the market and any new partnerships are relevant to the core. McCain Foods, a multinational food manufacturer, operates in Colombia, where Campo Vivo—its joint venture with Yunus Social Business—is based. This creates opportunities for McCain employees to engage with the social business, either through visits or secondments, creating a strong sense of ownership and identification with the venture. In addition, McCain has formed strong partnerships with local businesses to improve the livelihoods of local farmers and their families. As one McCain executive said, "Campo Vivo has opened entirely new doors for us and put our existing relationships on a whole new level. We did not expect this at all."

Similarly, Ambev launched the Ama initiative in its core market of Brazil, which has enabled the organization to engage local employees and communicate its social commitment to core customers. Danone, on the other hand, does not operate in Bangladesh, where its social business is located, which has produced some challenges. For one thing, it's more difficult for global employees to engage in any way other than secondments, because the social business is so distant from the company's

primary markets. It's also more challenging for Danone to bring innovations from the social business into the core business, since Bangladesh is quite different from Danone's traditional markets.

**Link the social business to the corporate social mission.** The social-business venture should be closely connected to the parent company's broader social mission, and its value should be communicated to employees and consumers in a way that inspires and engages. The global strategy of McCain Foods links the company's business with a social mission focused on sustainable development and responsible agricultural practices. Its philosophy is "Be good. Do good." Campo Vivo is in sync with the parent company's commitment to sustainable agriculture and its strong relationships with farmers and customers. The packaging of all McCain products sold in Colombia tells the Campo Vivo story, underscoring how the social business aligns with McCain's corporate mission.

**Embed within a larger ecosystem.** A social business is best positioned to thrive when embedded in an ecosystem of like-minded corporate partners, respected NGOs, and academic and public institutions. These connections can foster new business partnerships, raise awareness of the brand, and help companies secure a license to operate. McCain has partnered with a range of organizations to advance its social business in France, including retailer E. Leclerc, employment agency Randstad, French food banks, and the country's potato farmers association. Its social business BON et Bien aims to reduce food waste and unemployment in northern France by collaborating with regional farmers to purchase produce that would otherwise be wasted. The social business uses the produce to make soup that is then sold at E. Leclerc under the BON et Bien name; it also hires people who have been unemployed for long periods. This ecosystem has allowed McCain to establish long-term partnerships that not only broaden its social impact but also strengthen its ties with regional businesses such as Leclerc.

**CORPORATIONS LAUNCH SOCIAL** businesses in order to produce lasting social improvements, but their engagement can also yield tangible business benefits. Social businesses allow the parent company to experiment with new business models and discover new ways to have a positive impact. They also help business leaders learn about new markets, engage employees in meaningful work, and explore more agile and innovative ways of working.

Social businesses aim to be self-financing over the long run, but they can require significant short-term investments to cover capital expenses, initial operating costs, and secondments of valuable employees—and these expenditures can be difficult to justify. To overcome early challenges, executive buy-in is essential. By articulating the benefits of a social business and figuring out how to harness them for the core, company leaders are better positioned to share enthusiasm around the new venture. The key success factors outlined above can help companies take advantage of an exciting opportunity to deliver extraordinary value to populations in need, while simultaneously unlocking value for their business.

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