



Social Venture Start-Up Guide

McKinsey Venture Academy

January 2018

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

So, you think you have a great idea for a business that can be successful and benefit society?

- McKinsey Venture Academy is for you
- This guide is here to help you through the process
- Maybe you've spoken about it with friends who have raised more questions and suggestions but you don't know how to tie them all together.
- More importantly, have you thought of everything and know what you need to do to get your business off the ground?
- The steps taken for every business are different. However, this guide aims to walk you through the key issues you need to be clear on to communicate your idea and plan the steps forward to implement it
 - Firstly, helping you clarify your idea in detail and why it is different
 - Secondly, helping you decide how you wish to build your business
 - Finally, helping you to think through how to implement your idea

Contents

- **Clarifying your business idea; why is it different?**
- How will you build your business?
- How will you implement your idea?

What is a 'Social' Venture?

- Do you address a gap in the market in a way that provides a social benefit?
- Are you establishing a new market that will benefit society?
- Are you providing alternative products or services in existing markets that improves lives?
- Are you delivering existing products or services in a new way or to new markets?
- Perhaps your idea is environmentally friendly or brings employment to impoverished areas?

If so, you've got a social venture.

But to be successful you still need to be self-sustaining, profitable and able to grow

To do this you'll need to think about a few things

- **Who** are your customers?
- **What** is your value proposition?
- **How** will you deliver your social mission?



Who are your customers?

- Your business need to provide a solution, either a product, or a service, to consumers.
- As an entrepreneur you should have a clear idea of the market you wish to enter: who will benefit from your solution, who will pay, who are your competitors, and what substitutes other products or services are already available
- You might want to take a four step approach:

Analysis

- Understand your market:
 - Define the problem your product or service addresses
 - Who are you customers
 - Who is already addressing that problem in a similar manner to your solution?
 - How much of a threat are substitutes?

Segment

- Group your customers according to differing needs and attributes

Buying rationale

- Why will people buy from you?

Key opinion leaders

- Understand who the key opinion leaders are and which are the influential networks and trade journals for each segment

Identifying target customers may appear obvious for some business ideas but you should also be clear on why you aren't offering your solution to other customer segments

What is your value proposition and how are you different from your competition?

1. Why are you different?
2. Are you going to address more than one segment of the market through different variants of the same product? e.g., mobile phone contracts – high users have pay monthly contracts vs. occasional users who hold pay as you go plans that are more expensive per call
3. Does your product or service play to your team's strengths or adhere to your intended corporate image?
4. How do you fit into the market and in customer's perceptions?

If you can clearly articulate your USP (Unique Selling Points) then you not only have the core concept of your business but your first marketing tool to use when communicating it your idea.



How you're going to deliver your social mission

- You should be able to clearly articulate how you're going to deliver your social mission. This may be the basis of the idea for your business or it may be an ideal that would be pursued once the resources are available. In either event you should be able to concisely articulate your social mission in a way that will get people excited about what you're trying to do. Many customers, investors and staff will work with you because of it
- You should also consider supporting the mission with a brief definition and scale of the problem you are tackling as well as an expectation of what impact your venture is aiming to deliver
- Once your business is up and running you should keep track of the social impact you have delivered as a means of generating interest amongst future customers, investors and sponsors, e.g., people trained, people who now have access to fresh water from wells dug etc



Contents

- Clarifying your business idea; why is it different?
- **How will you build your business?**
- How will you implement your idea?

How are you going to reach your customers?

- Determining how will you engage with your customers will have major implications for what capabilities and facilities your business will need to build. Will your service involve attending at your customer's premises? If so you will need vehicles for travel if your clients are outside the centre of town. Will you sell your product by an online platform? You may still need to provide call centre support if your product is complex
- Some examples to get you thinking

Channel

Sell direct



Sell Online



Distribute to retailers



Mixed Model



Examples

Z A R A



amazonkindle



PHILIPS

TOSHIBA

SONY



Who do you need in your team, and how will you find them?

- There are 3 typical “cast members” in a startup

Entrepreneur

- Excites customers, partners, investors and staff about the business concept

Technical

- Ensures the product, service or website is of the highest quality

Manager

- Ensures that the business is run efficiently and rigorously to achieve targets

- The demand for skills in new companies doesn't necessarily shrink with the company size, rather staff will need to perform a broader variety of roles and often quickly build skills in new areas to plug gaps in the team
- Additionally the Management Team should assemble a network of counselors to provide advice and thought leadership:
 - **Informal advisors** such as business mentors for the executive,
 - **Potential customers** happy to provide insight into product development
 - **Formal paid supervisors** who have legal responsibilities for actions they take including:
 - Non-executive Directors
 - Lawyers
 - Patent Attorneys
 - Accounts



Will you form any partnerships?

Partners provide the capabilities that your business needs but decides it shouldn't build at this stage. There are many ways of partnering, some common ones are:

1. Licensing partners:

- To help expand quickly into new territories, e.g., having a foreign retailer sell your products if you don't know the market and customers; or
- If your business doesn't intend to be customer facing at all, e.g., writing apps to be hosted on the Apple store

2. Suppliers:

- If you need to source components for a product your business is assembling or installing as part of a service, e.g., wind turbines for a power supplier

3. Customer interface and sales channels:

- Retailers
- Distributors
- Webhosting
- Online payment support, e.g., Paypal

You should consider which partners best fit the image and quality of offering you intend to provide.



How will you win your customers? Defining your “go-to-market” strategy

- Now that you have a clearer understanding of what you’re going to offer your customers, how you’re going to offer it and who is going to help you do it, you can identify the sequence of opportunities best fit for your circumstances. Depending on your model some common approaches include;
 - Starting small: targeting customers who won’t overstretch your resources
 - Finding innovators: targeting those who are more willing to accept a product has unproven features and are willing to take a risk on a new company
 - Focusing on a strong brand: targeting key opinion leaders or prestigious customers to build brand recognition
- If your business is online you may assume you are going “live” and offering your product to the world, but who will you approach first to promote your website? What kind of customers do you want to attract in the first few months?
- If your business isn’t online then some friendlier customers may exist in your network or maybe located nearby providing convenience (particularly for services)
- If you are attempting to serve multiple segments you may wish to stagger the launch of different offerings or bundles. Typically companies progress from the simplest to most complex as they build experience and capabilities by serving their early customers



Contents

- Clarifying your business idea; why is it different?
- How will you build your business?
- **How will you implement your idea?**

What will it cost to deliver your business model?

- What will you require to deliver your product or service? How much will this cost?
- Costs are typically split into fixed and variable costs
- Some typical fixed costs to think about are:
 - Salaries for staff
 - Rent
 - Intellectual property fees:
 - Patents if you have a new technology
 - Designs if you're product has a distinct visual appearance
 - Registering a trademark if you want to prevent others from using your company or product name
 - Copyright typically vests with the author on creation of the writing, music etc, so it doesn't cost
- Some variable costs are:
 - Components to assemble or make the products you wish to sell
 - Additional staff to serve new customers
 - Expansion of equipment or premises when capacity is reached
- Some costs can be easily sourced from a supplier but others will involve some estimating. Remember to include a contingency

**If data isn't easily accessible then
reasoned estimates of costs are sufficient
for the business plan**

How will you make money?

- Where will your revenue come from?
 - Selling a product, e.g., a photocopier
 - Installing it
 - Maintaining it
 - Offering add-ons
 - Providing the consumables required to use it, e.g., paper for a photocopier
- Your revenue streams will be heavily influenced by the sales channels you choose to employ in your model
- If your business intends to sell a product directly to the customer then that interaction provides an opportunity to cross sell some of the other items listed above. Alternatively, in the example above, if you wish to just manufacture photocopiers, an electronics firm may not be best placed to also make paper, in which case products can be sourced from a 3rd party supplier and sold at a profit
- Similarly, most service companies rely on strong customer relationships and an understanding of their needs in able to win repeat business. This also provides an opportunity to cross sell additional services and/or products

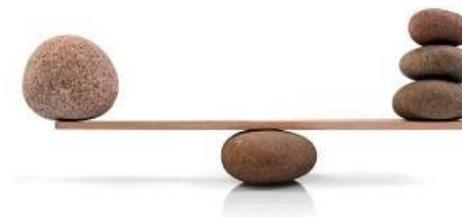


Breaking even: When will you earn enough to be sustainable? (1/2)

One key measure of demonstrating a business opportunity's viability is to outline at what point it should become self-sustainable otherwise known as reaching its "breakeven point". The real value is in looking at the viability of being able to achieve the necessary number of customers paying a price that leaves enough margin to cover all of your costs. This opens up a suite of questions and decisions on how your business will be positioned in the market

A simple method for building a breakeven scenario is:

1. Look at each of your revenue streams and estimate a cost for providing that service or making that product (known as the cost of goods sold)
2. Add an appropriate margin. These vary dramatically between industries, even for similar products, for instance a TV may have a margin of 1 to 2% whereas the cost to make an electronic medical device may be one fifth of its price because of the development costs and regulatory hurdles faced in bringing it to market. In the absence of information choose a level in the region of 20 - 50%
3. Estimate the likely ratio of sales of each revenue stream, e.g., only 50% of customers will want service contracts, 25% will purchase an add on etc.



Best guesses based on familiar examples are fine, or ask a business student

Breaking even: When will you earn enough to be sustainable? (2/2)

4. Multiply these ratios by the margin on each revenue stream. Hence for each customer you would earn half the service contract margin in the example above. Then add them together to determine the typical “profit per customer”
5. Add up your annual fixed cost base and divide it by profit per customer. This is the number of typical customers you would need to serve each year to breakeven
6. Look at all of the details of your plan so far. Is it reasonable to assume you can serve that many customers? Do you have sufficient resources to serve them? Does it seem realistic and plausible?

The key questions to think about as you write your plan:

- How many customers will you need to be able to break even?
- How long will it take you to win those customers?
- What is the average profit you will need to earn from each customer?
- Does all of your story make sense and seem achievable?
- Finally, how much money will you need to support your fixed cost base, and possibly product development as well, until you reach the point in time when you break even?



Where will you get the money to support your business until you breakeven?

Start-up Funding

To start your business, you will need money to invest. Where can you get it?

- **Family, friends and fools:** You can offer a share of your business to people who know you and are willing to back your idea in the belief that you are capable of delivering it. Your plan may not yet be tested, proven or properly written down but they think you're the person to make it happen!
- **Go straight to the customer:** If you are able to convince your first customer you're ready and able to deliver your first project, working from home or at the client site with personal equipment may be sufficient to avoid investing in premises and new computers before you have proven there is a demand for your solution
- **Government grants:** A number of government programmes are available to support good ideas. You will need to have a clear plan of how you are going to implement it and some evidence of viability (possibly demonstrated by a letter of support from a potential customer)
- **Angel funding:** Some wealthy individuals invest in new high risk businesses on the merits of an idea as well as the opportunity to generate a return. Some are willing to consider social ventures as a meeting both of these criteria. Business angels have typically achieved their wealth through entrepreneurship and may be willing to serve (or insist) on a board seat to provide guidance



Conclusion

- Business ideas, models and plans are constantly evolving. You should speak to friends family and colleagues about them whenever you can. You could even get the views of senior people in the industry if you can convince them to donate their time. They will hopefully ask you questions you have never thought about as well as make suggestions that are more likely to be dispassionate and less attached to your original vision. This food for thought should help your idea to grow and generate more feedback from mentors and hopefully, at some point, from customers as well
- Major businesses often write plans for 5 years or longer but have great difficulty in forecasting costs and sales as far away as 2 to 3 years. The purpose of the plan is to demonstrate a rationale consideration of all of the relevant issues. The story can evolve as additional information, e.g., actual cost figures, is found

GOOD LUCK!