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# “Strategic marketing for social entrepreneurs”

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## PART ONE

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### “THE STRATEGIC MARKETING MATRIX FOR SOCIAL ENTREPRENEURS”®: HOW TO MAKE TOUGH PRODUCT AND SERVICE DECISIONS

Maintaining an appropriate balance between social impact and financial viability is the *sine qua non* of social entrepreneurship. **Dr. David Rendall** calls social entrepreneurs “tightrope walkers” because they are constantly hovering in mid-air between their social purpose and marketplace realities.

The definition of “appropriate” varies from organization to organization, but the existence of a double bottom line that emphasizes both social and financial returns forces social entrepreneurs to continually make difficult decisions about which products and services to offer and which market segments to pursue.

The process is never more important than when a social enterprise is developing its strategic marketing plan -- and it can be agonizing because it demands that Board members and senior managers practice triage.

Management guru **Peter Drucker** famously advocated killing products and services if they were not number one or number two in the market. Rather than

trying to be all things to all people, he wrote, you should concentrate on doing the best job possible in a few, carefully chosen areas. If you do not, he warned, you will be unable to give customers the attention they deserve because you will no longer have the necessary time or resources.

Drucker’s advice runs against the grain of the traditional nonprofit mentality, but most nonprofit managers eventually do admit they are trying to serve too many masters. And, as they morph into social entrepreneurs, they realize that the first rule of entrepreneurship is contraction.

Of course, triage requires a social enterprise to be honest with itself -- exceedingly difficult for any organization, nonprofit or otherwise. But the results have been worth it, and the ultimate winners have been clients and customers. Social entrepreneurs have discovered that reducing their number of products, services and target markets has actually enabled them to serve more people and to serve them better, because they’ve had the time and resources to expand their most effective and needed lines of business and to carefully introduce new products and services.

Making strategic marketing decisions, however, is more difficult for a social entrepreneur than it is for either a traditional nonprofit or a commercial business, both of which are primarily concerned with a single bottom line. A traditional nonprofit will continue offering products and services that have a significant social impact even if they lose money; commercial enterprises will not. Social entrepreneurs, on the other hand, are equally concerned with both bottom lines, and that means they must *simultaneously* analyze the social impact and financial viability of each product and service -- and only then make decisions about which ones to expand, nurture, harvest or kill.

“The Strategic Marketing Matrix for Social Entrepreneurs”® consists of two levels. Level One is a quick-and-dirty way for Board members and senior managers to think about the intersection of social impact and financial returns:

**THE STRATEGIC MARKETING MATRIX  
FOR SOCIAL ENTREPRENEURS®: LEVEL ONE**

	<b><i>Positive financial returns</i></b>	<b><i>Negative financial returns</i></b>
<b><i>Significant social impact</i></b>	<b>EXPAND</b>	<b>NURTURE</b>
<b><i>Minimal social impact</i></b>	<b>HARVEST</b>	<b>KILL</b>

Level Two is an expansion of Level One that requires more rigorous analysis. It measures the relationship between the degree of social need being addressed and the anticipated financial results:

**THE STRATEGIC MARKETING MATRIX  
FOR SOCIAL ENTREPRENEURS®: LEVEL TWO**

	<i>Significant potential profits</i>	<i>Modest potential profits</i>	<i>Modest potential losses</i>	<i>Significant potential losses</i>
<i>Critical social need</i>	EXPAND	EXPAND	NURTURE	KILL
<i>Sizable social need</i>	EXPAND	EXPAND	NURTURE	KILL
<i>Minimal social need</i>	HARVEST	HARVEST	KILL	KILL
<i>No social need</i>	KILL	KILL	KILL	KILL

How can a social entrepreneur discover where a specific product or service falls in the Level Two matrix?

The first step is to *segment the market* for the product or service, and that will be the subject of part two in this series. The next steps are to answer a series of questions about each segment, and those questions will be addressed in parts three and four:

- How many people in this market segment actually need the product or service, regardless of their ability to pay? And how critical is their need?
- What are the critical success factors associated with designing, developing and delivering the product or service for this particular segment?
- What environmental forces will play a role? Will they be positive or negative? How helpful or damaging will they be? Do we have the capability to capitalize on the opportunities and mitigate the threats?
- Who are the primary competitors? How do we rank against them in terms of critical success factors and environmental forces? Can we win?

- What is the potential size of the market segment in terms of dollars? And what is the opportunity within the segment? Is it growing, remaining flat or declining? How much has been exploited? How much of the competition's share is vulnerable?
- What are the fixed and variable costs? Will we make a profit or lose money? How much?

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## PART TWO

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### MARKET SEGMENTATION: THE FIRST STEP IN STRATEGIC MARKETING

As we learned in part one, nonprofits are frequently stunned to discover that the first rule of entrepreneurship is contraction. Strategic marketing requires them to make difficult decisions about which programs to expand, nurture, harvest or kill.

Many nonprofits resist the need to practice triage. The process is taxing, and emotions run high. But even social entrepreneurs who understand its importance and summon the courage often start from a false premise.

During my coaching sessions with nonprofits around the world, I frequently ask Board members and senior managers what they believe is a simple question: "How many programs do you offer?"

None has ever gotten the answer right.

Here's the list provided by a Texas nonprofit helping people with developmental disabilities live independently:

- Home care services
- Adult day care centers
- Independent living skills
- Social skills training
- Education programs
- Residential programs
- Transportation services
- Respite care

In other words, eight programs. Or so they thought. Actually, they had 31.

Why were they so far off the mark?

Because every program has both a “subject” *and* a “predicate” – a product or service *and* a target market. It is not enough to say a nonprofit offers home care services for “people who are developmentally disabled.” To effectively allocate resources, the nonprofit must reduce that mass market to more manageable proportions.

Doing so is called “market segmentation,” and the criteria for dividing a consumer market includes such things as:

- **Geography** (e.g., nations, states, regions, counties, cities, neighborhoods, climates)
- **Demographics** (e.g., age, income, gender, marital status, family size, occupation, education, income, nationality)
- **Psychographics** (e.g., customer lifestyles, activities, interests, social class, personality characteristics, comfort with technology, political leanings)
- **Customer behavior** (e.g., frequency of purchase, sensitivity toward price, levels of desired quality, and so on)

Once the people in Texas decided “age” was their best segmentation strategy, it became evident they were operating many more programs than they thought, because each of the 31 market segments in the chart below requires a different marketing plan, operations plan, price points, personnel, and so on:

	<i>Infants</i>	<i>Pre-teens</i>	<i>Teens</i>	<i>Adults</i>	<i>Elderly</i>
<b>Home care services</b>	x	x	x	x	x
<b>Adult day care centers</b>				x	x
<b>Independent living skills</b>		x	x	x	x
<b>Social skills training</b>		x	x	x	x
<b>Education programs</b>	x	x	x	x	x
<b>Residential programs</b>			x	x	x
<b>Transportation services</b>			x	x	x
<b>Respite care services</b>	x	x	x	x	x

Triage, then, required them to move from the macro level (eight programs) to the micro (31) before making any decisions about resource allocation. And, as we saw in part one, The Strategic Marketing Matrix for Social Entrepreneurs® contains four possible allocation strategies:

- Programs high on both the social impact and financial viability scales should be **expanded** and deserve the bulk of an organization’s resources

- Those that are high in social impact but haven't yet achieved financial viability need to be **nurtured**
- Those that deliver positive financial returns but have minimal social impact should be **harvested** to generate resources for the programs being expanded or nurtured
- And, of course, those that are low on both the social impact and financial viability scales should be **killed**

As a rule of thumb, programs to be expanded should collectively receive about 50 to 70 per cent of a nonprofit's resources. "Nurture" programs should receive about 20 to 40 per cent, and "harvest" programs whatever remains.

Ultimately, my Texas friends completed their research and made the following decisions, killing 14 of their 31 programs:

	<i>Infants</i>	<i>Pre-teens</i>	<i>Teens</i>	<i>Adults</i>	<i>Elderly</i>
<i>Home care services</i>	EXPAND	EXPAND	HARVEST	EXPAND	EXPAND
<i>Adult day care centers</i>				EXPAND	EXPAND
<i>Independent living skills</i>		KILL	NURTURE	NURTURE	KILL
<i>Social skills training</i>		KILL	KILL	KILL	KILL
<i>Education programs</i>	NURTURE	NURTURE	KILL	KILL	KILL
<i>Residential programs</i>			KILL	EXPAND	KILL
<i>Transportation services</i>			KILL	NURTURE	NURTURE
<i>Respite care services</i>	HARVEST	NURTURE	HARVEST	KILL	KILL

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## PART THREE

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### “THE COMPETITIVE ANALYSIS MATRIX FOR SOCIAL ENTREPRENEURS”®

Practicing triage is one of the most daunting and emotional challenges for nonprofit entrepreneurs. But, as we learned in part one, “The Strategic Marketing Matrix for Social Entrepreneurs”® can help them make informed and less painful decisions about how to allocate resources, and in part two we learned that the first step in the triage process is market segmentation.

Part three will examine some of the key questions social entrepreneurs must ask about a target market to determine which allocation strategy is appropriate. Which market segments should they expand, nurture, harvest or kill?

The questions fall generally into two categories:

- Can we win?
- Is it worth it?

Deciding whether you can win means analyzing the competition, the subject of part three (in part four we'll talk about deciding whether it's worth it).

To determine your competitive strength (or weakness), you should answer the following three questions:

- What are the **critical success factors** associated with operating the business successfully? Obviously, the business must be profitable, and you must have a strong management team with a carefully chosen market niche. But the "critical success factors" we're talking about here are more specific and differ from one *type* of business to another. Nonprofit entrepreneurs need to ask themselves: "What are the factors most important for success with *this* type of business?" Possibilities include price, volume, convenience, speed, dependability, reputation, intermediaries – and any number of others. There are typically four or five that apply to each type of business, and if you don't identify them correctly and compete effectively, your business will fail.
- What **environmental forces** are having or will have a positive or negative impact on your ability to operate the business successfully? What we are seeking here are the large-scale, fundamental forces that pose threats and shape opportunities, and they are generally demographic, economic, technological, political, regulatory or sociological. Most of the time, you can't control them, but you'll need to be prepared to either capitalize on the opportunities or mitigate the threats. You'll need to identify the forces, decide if they're positive or negative, determine when they're likely to occur, estimate how sizeable their impact will be – and, most importantly, decide what to do about them.
- Who are your **primary competitors** and how do you rank against them in terms of the critical success factors and environmental forces? It's not necessary to identify *all* possible competitors, just the three or four that pose the greatest threat. The "Competitive Analysis Matrix for Social Entrepreneurs"® (see *chart on page eight*) is a quick and dirty way for social entrepreneurs to decide how their businesses rank against their chief competitors.

Here's how to use the matrix:

- Decide which critical success factors and environmental forces to measure

- Determine how much weight to give each of them – the total must equal 100 per cent
- For each of them, rank yourself and your four leading competitors one through five, with “five” representing the business in the strongest position (if you only have three leading competitors, use a one to four scale)
- Do the math – multiply the percentage for that line item by the scores you’ve assigned to yourself and to each competitor
- Add up the columns – the results will give you a rough idea of how you rank against your toughest competition

The key word in that last sentence, of course, is “rough” – this is simply a first cut to help you assess your competitive strengths and weaknesses. The next step would be a more detailed analysis that might take a few weeks or longer.

Here’s what a typical matrix might look like (the number of critical success factors and environmental forces will differ from one type of business to another, and the weights and rankings will naturally vary depending on the type of business and the strengths and weaknesses of your competitors):

**“THE COMPETITIVE ANALYSIS MATRIX FOR SOCIAL ENTREPRENEURS”®**

“CSF” = “Critical success factor”

“EF” = “Environmental force”

*To compute a score, multiply the rank times the percentage for that line item*

	Weight assigned	Competitor A		Competitor B		Competitor C		Competitor D		Your business	
		RANK	SCORE	RANK	SCORE	RANK	SCORE	RANK	SCORE	RANK	SCORE
CSF #1	20%	5	1.00	2	.40	1	.20	4	.80	3	.60
CSF #2	10%	3	.30	2	.20	5	.50	1	.10	4	.40
CSF #3	10%	1	.10	3	.30	5	.50	4	.40	2	.20
CSF #4	15%	3	.45	1	.15	2	.30	5	.75	4	.60
EF #1	15%	5	.75	2	.30	3	.45	1	.15	4	.60
EF #2	15%	1	.15	2	.30	3	.45	5	.75	4	.60
EF #3	15%	1	.15	5	.75	2	.30	3	.45	4	.60
TOTALS	100%	2.90		2.40		2.70		3.40		3.60	

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**PART FOUR**

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## “THE MARKET SIZE CALCULATOR FOR SOCIAL ENTREPRENEURS”®

The Plains Indians knew the truth of it: If you're riding a dead horse, your best bet is to get off.

Unfortunately, in the nonprofit world, we resist the idea of abandoning a moribund product, service or program.

Instead . . .

- We lower standards (so dead horses can be included)
- We change riders
- We appoint a committee to study the dead horse
- We visit other nonprofits to see how *they* ride dead horses
- We provide more funding to boost the dead horse's performance

During the first three parts in this series, we've been laying the groundwork to help senior executives and Board members make difficult strategic decisions about which products, services and programs to expand, nurture, harvest or kill. In other words, to help them decide which horses still have life in them – and which ones don't.

In part one we underscored the importance of practicing triage, part two dealt with market segmentation and part three examined the first of two key questions that must be asked before a nonprofit can decide whether to pursue a specific target market: “Can we win?” Part four will delve into the second question: Even if it *is* possible to win, “is it worth it?”

To answer that question, you will need to *quantify* three specific factors:

- What is ***the size of the market?*** How many dollars are available to pay for your product or service?
- What is ***the opportunity within the market?*** Is it growing, remaining flat or declining?
- What are ***the potential profit margins?*** What are the fixed costs and the variable costs? And how long will it take to reach the break-even point?

“The Market Size Calculator for Social Entrepreneurs”® can be used to begin the quantification process. The sample on page 11 was created a few years ago by one of my clients, a nonprofit that provided personal care services (e.g., cooking, cleaning, bathing) for elderly people confined to their homes.

Here’s how you can create a calculator for each of *your* target markets:

- In column one, identify every possible type of payment source (the people running the personal care service had seven)
- In column two, calculate as accurately as possible the number of potential users in your service area (some customers will be able to draw on more than one payment source)
- In column three, describe the financial assumptions and restrictions associated with each payment source (the personal care people ran up against a number of government mandated limits – for example, at the time they did the analysis, Medicaid would pay for only ten hours of service per week per person at a maximum rate of \$10 per hour)
- In column four, do the math – multiply the number of potential buyers by the financial realities (in the sample, there are 800 people eligible for Medicaid reimbursement at a maximum of \$100 per week – or a one-year total of \$4.16 million)

The total size of your current market will appear in the bottom right-hand corner of the grid. But remember: Only a fraction of the dollars are currently being spent. The rest are up for grabs – and even some of the dollars currently flowing to competitors could be re-directed your way through effective marketing and sales strategies.

Now create a second chart for the same target market – but set this one three to five years in the future. By doing so, you can get a preliminary idea of whether the market will become increasingly attractive or stagnant.

Once you’ve created both charts, you can make a preliminary decision: Is it worth it? Is the target market large enough to dedicate time, personnel and resources -- and is it heading in the right direction?

However, there’s one more step to be taken before reaching a final decision. Determining potential profit margins and break-even points are subjects beyond the scope of this current series (and are best left to the bean counters). But there is one important point to be kept in mind: As indicated in part one, many social entrepreneurs will legitimately decide to continue offering a product or service even if it does not seem to be worth it financially – because there will be compelling social reasons to do so. When they make that decision, of course, they will be

depending on other sources of revenue to keep things propped up: Charitable contributions, government subsidies or profits from another product or service.

Ultimately, every social enterprise has two fundamental challenges: To do the right things (strategic marketing) . . . and to do them right (operations). This series has been focused on the first of those challenges, daunting as it may be to think about practicing triage. Strategic marketing is indeed an attempt to shake up the organization – but not to shake it apart. In fact, strategic marketing may be the only thing that holds a nonprofit together in an increasingly competitive world.

**“THE MARKET SIZE CALCULATOR FOR SOCIAL ENTREPRENEURS”®**  
(sample)

PAYMENT SOURCES	POTENTIAL USERS	FINANCIAL ASSUMPTIONS, RESTRICTIONS	ANNUAL DOLLARS AVAILABLE
Medicaid	800	Maximum allowed: 10 hours per week at \$10 per hour	\$4,160,000
Personal insurance	400	Average annual maximum: \$5,200 per person	\$2,080,000
Adult children	300	Average per customer: 10 hours per week at \$12 per hour	\$1,872,000
Personal savings	300	Average annual amount: \$2,000	\$600,000
Corporate benefit	100	Average annual benefit: \$5,200	\$520,000
Other government sources	200	Maximum permitted: 10 hours per week at \$10 per hour	\$1,040,000
Miscellaneous	50	Average: \$100 per week	\$260,000
TOTAL	n/a	n/a	<b>\$10,532,000</b>

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*Jerr Boschee has spent the past 25 years as an advisor to social entrepreneurs in the United States and abroad. To date he has delivered seminars or taught master classes in 41 states and 14 countries and has long been recognized as one of the founders of the social enterprise movement worldwide. The NonProfit Times named him to both its 2004 and 2005 nonprofit sector “Power & Influence Top 50” lists. Mr. Boschee is currently Executive Director of The Institute for Social Entrepreneurs, which he created in 1999, and Chairman and CEO of Peace Corps Encore!, a nonprofit that sends former Peace Corps Volunteers and staff members back into service on short-term assignments that match their professional expertise with specific social needs. **Please direct your comments to [jerr@orbis.net](mailto:jerr@orbis.net)***