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Practical Challenges of Differentiated, For-Profit Social Ventures

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Abstract

When social entrepreneurs create a for-profit enterprise focused on addressing a particular public need, there are many specific challenges and barriers that stand in their way of becoming a sustainable, revenue-generating business. Many of these challenges are currently unknown to many nascent social entrepreneurs, and in most cases, these challenges will cause the venture to fail or never reach operational scale (Renko, 1047).

Social entrepreneurs face many unique challenges and barriers that traditional entrepreneurs do not necessarily encounter. Typical challenges include balancing the needs of disparate stakeholders (Smith, 464), maintaining robust cash flows and profits while simultaneously remaining committed to a social mission (Ebrahim, 82), defining non-financial metrics for success which owners, investors, and consumers can understand (Dees, 16), and more.

Currently, there is a gap in the understanding of what specific practical challenges arise when building a differentiated hybrid venture. The purpose of this grounded theory case study is to answer the question, “What are the most common identifiable challenges social entrepreneurs face when creating differentiated, for-profit social enterprises, and how can they overcome these challenges?”.

After detailing the background of this study and the methodology of how the research was performed, the analysis of the data is presented in sections based on each particular challenge that was discovered during the research process. During each section, the overarching challenge will be described and analyzed by the context in which the entrepreneur’s experienced and overcame the challenge. Conclusions and suggestions for future research follow the analysis.

Background

Social entrepreneurs are unique and different from traditional entrepreneurs because, in addition to focusing on generating significant profits and building a viable business for financial stakeholders, they also focus on generating substantial social value that benefits community stakeholders who may have previously been neglected (Youssry, 11). Due to the fact that operating a social enterprise is inherently different from running a traditional enterprise, unique challenges are presented to the social entrepreneur that are not presented to the traditional entrepreneur.

For example, in order to continue operations and appease investors and/or stakeholders, social entrepreneurs must focus on generating real profits that can sustain their business without relying on donations, as a non-profit would. If the social firm’s mission becomes too strictly focused on making money, social entrepreneurs can lose sight of their original vision, which will ultimately make their business cease producing societal benefits. However, focusing entirely on the social mission also produces negative consequences, usually in the form of miscalculated business decisions and lost profits, which can ultimately lead to the closure of the business and the inability to continue providing social value.

Previous research on the challenges of social entrepreneurship has largely focused on understanding the general challenges that arise from owning a venture with two separate missions, one focused on generating profits and the other focused on generating social good. This study attempts to build upon the existing body of research with a more practical lens, discovering and analyzing the challenges social entrepreneurs face on a day-to-day basis.

This study focuses on a particular type of business defined as the “differentiated hybrid venture”. The “hybrid” nature of the venture simply refers to the fact that operations of the business are inherently tied to a social mission, not just a profit based goal. The "differentiated" aspect of the venture refers to the fact that, "The profits generated by commercial activities…are used to fund social activities that help beneficiaries who are not the primary customers of the goods or services," (Ebrahim). This is in contrast to integrated hybrids, which sell products to individuals who act as both customers and social beneficiaries. An example of a differentiated hybrid venture is Warby Parker. Warby Parker sells eyeglasses to paying customers around the world. Then, they employ a modified "one-for-one" model and use the revenue generated from sales to fund socially conscious programs such as eyeglasses donations and eye exam job training. In contrast, if Warby Parker were to operate as an integrated venture, they would sell glasses directly to social beneficiaries, no donation involved.

Methodology

This case study utilizes qualitative research techniques in order to effectively address the research question. Qualitative research, in this case, includes conversational interviews with 10 founders and/or owners of 9 separate differentiated for-profit social enterprises. Because this study attempts to discern which challenges most frequently present themselves to particular sub-groups of differentiated for-profit social entrepreneurs, interviews with the founders proved to be the best method of data aggregation since the founders experienced these challenges first hand.

After sifting through companies listed on various social entrepreneurship websites such as Ashoka and the Unreasonable Institute, as well as performing Google searches with key terms like "for-profit social ventures", I was able to find 21 social entrepreneurs who fit my criteria. I reached out to the entrepreneurs, and out of the 21, 13 responded, and 10 were interviewed. These 10 entrepreneurs represented 9 different companies (two entrepreneurs interviewed were co-founders of the same company). Each social entrepreneur was chosen to be a part of the sample because their company satisfied the requirements of being a differentiated, for-profit social venture, and because their ventures are still continuing daily operations or because they have reached a particular benchmark of success, such as company acquisition.

This sample is diverse. One company was founded close to forty years ago, while most were founded within the past 3-6 years. 4 out of the 10 entrepreneurs interviewed are women, and the rest are men.

Interviews with the social entrepreneurs were conducted over the phone and were recorded (with permission of the interviewee) via a mobile application that allowed phone calls to be recorded and saved for future playback. The interviews were then transcribed verbatim so that the conversation's text could be thoroughly analyzed. In order to conduct a proper analysis of the data, two primary graphs were created to categorize the ventures and distinctively list out the particular challenges each venture faced.

"Figure 1" separates the ventures into the types of challenges they faced. Challenges range from issues with attracting manufacturers to difficulties raising capital, to overall obstacles related to overcoming social stigmas or low-profit margins. A green "Y" signifies that the founder explicitly mentioned they experienced the challenge during the course of the interview. A red "N" means that the founder did not mention this challenge during the interview. A yellow "N/A" simply means that this challenge does not apply to this venture (ex. Since Roozt and Change Heroes are software companies, challenges related to manufacturing or inventory management are not applicable).

Figure 1.

	Good Spread	THINX	Jaipur Rugs	Roozt	Conscious Step	Change Heroes	BogoBrush	MADI Apparel	Panda Sunglasses
Inventory Management	Y	N	N	N/A	Y	N/A	Y	Y	Y
Finding Manufacturers	N	Y	N	N/A	Y	N/A	Y	Y	N/A
Attracting Manufacturers	N	Y	N	N/A	Y	N/A	Y	Y	N/A
Attracting Customers	N	N	Y	N	N	N	N	N	Y
Raising Capital	Y	Y	N	Y	N	Y	Y	Y	N/A
Low Margins	Y	N	N	Y	N	N	Y	Y	Y
Balancing Social Mission with Financial Goals	N	N	N	N	N	Y	N	Y	Y
Overcoming Social Stigma	N	Y	Y	N	N	N	N	Y	N

It is important to note that a red "N" does not mean that the founder absolutely did not experience that particular challenge. Rather, it means that the founder did not mention they experienced this challenge during the course of the interview. For example, raising capital is anecdotally never easy, and is almost always a challenge. However, certain founders mentioned raising capital was a massive obstacle within their daily operations, while others either did not mention raising capital was an issue. Along the same vein, a green "Y" does not indicate that the entrepreneur was less adept at handling particular challenges, or that they experienced a greater number of problems than other founders. It simply refers to the fact that the founder mentioned these challenges during the interview.

"Figure 2" breaks down each venture into broad categories based on business model, the nature of the product offering, total scope of the mission, location of manufacturers, and the funding methods employed.

	Sub-Group	Sub-Sub-Group	Company
Business Model	One-for-One ---->	Same Product	MADI Apparel
		Different/Related Product	Good Spread, Thinx, Bogobrush
	Donation		Panda Sunglasses, Conscious Step
	Non-Profit Ownership		MADI Apparel
	Ethical Employment		Jaipur Rugs
	Marketplace Enabler		Roozt
	GoodWill		Change Heroes
Nature of Product	Physical	Fashion	MADI Apparel, Thinx, Panda Sunglasses, Conscious Step
		Food	Good Spread
		Functional	Jaipur Rugs, BogoBrush
	Software		Change Heroes, Roozt
Scope of Social Mission	Single Cause, Single Org	1	Good Spread (malnutrition, MANA), Thinx (women's menstruation, AfriPads), Jaipur Rugs (employment of underprivileged)
	Single Cause, Many Orgs		BogoBrush (dental care for underprivileged, numerous clinics)
			MADI Apparel (gives pairs to shelters and also wherever needs them, ex. Haiti)
			Roozt (marketplace)
	Multiple Causes		ChangeHeroes (Education, Shelter, Health)
			Conscious Step (Poverty, Hunger, Books, Medicine, Trees, Oceans, Water, HIV)
			Panda Sunglasses (Optometry Giving Sight, Gift of Vision, Pencils of Promise)
Location of Manufacturer	United States	Georgia	Good Spread
		North Dakota, Wisconsin, Minnesota	BogoBrush
		South Carolina	MADI Apparel
	Abroad	Sri Lanka	Thinx
		India	Jaipur Rugs (vertically integrated), Conscious Step
		China	BogoBrush (at first), Panda Sunglasses
	No manufacturer		Change Heroes, Roozt
Funding Method	Crowdfunding	Indiegogo	Good Spread, Conscious Step, MADI Apparel, Thinx
		WeFunder	BogoBrush
		Kickstarter	Panda Sunglasses, Thinx
	Angel Investors		Change Heroes, Roozt
	Strategic Investor		Thinx
	Other		BogoBrush (loans and grants)
			MADI Apparel (competition)
			Jaipur Rugs (small loan + organic growth)

Figure 2.

The ventures are also separated into sub-categories. For example, ventures that are categorized as having a physical product offering are also separated into categories named after the type of physical product offering (ex. Fashion, food, functional). The same ideology applies to products delineated by their funding method. Those that are subgrouped into the category of "crowdfunding" are also grouped by the types of crowdfunding platforms used, such as Indiegogo, WeFunder, and Kickstarter.

One potential challenge with the interview methodology is that successful entrepreneurs may tend to not recognize challenges as obstacles, but rather neutral steps within a process that lead to a successful outcome. In addition, successful social enterprise founders may have naturally avoided common mistakes and pitfalls that would have illuminated important challenges to the venture. Finally, there is the possibility that the founders have forgotten or omitted particular challenges that occurred in the early stages of their business.

Analysis

After each interview, it became more and more clear that there are distinct areas in which most social entrepreneurs piloting differentiated ventures experience massive pain points. During organic conversation, entrepreneurs typically bring up challenges related to financing, manufacturers and manufacturing quality, inventory management, and obstacles related to the nature of their social mission (ex. Low margins due to a one-for-one donation model). The sections below provide greater detail as to the specific challenges experienced within each broader category.

<u>Obtaining Capital Investment</u>

Social businesses, like traditional businesses, typically require startup capital to fund operations and pay for startup costs. Parallel to this supposition, all 10 entrepreneurs interviewed relied on some sort of capital funding to start their business. Although social entrepreneurs building software platforms were ultimately able to raise significantly greater amounts of funding than most product-based firms, software-oriented firms describe their experience of raising capital as much more difficult, time-consuming, and arduous.

Brent Freeman, founder of the "Etsy for social entrepreneurs" platform, Roozt, describes his experience finding funding as a major challenge.

> "We raised about a million and a half dollars or so in an angel fund, but the challenge was that there was a chasm in the funding, in the capital markets, between impact investors and venture capitalists and angel investors…If you are a venture firm..you want to invest in billion dollar market opportunities that can bring you 10x return on your money. Because you know that only one in ten in your portfolio are going to do that. On the impact side, it's slow money, they're looking at what's called SROI, social return on investment. They're slower, more patient…When you're a for-profit social enterprise like we were, we were a technology company, we weren't impactful enough for the traditional social impact investors, and we weren't [a] billion dollar business ideas, big enough market as they called it, for traditional VCs." -

Obtaining funding was a major challenge for Freeman due to the fact that there are few significantly established or structured capital markets for for-profit social enterprises. There are many capital markets and funding opportunities available for non-social startups, mainly venture capital, angel investors, angel groups, strategic investors, private equity, and potentially even bank loans, however, these markets are not as ideal for differentiated hybrids.

First of all, venture capitalists are known for primarily investing in companies that solve innovative high-technology problems, tackle large and growing markets, display significant propensity to for rapidly achieving scale, and provide returns of at least ten times the initial investment (Zider). Especially in their early stages, differentiated hybrids are not equipped to deliver the 10x returns that venture capitalists look for due to the fact that a large portion of their profit margin goes towards funding a social mission. In addition, many of the businesses surveyed were not software solutions, and therefore have a more difficult path to rapid growth.

Since venture capital may not be an ideal source of capital, many social entrepreneurs seek angel investment. Taylor Conroy (founder of Change Heroes) sought capital from angel investors, and although he was able to raise a significant amount of capital, Conroy had to receive small capital infusions from numerous individuals and organizations, which created a confusing and difficult investor network.

> "It was a slog, it was a real slog…You'll get typical business men and women, and they'll want to see the same returns that they would see in a regular startup, but when you're trying to build a social venture like Change Heroes for example, the returns aren't going to be as attractive as an Uber kind of thing. We found that our sweet spot was Angel Investors that could throw in 25 to 50 grand...That makes it really tough when you're raising capital for a company that is going through significant growth because you need much more than 25 or 50 grand at a time..so yeah, we had a really hard time raising capital…We took on forty [investors] in total." - Taylor Conroy, Change Heroes

When social entrepreneurs are forced to seek funding from numerous angel investors in order to achieve the amount of capital necessary for covering operations, raising money becomes the sole focus of the entrepreneur. Freeman recounted that he, "…raised money full time," and that he, "…never stopped raising money", and Conroy echoed the same sentiment. The constant pressure to raise enough money to cover the startup's burn rate takes away valuable energy that could be devoted to furthering the social mission or producing proper sales and revenue.

In theory, impact investors are the solution to this problem. Impact investors are supposed to act as a safe haven for social entrepreneurs, and should be the perfect mechanism for funding differentiated hybrids (Cohen). Contrary to this belief, entrepreneurs like Freeman sometimes also have a difficult time attracting impact investors. Impact investors are generally high net worth individuals who look for investment opportunities that will positively impact society. There is not as great of a sense of immediacy for success as there is with traditional venture capitalists and angel investors, since impact investors usually invest with long-term hopes for improvement in particular social benefit sectors (such as the environment, the education system, fair business practices, and others) rather than quick financial returns (Trelstad). According to Freeman, impact investors had a difficult time investing in Freeman's company, Roozt, since it seemed more like a traditional business opportunity than other impact investment opportunities. Although his business clearly had social implications by empowering other social entrepreneurs, impact investors did not find the venture to qualify for their investment portfolio.

Many of the funding challenges that software social ventures experienced were sidestepped by the social entrepreneurs focusing on physical products in large part because of their ability to utilize crowdfunding platforms. Crowdfunding is an incredibly valuable resource for differentiated hybrids because it allows them to solve two challenges at once. By raising money on Indiegogo or Kickstarter, founders were able to raise money for their initial manufacturing purchase orders, and in addition, have a list of paying customers. These initial paying customers provided a phenomenal "early-adopter" customer base, and in addition, they serve as proof of product-market fit that can be shown to investors (Mehta).

Hayley Besheer validated this assumption when she said, “I think a lot of our first paying customers supported us and supported our mission by donating through Indiegogo…that was kind of a cool way to launch into sales, because we already had a following and an email list.”

New equity-based crowdfunding solutions such as WeFunder and Crowdfunder are also popular among social ventures, and were used by Bogobrush and Roozt in this study. Equity crowdfunding is a fantastic way for small businesses to raise capital by selling off portions of company’s equity to average investors, not just accredited investors. Equity-based crowdfunding was made possible by the Jumpstart Our Business Startups (JOBS) Act, passed in May of 2016, which allows individuals of average income levels to invest in emerging growth companies. It was popularized even more by the addition of Title III, which allows equity crowdfunding transactions to occur online (Tremble). Bogobrush raised $60,000 from WeFunder, which they are now using for marketing, word-of-mouth advertising, and website improvements.

Although crowd-funding is clearly a useful avenue for raising money, there are definitely downsides. Crowdfunding yields smaller funding amounts than other capital markets. For example, 83.2% of the total successfully funded projects on Kickstarter raised less than $20,000, which is significantly lower than the average angel investment amount in 2014, which was $328,300 (Oranburg).

Due to the lower amounts of capital that crowdfunding provides, some social entrepreneurs ran multiple crowdfunding campaigns and also utilized alternative forms of fundraising.

> “We actually did two Indiegogo campaigns. The second one we raised, I don’t know, I think $3,000 or so. Then I did a local business fundraiser where I started a business in a beach town called New Smyrna Beach, Florida…we raised about $7,000 more there. To get started we raised about $25,000 in total from the public.” - Hayley Besheer, MADI Apparel

> “We’ve gotten funding from a few different sources along the way…First of all, John and I have invested, you know, most of Bogobrush’s money has come from us, savings accounts that we’ve had since we were children, every penny we can save…For larger expenses, we got a loan from an organization that supports businesses like ours…We were part of a grant through the state of North Dakota because we are using agricultural products that are local to here…We did an equity crowdfunding campaign through the platform WeFunder.com, we raised close to $60,000 through that.” - Heather McDougall, Bogobrush

While many social ventures rely on some sort of capital infusion to get their business off the ground, multiple founders noted that funding is not always the answer. Growing too quickly can kill many early ventures (Vitrano), and with investors attached to the business, it may become more difficult to focus on the social mission (Besheer). Plus, for many social enterprises, proving the initial concept and achieving sustainable sales volume is much more valuable than raising vast amounts of capital (Mehta). Social entrepreneurs seem to realize that true social sustainability is difficult when investors become involved, and that sometimes, growing organically through sales can be the best antidote to the time-draining task of raising money through outside investors.

Finding and Attracting Manufacturers

Four out of the seven enterprises which create physical products experienced challenges with finding and attracting manufacturers to produce their products. Typically, the issue seemed to arise from a general inexperience with manufacturers, lack of network connections, and funding constraints that prohibit the company from ordering the initial purchase order quantity.

In addition, difficulties in finding manufacturers with particular specialties presented challenges to a few of the entrepreneurs featured in this case study. Radha Agrawal, founder of Thinx had difficulty finding fabric manufacturers that met her desired standards. She says, “We literally called labs in China for months…we had no clue what we were doing…We could have easily given up a million times,” (Agrawal). Radha was able to find a manufacturer in Sri Lanka only after extreme perseverance towards her goal. She cites “never giving up” as a reason for their success (Syed).

Hayley Besheer echoed the same sentiment, but mostly found trouble finding a cut/sew production team in the United States. “In 2012, everybody was still offshoring except for a few people. It made it hard not only finding an apparel manufacturer, but also finding an apparel manufacturer that specializes in undergarments...that takes special skill sets,” (Besheer). Besheer was completely frustrated with the fact that almost all American cut/sew production teams had gone out of business due to the fact that their largest clients, like Hanes and Victoria’s Secret, had opted to produce their garments at a cheaper cost overseas. Even after hearing about numerous cut/sew operations in the Carolinas area, she was shocked to find that the majority of them had ceased operations.

Another main issue here is that it’s difficult for early-stage social ventures to attract manufacturers and production teams due to a lack of a steady revenue stream. Revenue constraints make it incredibly difficult for startup social ventures to meet the requirements of manufacturers’ initial purchase orders. John McDougall of Bogobrush says, “A lot of these manufacturers want you to produce a million for the first round, so it took us a while to find someone who was interested in helping us develop this on a relatively small scale,” (John McDougall). Hayley Besheer said that when she finally found a cut/sew management professional in the U.S., “You could tell he was hesitant because I was a startup, and I was asking about minimums, and it was a concern to him because he clearly didn’t want to deal with a startup: he was barely getting by as it is,” (Besheer).

This is one of the constant challenges that social entrepreneurs building physical products will face. Social entrepreneurs who built software-oriented platforms clearly did not experience these issues because they did not need to manufacture a physical good.

Vertically integrating the manufacturing process into the business plan may be one solution to this issue. Nand Kishore Chaudhary, founder of Jaipur Rugs, was able to create an international rug manufacturing business completely on his own, without the help of outside manufacturers. He started with two looms and a few employees, and continued to grow organically through revenue generation. Now, he employs over 40,000 artisans who manufacture the products that his company sells and distributes.

In addition, reaching out to manufacturers who are aligned with the social mission of the business can also act as a solution to this problem. For example, Besheer was able to attract a manufacturer in the Carolinas simply because he aligned with the values and socially conscious brand of MADI Apparel (Besheer).

Switching Manufacturers, Errors or Issues

Two companies, Conscious Step and BogoBrush, which hired manufacturers outside of the United States, mentioned the need to change manufacturers. No companies that hired manufacturers inside the United States mentioned the need to switch manufacturers. When asked about setting up relationships with manufacturers abroad, Prashant Mehta, founder of Conscious Step, responded with the following statement:

> "Yeah it was exhausting, I've done many trips to India, the supply chain is always in progress and [you're] doing your job to improve it, to try and improve the product…To answer your question more specifically, yes, we've gone through over three factories now, five packaging suppliers, we always try to make an effort to improve both aspects we use recycled paper and all organic fair trade fabrics." - Prashant Mehta, founder of Conscious Step

Mehta needed to switch manufacturers not because of product defect or product quality, but rather because he wanted his entire supply chain to reflect his social mission and values. Some of the manufacturers he was working with were not certified as Fair-Trade, Organic, Vegan, and more. He felt that if his entire business is dedicated to benefitting the environment and society, his manufacturers should be too.

This highlights a very interesting dilemma for many social entrepreneurs. Since social entrepreneurs are already spending time and resources on benefitting a social cause, they are more likely to be strapped for cash than other companies. When companies are strapped for cash, one huge area for cost reduction is in the manufacturing of their product. Unfortunately, drastically reducing the cost of manufacturing usually means switching to a manufacturer that is using unethical labor practices and/or production methods that are detrimental to the environment. Thus, social entrepreneurs must stay with a higher cost manufacturer if they want their business and supply chain to be truly ethical and/or beneficial to the environment, which can potentially place great financial strain on them.

Mehta notes that although the manufacturing costs in the U.S. and India are actually relatively the same, he produces in India because he desires to support international development in areas that may need job creation and job support.

The founders of Bogobrush, on the other hand, switched manufacturers after experiencing severe production quality issues with a manufacturer in China. Originally, they desired to manufacture their product with bamboo, so they looked towards China where the expertise in bamboo manufacturing was most prevalent. They were met with poor results:

> "I don't remember how many manufacturers we worked with to specifically get prototypes from, maybe half a dozen? We finally found one, it was actually a company that was making watches of wood and bamboo, so they had the kind of precision that we thought was necessary for making [our] toothbrush…so we ordered, you know…ten thousand. Something happened on the production side, they set up the machines wrong or they changed something from what they did in the pilot runs, and the quality suffered considerably. We lost over half of our product to manufacturing failures." - Heather McDougall, co-founder of Bogobrush

Product defects of this magnitude can completely decimate differentiated hybrid ventures, since they rely on selling high-quality products to fund their social missions. Although China is the most competitive manufacturing country in the world due to robust manufacturing infrastructure and incredible foreign investment, the quality of their exported products is still generally of lower quality than that of other competitive developed countries (Hallak). These factors may have contributed to the product defects that the founders of Bogobrush experienced.

After realizing that the products were completely unsellable due to manufacturing error, the founders of Bogobrush pivoted and found success by partnering with an injection-molding manufacturer in the U.S.:

> "We kind of had to go back to ground zero after that bamboo issue...When the bamboo failed, it was almost a blessing...Through some networking and some connections we had in the state we grew up in, in North Dakota, we found some people who were developing some materials in a university using agricultural scrap, basically the material that's left over after harvest...They mixed that with a bioplastic to create this really interesting bio-composite...It seemed like we would be able to achieve the same biodegradability that we had with our bamboo material...From there, we started trying to find some facilities in the local area that could do injection molding, and from there that's where we met our manufacturing partners that we are using today." - Heather McDougall, co-founder of Bogobrush

This decision was a "win-win" for Bogobrush. Not only were they able to gain access to an innovative new biocomposite material (called C2renew), they were able to utilize manufacturers who did not deliver faulty or defective products. This may be because U.S. manufacturers spend more on R&D than manufacturers in any other country, which is typically a precursor for high-quality and high-value products (Levinson). Although the U.S. may currently be a high-price option for social entrepreneurs, the U.S.'s focus on building national innovation ecosystems has poised it to be the most competitive manufacturing country by 2020 (Giffi).

<u>Inventory Management</u>

Brent Freeman, founder of Roozt, described inventory as "onerous" and "expensive" and even designed his business so that he didn't have to deal with inventory. Robbie Vitrano, founder of Good Spread, said, "There's a myriad of challenges associated with developing a product…it's cost intensive…because you're balancing inventory." John McDougall, founder of Bogobrush, said that there is a, "…constant headwind for entrepreneurs who are trying to create products and physical goods," due to expensive inventory shipping and holding costs. Inventory cost and inventory management is clearly a major challenge that founders of differentiated hybrids face.

Manufacturer minimum order quantities (MOQs) are typically the starting point for many of the challenges related to inventory. After raising funds for the initial purchase order (typically through crowdfunding channels), entrepreneurs must pay for inventory shipping and storage. Although crowdfunding does provide a stream of customers which contributes positively to inventory turnover, it is not always enough to offset costs. Leigh Macaulay, who currently serves as the Director of Panda Sunglasses after she bought the company in 2016, says that understanding dealing with inventory cost and inventory management was one of the biggest challenges she had to deal with while scaling her venture (Macaulay):

> "We started running out of stock and our ordering behavior was absolutely wrong…By the time the product got to our factory, it sold out nearly immediately…[Since] we were making a bunch of smaller shipments, we were also getting hitting with a surplus of shipping fees and customs charges. All those things just add up really quickly…We made it our goal to only order twice a year." - Leigh Macaulay, Director of Panda Sunglasses

By making half-year predictions and decreasing the number of orders per year, Leigh and her partner believe she will be able to significantly decrease inventory costs. This strategy will not work for all startups since certain products will take up greater palette space in a warehouse than others. For Leigh, she realized that since her product was small, her shipping fees were greater than her inventory holding fees, and therefore, it made more sense to opt for fewer shipments and greater holding time. If the product was much bigger, the opposite may be true, and a greater number of shipments may be more cost effective.

Social Mission Challenges

As expected, many challenges related to creating a differentiated venture originate from the dual-mission structure of the business model. This type of structure, which focuses on generating profits and societal benefits, typically leads to significant challenges with competitive profit margins as well as defining the company's vision and strategic roadmap.

Five out of nine social enterprises interviewed mentioned that social mission initiatives led to decreased margins, which negatively impacted profitability. Low margins are usually attributed to the nature of the social enterprise business model, which inherently dedicates a portion of its profits to accomplishing a social mission. Three out of four enterprises that embody a buy-one-give-one model cited low margins as a block to achieving a comfortable revenue level. For example, Hayley Besheer noted that it is difficult to remain competitive and profitable while still maintaining a robust social benefit system:

> "A big challenge that we still currently face is essentially staying impactful while still being profitable. Obviously the decision we made to not donate cheap pairs and to donate the same pairs we sell to our paying customers, that's a big decision on our part. A lot of our competitors don't do that, they have huge margins and are profiting so much. When we take the cut, that's a decision we have to make." - Hayley Besheer, MADI Apparel

Brands like Victoria's Secret, Hanes, Nike, and Lulu Lemon don't have to sacrifice a part of their profit margin for a charitable cause. Although they may participate in corporate social responsibility programs, they are not as inherently tied to a social mission as tightly a social venture is. Therefore, their profit margins are not as negatively affected. Besheer's margins are especially affected, because she made the choice to donate the same exact pairs of underwear that she provides to her paying customers, instead of producing a cheaper or lower quality version.

Donating a separate product is one way to solve the issue of decreased profit margins, though. The BogoBrush founders realized early on that as manufacturing costs increased due to organic growth of the business, they would not be able to keep up with their costs due to their "one-for-one" donation model. To solve this problem, they made the decision to sell a comparable toothbrush that is much cheaper to manufacture. "We decided it's better to give something to folks who don't have access to oral care like this on a regular basis than to drop the social component altogether...We needed to find a strategy that was actually going to get us there without letting go of our values," (BogoBrush).

Another challenge relating to the dual business model of for-profit social ventures is that the paradox of the profit vs. social benefit business model creates an environment of tension, which can cause decision-makers to focus solely on how to make the most money possible, rather than make balanced decisions (Smith). Taylor Conroy of Change Heroes says, "For Change Heroes the biggest challenge was simple, it was coming up with a very clear vision of where we wanted to go as a company," (Conroy). As Conroy's venture matured, he noticed that he began to make decisions strictly based on what would make the most money. This is when he claims that the "magic stopped". He believed that if the business made money he would, in turn, be able to help more people. This is the common belief of most social ventures. What he discovered (for his business) is actually the contrary, and it is an incredibly powerful discovery.

> "People always said…'Well you could just raise your money if you went to corporations or high net individuals, or, you know, go to charity galas and raise a million dollars in a night.' But the thing was, our goal was not to just raise money...Our goal was to empower a whole generation to make change that's two or three decades ahead of their time. So, I would rather have a thousand people all raising $1000 each, then for me go to a gala and raise $1 million in a night. Which is counterintuitive...you're not going to make the same amount of impact. That's kind of how we as a society look at charity, we say, 'Oh, you know, more money equals more impact,' but that's not necessarily the case, because let's say we all did a whole bunch of charity galas, and raised as much money as humanly possible, sure that's great. But is it going to change the hearts and minds of people here, in the developed world? Is it going to change people's way of doing things here?" - Taylor Conroy, Change Heroes

This phenomenon is called "mission drift", which highlights the fact that social ventures will sometimes "lose sight of their purpose and values in the quest for organizational survival and efficiency," (Ebrahim). For Change Heroes, the original mission was not to raise as much money as possible. That became the mission only because of "mission drift" occurred. The original mission was to start a movement, to help people see how their financial power could truly make a difference in the world. The very act of fundraising money through Change Heroes inherently affected the customer on an emotional level, inciting a change in their lives that would hopefully contribute to a greater societal cause.

Conroy notes that in his new venture, Journey333, he thinks he has found the perfect balance of focusing on people, profit, and planet, and that he was able to learn from Change Heroes to make adjustments in the mission and vision of his new company.

Conclusion

Starting any business is clearly a challenge in itself, however, social entrepreneurs experience a slightly different slate of obstacles and barriers that require intense entrepreneurial resourcefulness and prowess to overcome.

One of the most significant challenges for these social entrepreneurs arose due to specific gaps in capital markets, leading to difficulties when raising money to fund operations. Social entrepreneurs who offer a software-based product offering typically found that they did not have a specific group of financiers to reach out to; they did not produce high enough returns for traditional venture capitalists, but they did not seem to attract the attention of impact investors either. This forces them to rely on obscene numbers of individual investors to achieve the amount of funding they desire, which is a very time-intensive process that takes time away from daily operating activities. Many social startups producing physical goods have been able to capitalize on the advent of crowdfunding websites such as Kickstarter, Indiegogo, and WeFunder to support their initial operations, but unfortunately, crowdfunding usually does not yield the desired amount of capital. This means entrepreneurs must tap into alternative resources, such as strategic investors, grants, prize money competitions, and more to finance their ventures.

It is worth noting that 3 of the entrepreneurs interviewed specifically mentioned that capital funding is not always the answer, and that organic growth is much more preferable over fundraising. Many entrepreneurs seem to understand that raising money can lead to larger hassles than abstaining from raising money would. Raising money from investors comes with binding terms that may hinder the firm's social value creation process, and it can also drain away time that entrepreneurs would be able to spend on selling or marketing their product.

Due to revenue constraints, social entrepreneurs seem to have a difficult time attracting manufacturers and paying for minimum order quantities (MOQs). There is a familiar "catch-22" feeling that entrepreneurs experience when they cannot pay for the MOQ. Since the entrepreneur does not have the income to pay for the MOQ, they cannot obtain product from the manufacturer. However, in order to obtain revenue, they need to sell product which can only be obtained through the manufacturer. In some cases, simply attracting a manufacturer or finding the right manufacturer was very difficult for social entrepreneurs. Some manufacturers are hesitant to partner with social startups due to their volatile nature and their propensity to yield lower margins than other types of ventures. One entrepreneur found that partnering with manufacturers who also believe in the social mission of the business is one way to build rapport, establish trust, and dispel any worries the manufacturer has about low margins.

In this sample, the necessity to switch manufacturers due to standards or product quality issues was a major headache for particular entrepreneurs who produce outside of the United States. If the initial manufacturer is not working, social entrepreneurs should not fear switching manufacturers as quickly as possible, since examples in this study show that switching manufacturers early in the venture's life cycle does not negatively impact the long-term goals of the entrepreneurs.

Once the product is received from manufacturers, inventory management becomes a huge challenge for social entrepreneurs building physical products. Lack of experience with inventory management can cause founders to overpay for inventory storage and not utilize proper inventory scheduling practices. Founders were usually able to overcome this challenge by learning more about inventory management strategies and employing tests to see which strategy works best.

Finally, differentiated hybrids typically experience a myriad of challenges relating to the nature of their social business model, the most common of which was lower profit margins. "Buy-one-give-one" models will naturally have lower margins than their direct competitors due to the fact that they are giving away product "for free". Rather than donating the same product that is sold, some founders discovered that donating a slightly lower cost version of their product increased margins and still fulfilled their social mission. "Mission drift" is another challenge that relates to the social nature of the business. "Mission drift" can cause ventures to focus strictly on generating profit, rather than balancing priorities between profit and social mission. Mission drift can be avoided by having a clear, definable mission that is communicated to all stakeholders on a regular basis.

Limitations and Future Research

The findings in this grounded theory study are limited. As outlined in the Methodology section, there are numerous challenges with obtaining information in this qualitative format. While incredibly useful for understanding the overarching thematic challenges and practical obstacles that social entrepreneurs face, it is less useful for determining which challenges were the most difficult to overcome, which were the most important to overcome, or which strategies yield the highest rate of success. With that said, I hope this study lays groundwork for future research that attempts to discover new ways to help social entrepreneurs operating differentiated hybrids to overcome the challenges presented to them.

One area which I believe deserves further research is capital funding for social businesses. As socially driven businesses become more and more prevalent and necessary in our advancing societies, certain structures which provide capital funding opportunities for these ventures to succeed also need to change. One example of this is the advent of the B-Corporation, which provides a legal framework for social entrepreneurs to benefit society as well as their shareholders. While B-Corporations have made headway in terms of the advancement of social entrepreneurship, the actual framework that provides capital infusions into social ventures has not made much progress. In theory, impact investors were supposed to reflect this necessary change. When conducting interviews, I believed impact investors would be a huge source of capital for every social entrepreneur. To my surprise, not a single social entrepreneur interviewed mentioned receiving funding from impact investors. What caused this? Was it lack of knowledge, or lack of access to impact investors? Do impact investors focus too strictly on impact and not enough on profits? If impact investors are not the solution, how can social enterprises position themselves to traditional venture capitalists so that they can receive funding? What structural changes can be applied to the VC landscape to make way for impact investment funds that yield long-term value?

One other area of future research I believe will yield important results is in an area I will call “social manufacturing”. It is well known that technological innovation can be a necessary driver of social innovation (Pfitzer, 4), and there are numerous examples in this study and in history which show this is true. For example, Bogobrush was able to have access to an entirely new biocomposite material, C2renew, when they found manufacturers in the United States. This new material allowed them to use an injection molding process to create their toothbrushes while still retaining their standards for environmental protection. In addition, Good Spread created a for-profit business model to help individuals with malnutrition by distributing therapeutic peanut butter, a product innovation spearheaded by an organization called Mana. It is clearly not uncommon for social entrepreneurs who understand the market to partner with manufacturing companies which have developed a breakthrough product.

Why, then, is it so difficult for many social entrepreneurs to build relationships with manufacturers that are satisfactory for both the manufacturer and the entrepreneur? There are far too many instances where social entrepreneurs had difficulty starting their businesses simply because finding manufacturers which would partner with them was difficult, or because paying for minimum order requirements was too large of a challenge without capital funding. This should not be the case. If manufacturers can provide technological innovation, social entrepreneurs should be able to bring these technologies to market profitably and responsibly, so that both the manufacturer and the entrepreneur are rewarded. Once social entrepreneurs can overcome these technological hurdles, they can be set free to continue to benefit society and focus on bringing product to market without worrying about the cost of their MOQ.

Appendix

Company Descriptions

Good Spread - Founded by Robbie Vitrano in 2015, Good Spread serves as a for-profit company that manufactures and sells traditional peanut butter through retail and online outlets in order to fund a nonprofit company called MANA, which supplies a therapeutic nutrient-packed peanut butter to children around the world who suffer from acute malnutrition. https://helpgoodspread.com/

Thinx - Founded by Miki Agrawal, Radha Agrawal, and Antonia Saint-Dunbar in 2012, Thinx sells a “period-proof” underwear that absorbs up to two tampons’ worth of blood. The company donates a portion of the revenue from each pair of underwear sold to a non-profit called AFRIpads, which supplies washable pads to women in Uganda, preventing them from missing school due to taboo around their menstrual cycle. https://www.shethinx.com/

Jaipur Living - Founded by Nand Kishore Chaudhary as Jaipur Rugs in 1978, Jaipur Living employs thousands and thousands of rug weavers and other artisans in India. Although rug weavers were previously viewed as the "untouchable class" in India when Mr. Chaudhary was growing up, he desired to create a company that would employee rug weavers and showcase their talents to the world. http://www.jaipurliving.com/index.aspx

Roozt - Founded by Brent Freeman in 2009, Roozt is the "Etsy for social entrepreneurs". The company provided a platform for customers to discover and purchase products made by social brands and businesses. http://roozt.com/

Conscious Step - Founded by Prashant Mehta, Hassan Ahman, and Adam Long in 2013, Conscious Step allows customers to purchase extremely high-quality socks that actually make a difference. Each sock design donates to a different cause modeled off of the United Nations Sustainable Development Goals (eradicating hunger, planting trees, treating HIV, etc.). https://consciousstep.com/

Change Heroes - Founded by Taylor Conroy in 2011, Change Heroes is a goodwill platform that allows customers to create customized social campaigns that encourage 33 of their friends to donate $3.33 cents every day for 3 months in order to raise $10,000 necessary to build a school house in Kenya or Uganda. https://changeheroes.com/

BogoBrush - Founded by Heather and John Mcdougall in 2011, Bogobrush supplies customers with a toothbrush that is manufactured in the United States with a sustainable bio-composite called C2renew. Each product purchased donates a toothbrush to dental clinics around the country. http://www.bogobrush.com/

MADI Apparel - Founded by Hayley Besheer in 2012, MADI Apparel sells women's underwear products to customers in order to fund their separate non-profit business which donates underwear to women's shelters and areas of natural disaster. http://www.madiapparel.com/

Panda Sunglasses - Bought by Leigh Macaulay in 2016 and founded by Vincent Ko in 2012, Panda Sunglasses sells bamboo sunglasses to customers in order to fund non-profit initiatives such as Optometry Giving Sight, Gift of Vision and Pencils of Promise. https://wearpanda.com/

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