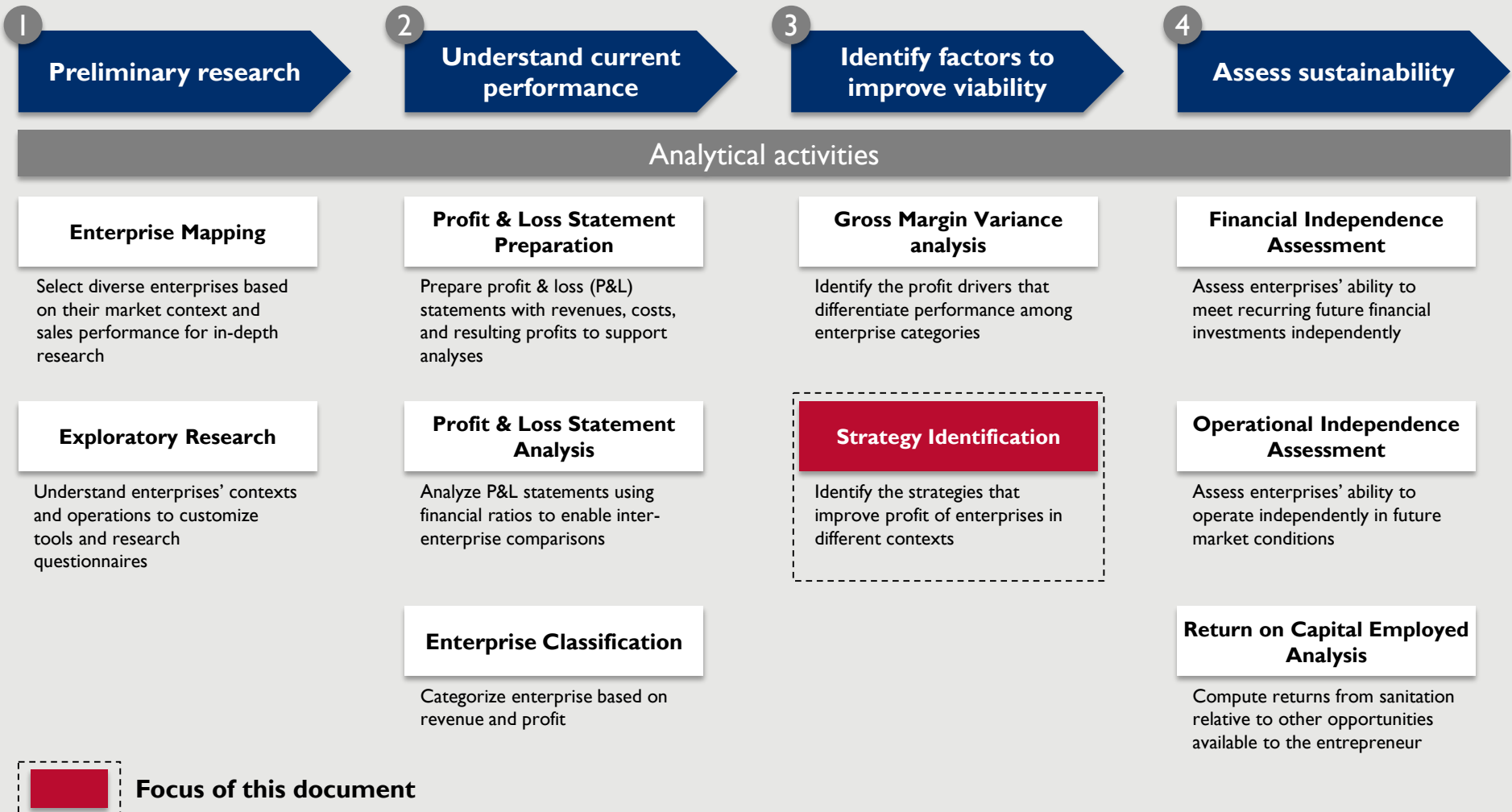


# USAID/WASHPaLS

## Enterprise Viability & Sustainability Diagnostic Toolkit

*Identify Factors to Improve Viability |*  
Strategy Identification

## Enterprise Viability & Sustainability Diagnostic Toolkit Modules



# Table of Contents

- Introduction
- Understand decisions
- Identify predominant choices
- Compare choices

# Objective of this document

## Intended outcomes

This document is intended to help MBS programs:

- Understand the two primary levers that enterprises employ to improve viability
- Understand the business decisions (and potential choices for each decision) enterprises make to influence the levers and how they impact their gross profit relative to other enterprises (depicted in the *GMVA Bridge* detailed in the “*Gross Margin Variance Analysis*” activity)
- Gather data on the decisions made by enterprises
- Identify and compare strategies of different enterprises or enterprise categories

## Value for MBS programs

- Helps MBS programs **identify the business practices, decisions and conditions that improve viability** in a given context
- Guides MBS programs to **advise and help low-profit enterprises** make strategic choices to enhance their viability

***Note: This document contains several examples of business practices and decisions, which are for illustration only. They are neither exhaustive nor should they be interpreted as guidance on specific practices or strategies to improve profitability.***

# Strategy Identification – Concept (1/7)

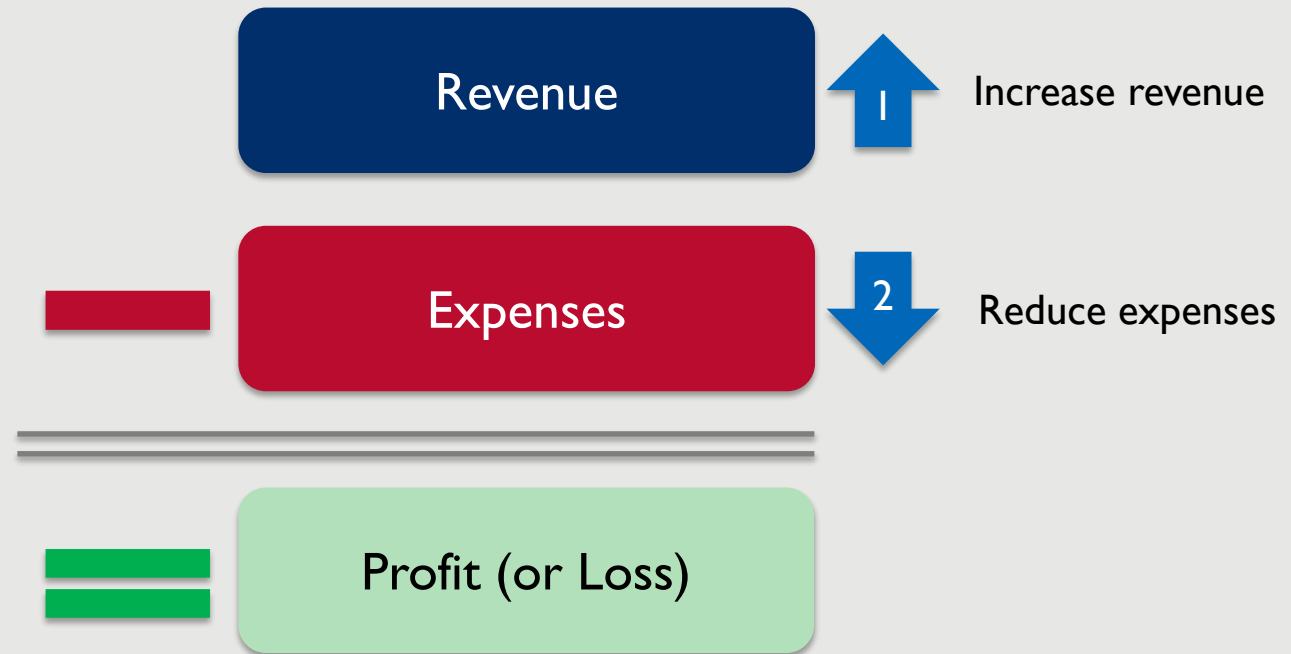
*“Strategy means deliberately choosing a **different set of activities** to deliver a **unique mix of value**.”*

– Michael Porter, Professor (Harvard Business School) & Co-Founder (FSG)

## Strategy Identification – Concept (2/7)

Enterprises can increase their profits (and hence improve viability) by employing two levers:

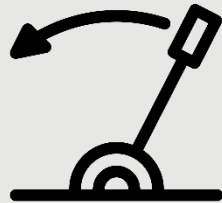
- Increasing revenue
- Reducing expenses



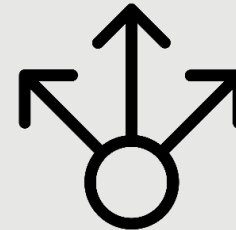
## Strategy Identification – Concept (3/7)

**Enterprises make a range of decisions for their business operations which influence the two levers.**

**A given decision (e.g., type of product) will primarily impact one lever (e.g., revenue), although it may have a consequent impact on the other lever (e.g., costs) to a degree.**





Enterprises have two  
levers to improve  
viability...



...which are influenced by  
enterprises' decisions on  
different aspects of their  
business operations

# Strategy Identification – Concept (4/7)

## Example decisions

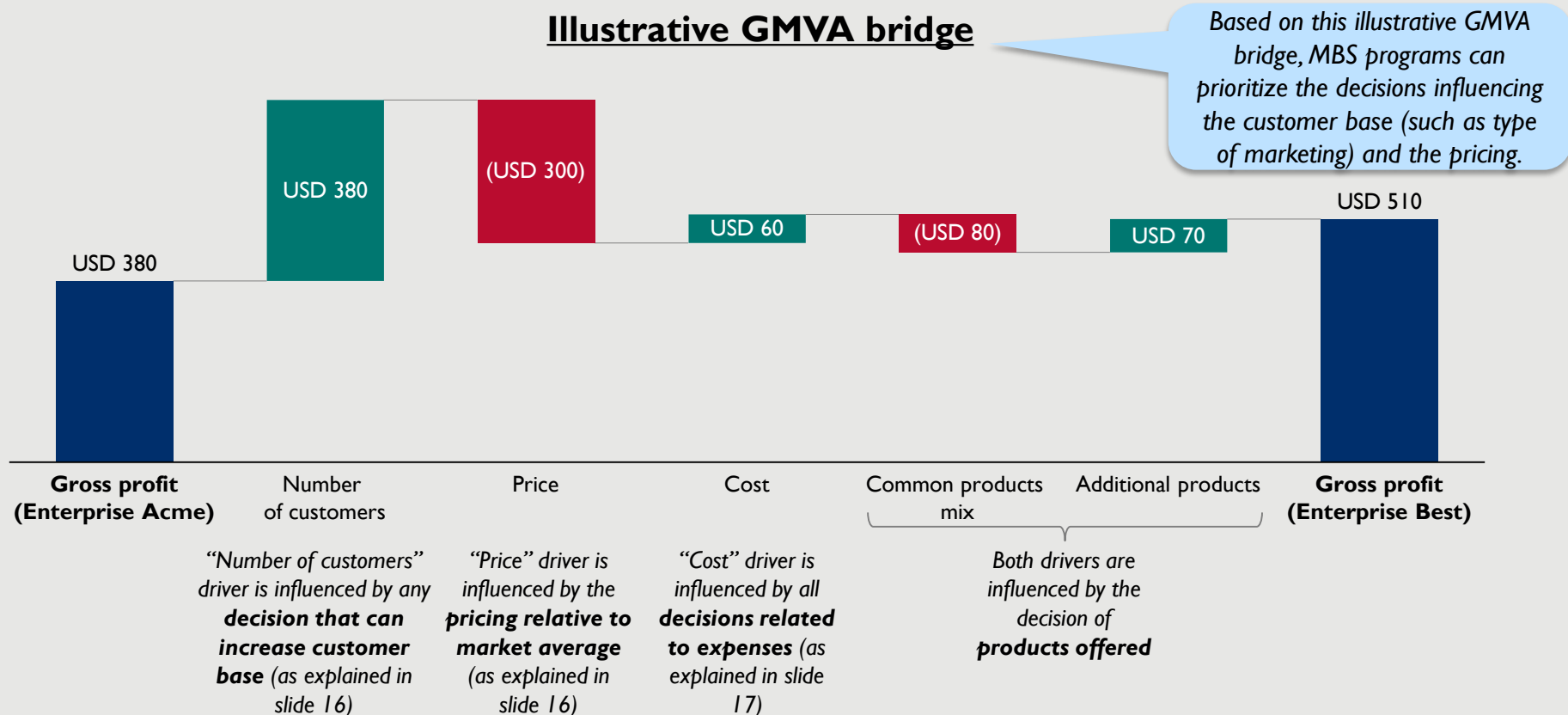
 Primary lever	 Decision	Rationale
Revenue	Prices relative to market average	Higher prices can increase revenues
	Products offered	Sales of high-priced products can increase revenues
Expenses	Raw material procurement volume	Bulk procurement orders can reduce expenses through volume discounts
	Type of labor employed	Hiring labor on contract or performing self-labor can reduce expenses



## Strategy Identification – Concept (5/7)

The various decisions under the two levers can also be mapped to the drivers of the “**GMVA bridge**” (as explained in the *Gross Margin Variance Analysis* document of this module, i.e., previous step).

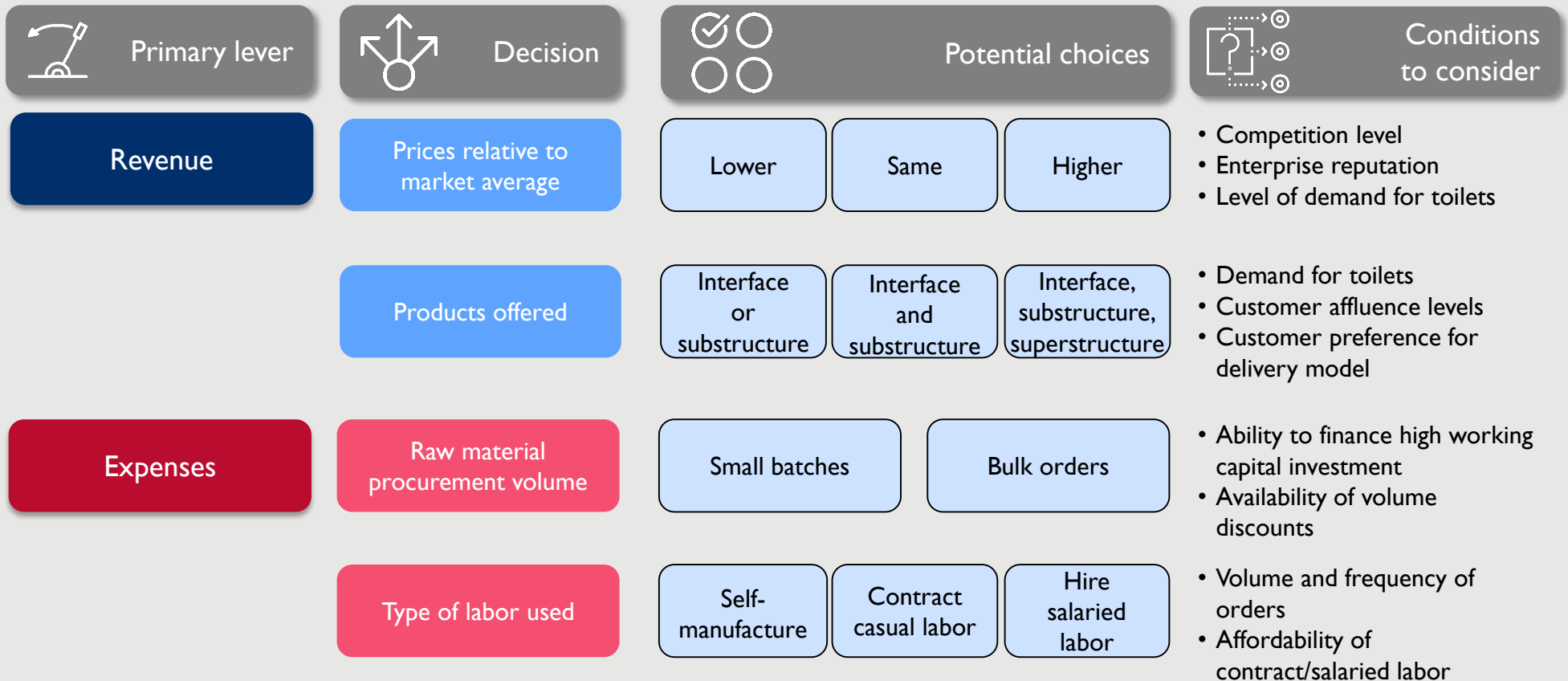
**MBS programs can prioritize the decisions/levers to investigate further by identifying the drivers that have the greatest impact in the GMVA bridge.**



# Strategy Identification – Concept (6/7)

Enterprises make choices for each decision based on both external (e.g., demand and competition levels) and internal (e.g., working capital capacity, reputation) conditions. Enterprises offer require specific enabling conditions to make certain choices.

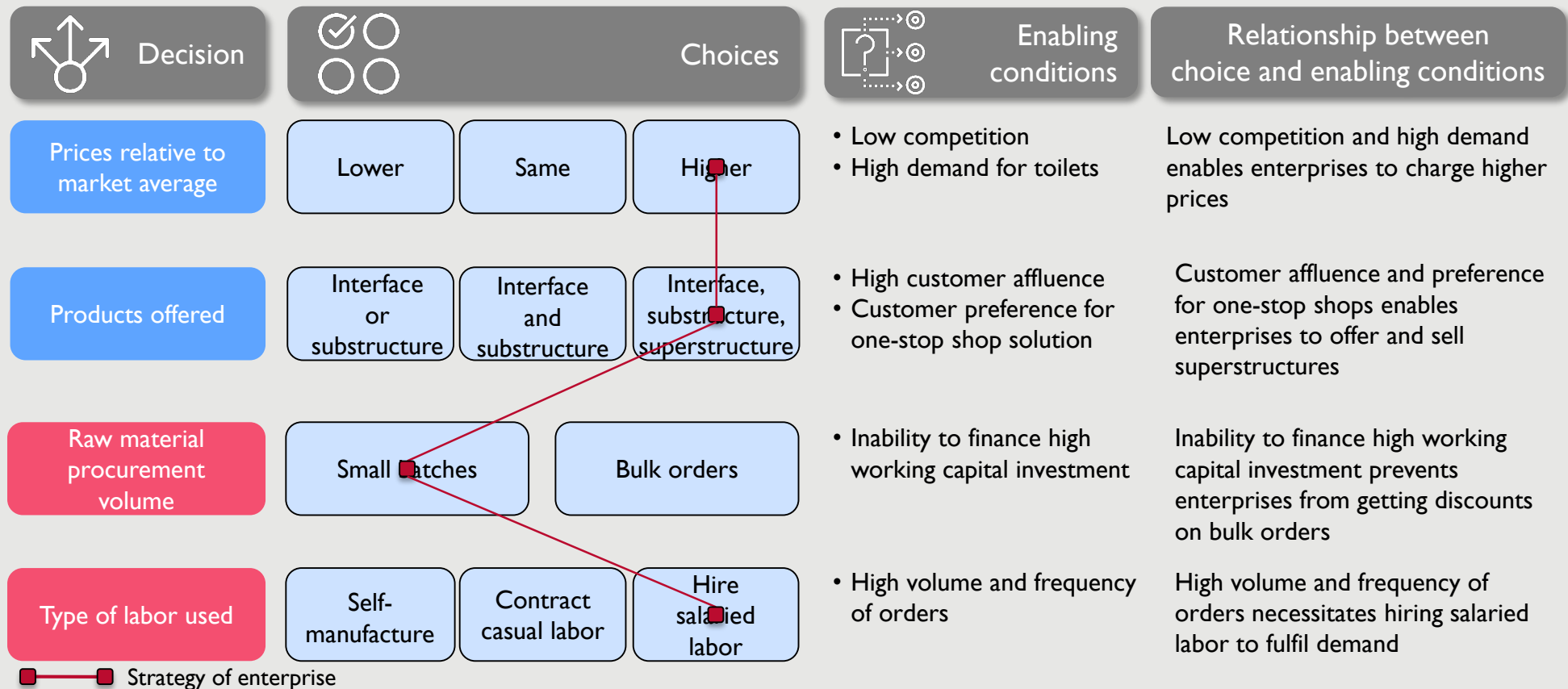
## Example: Decisions, potential choices, and influencing conditions



# Strategy Identification – Concept (7/7)

The combination of choices (“set of activities”<sup>1</sup>) made by an enterprise based on enabling conditions represents its strategy. Ideally, the collective choices lead to attractive profits (result of a “unique mix of value”<sup>1</sup>). Enterprises that make choices which do not lead to high profits lack a strategy that is effective in their conditions.

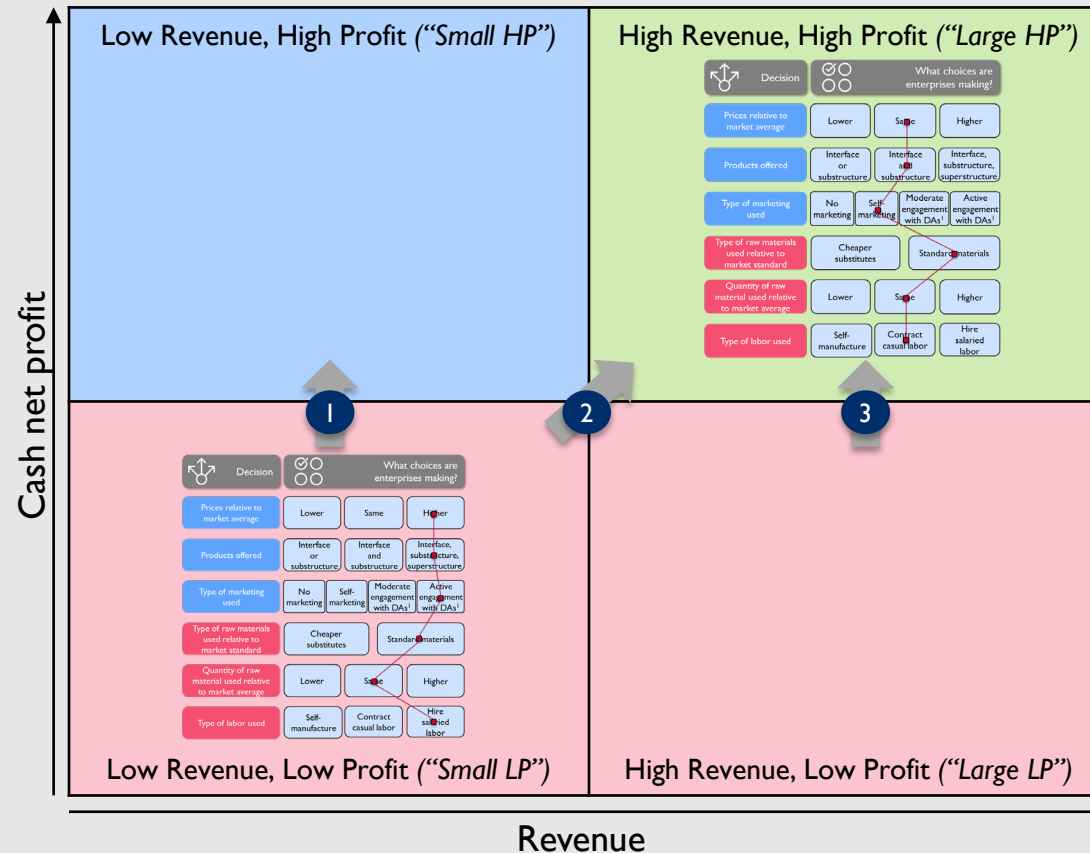
## Example: Strategy



1. As defined in slide 5

# Applying strategy identification to analyze sanitation enterprises

In the sanitation context, **MBS** programs can compare the strategies of enterprises from different categories, and identify the decisions and enabling conditions that lead to higher profits.



Please refer to the *Enterprise Classification* document of the *Understand Current Performance* module of this toolkit for further details on classifying enterprises in different categories.

# Strategy Identification – Process

The strategy identification process involves understanding the decisions made (i.e., choices and enabling conditions) by enterprises across enterprise categories, identifying the predominant choices of an enterprise group, and comparing these choices across enterprise groups.

## Understand decisions

*Interview enterprises across categories to gather data on their choices and the enabling conditions that inform their choices*

## Identify predominant choices

*Analyze the choices of enterprises to identify predominant choices of enterprise categories*

## Compare choices

*Compare the choices and enabling conditions of enterprise categories to identify strategies that improve profits*



**Tip**

Data on decisions made on business practices employed and supportive conditions can be collected while interviewing enterprises for financial performance data. GMVA analyses will help programs focus on the relevant practices and decisions underlying the most significant gross profit drivers.

# Table of Contents

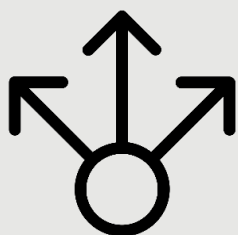
- Introduction
- Understand decisions
- Identify predominant choices
- Compare choices

# Understand decisions

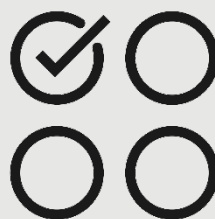
To understand the decisions of enterprises, programs need to gather data on the different choices enterprise make for each decision, and the enabling conditions that inform or influence these choices.

Enterprises can make myriad decisions to define their business operations. The next two slides provide an initial, non-exhaustive list of decisions for each lever that are typically observed in the sanitation sector. MBS programs should enquire about other decisions and conditions that are relevant in their contexts.

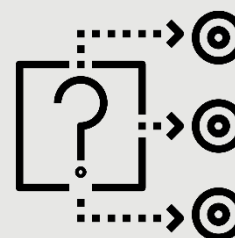
## Areas of Enquiry



**For each decision**



What choices do enterprises make?






What enabling conditions (or lack of) inform/ influence these choices?



MBS programs can use or modify the *Sample In-Depth Research Interview Guide for Entrepreneurs* document to gather data on various decisions.

**Tip**

# Sample areas of enquiry for revenue lever




 Decision	Rationale	 What choices are enterprises making?			 What conditions enable the choices?
Prices relative to market average	A higher price can increase revenues	Lower	Same	Higher	<ul style="list-style-type: none"><li>• Competition level</li><li>• Enterprise reputation</li><li>• Level of demand for toilets</li></ul>
Products offered	Sales of high-priced products can increase revenues	Interface or substructure	Interface and substructure	Interface, substructure, superstructure	<ul style="list-style-type: none"><li>• Demand for toilets</li><li>• Customer affluence levels</li><li>• Customer preference for delivery model</li></ul>
Provision of credit	Provision of credit sales can attract customers with fluctuating cash flow	No provision of sales on credit	Provision of sales on credit		<ul style="list-style-type: none"><li>• Ability to manage working capital with credit sales</li><li>• Liquidity levels of customers</li></ul>
Assistance with subsidy	Assistance to avail subsidy can attract customers who cannot afford toilets	No assistance provided	Assistance provided		<ul style="list-style-type: none"><li>• Existence of subsidy for toilet purchase</li></ul>
Provision of related services	Provision of services (like installation and delivery) can increase customer base and revenue	No provision of services	Services bundled in toilet price	Separate charge for services	<ul style="list-style-type: none"><li>• Availability of transporters or owned vehicle for delivery</li><li>• Average distance to customers</li><li>• Demand for related services</li></ul>
Type of marketing used	Investment in marketing is likely to increase the customer base; active engagement with DAs <sup>1</sup> is the most effective	No marketing	Self-marketing	Moderate engagement with DAs <sup>1</sup>	Active engagement with DAs <sup>1</sup> <ul style="list-style-type: none"><li>• Availability and affordability of DAs<sup>1</sup></li><li>• Awareness of toilets and enterprises</li></ul>

1. DA refers to demand activators who sell toilets to customers for enterprises with or without financial compensation (e.g., sales commissions). Sales agents are paid DAs.



# Sample areas of enquiry for expenses lever

## Areas of enquiry

 Decision	Rationale	 What choices are enterprises making?	 What conditions enable the choices?		
Raw material bulk procurement volume	Bulk procurement orders can reduce expenses through volume discounts	Small batches	Bulk orders	<ul style="list-style-type: none"><li>• Ability to finance high working capital investment</li><li>• Availability of volume discounts</li></ul>	
Type of raw materials used relative to market standard	Using cheaper substitutes for raw materials can reduce expenses	Cheaper substitutes	Standard materials	<ul style="list-style-type: none"><li>• Impact of using cheaper substitutes on sales and quality</li><li>• Availability of cheaper substitutes</li></ul>	
Quantity of raw material used relative to market average	Using less materials can reduce expenses	Lower	Same	Higher	<ul style="list-style-type: none"><li>• Impact of lowering material quantity on sales and quality</li></ul>
Type of labor used	Hiring labor on contract or performing self-labor can reduce expenses	Self-manufacture	Contract casual labor	Hire salaried labor	<ul style="list-style-type: none"><li>• Volume and frequency of orders</li><li>• Affordability of contract/salaried labor</li></ul>
Type of transportation used	Using own vehicle for procuring raw materials or delivering to customers can reduce expenses	Use own vehicle	Hire transporter	<ul style="list-style-type: none"><li>• Volume and frequency of orders</li><li>• Ownership of transportation vehicle</li></ul>	

# Table of Contents

- Introduction
- Understand decisions
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# Identify predominant choices

**Predominant choices within an enterprise category can be identified using two types of comparative analysis, depending on the decision being analyzed.**

**Compare the proportion of enterprises making a particular choice within a category**

*Used for analyzing decisions which have a finite set of potential options*

Products offered	Interface or substructure	Interface and substructure	Interface, substructure, superstructure
	12%	18%	70%
Type of labor used	Self-manufacture	Contract casual labor	Hire salaried labor
	10%	79%	11%

**Compare the median value of a choice within a category**

*Used for analyzing decisions for which the potential choice is a quantitative value*

Prices relative to competitors	USD 225 (Median price within an enterprise category)	
	Cement 8.3 kg	Sand 2.5 kg
Enterprise category medians		

Example decisions

XX

Example values for Large HP category



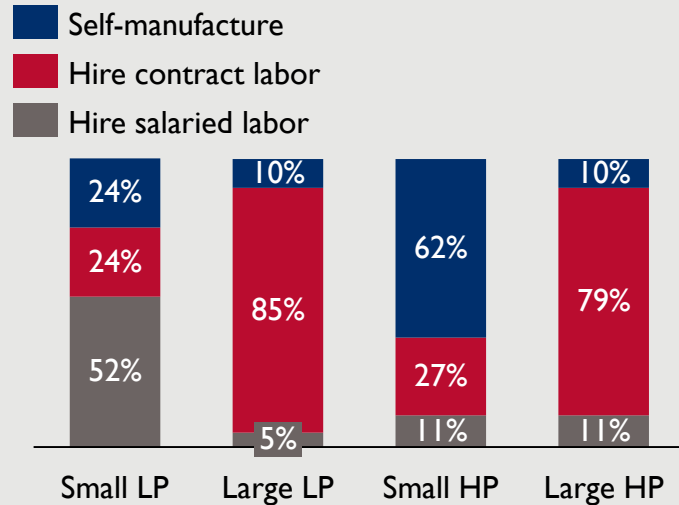
**Tip**

Data on business practices and decisions collected in interviews with sanitation enterprises can be coded / classified (for qualitative data) and, along with quantitative data, analyzed to identify the predominant choices within an enterprise category (see examples in the next page)

# Identify predominant choices across categories – Example

Compare proportion of enterprises in different categories making a strategic choice

**Example: Type of labor used by enterprise category**



*EXAMPLE: Large enterprises (Large LP and Large HP) predominantly hire contract labor compared to small enterprises indicating a flexible and scalable workforce strategy*

Compare the median value of a strategic choice by enterprise category

**Example: Median raw material quantity (kg) per toilet by enterprise category**

	Small LP	Large LP	Small HP	Large HP
Cement	7.2	7.1	7.3	8.3
Sand	1.2	1.2	1.2	2.5

*EXAMPLE: Large HP enterprises use relatively higher quantities of raw material to signal high quality to customers*

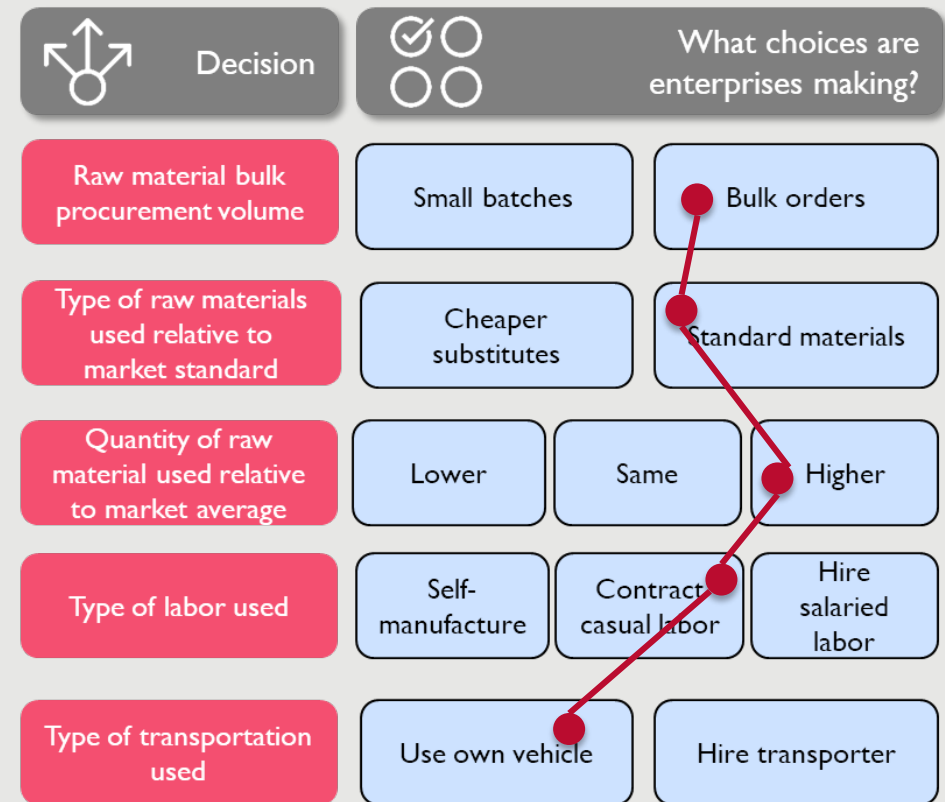
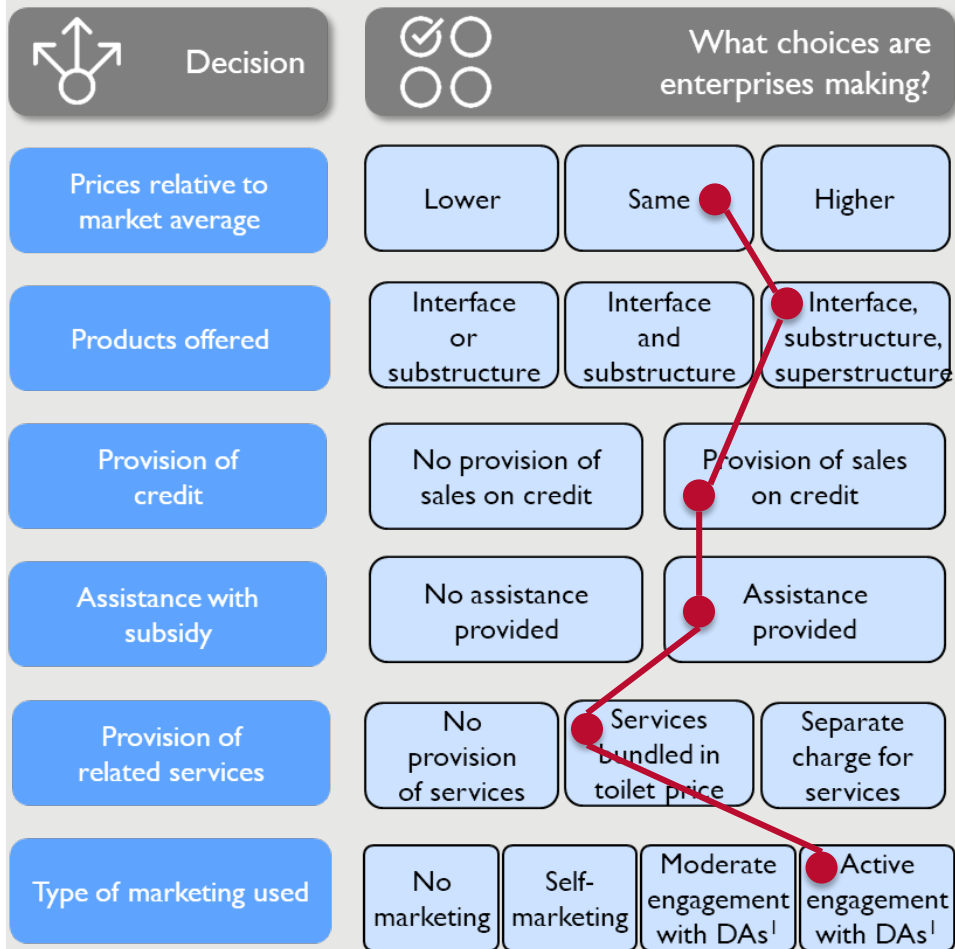


**Tip**

- The predominant choice of an enterprise category will be followed by most enterprises in the category
- The above examples use a bar chart or a table to derive the finding. MBS programs should consider other charts or visualization techniques for the same purpose. Resources on charts and visualization techniques for comparative analysis are readily available online.

# Identify predominant choices – Example

**Mapping predominant choices across several decisions within an enterprise category helps understand the strategy, if any, adopted by a category**



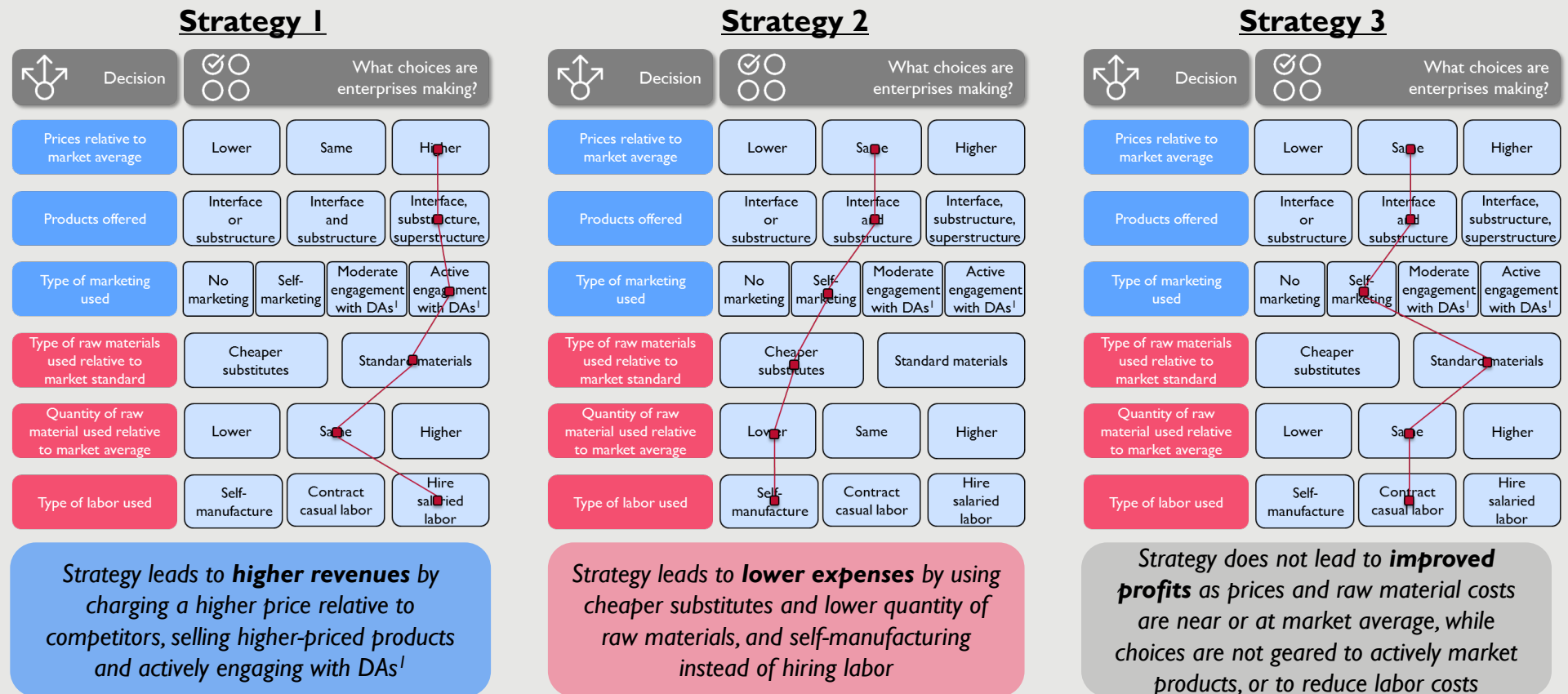
# Table of Contents

- Introduction
- Understand decisions
- Identify predominant choices
- Compare choices

# Compare choices

**MBS programs can identify the strategies that can improve profits of enterprises for different enabling conditions by comparing the predominant choices of different enterprise categories.**

**The choices of high-profit enterprises will represent the strategies that generate relatively attractive profits (and hence improve viability). The choices of low-profit enterprises will represent the strategies that are less effective in increasing profits in their conditions.**



1. DA refers to demand activators who sell toilets to customers for enterprises with or without financial compensation (e.g., sales commissions). Sales agents are paid DAs.