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As a Matter of Impact: Scaling Livelyhoods

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AS A MATTER OF IMPACT: SCALING LIVELYHOODS

FOR LIVELYHOODS LEADERSHIP STAFF & BOARD

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Executive Summary

LivelyHoods offers training and job opportunities to unemployed youth and women in Kenya to work their way out of poverty. It aims to scale its impact in East Africa by expanding its operations to become more financially sustainable and is in the process of determining whether that will be internally or externally through partnerships. Success can only be attained by addressing Critical Success Factors (CSFs) for scaling its business and impact models.

After conducting 36 interviews, observing several sales-agent training sessions, consulting with four partner organizations, and attending the Global Distributors Collective Conference, we gathered enough information to make recommendations about LivelyHoods' operational strengths, challenges, and opportunities as related to expansion. We analyzed the functioning of LivelyHoods at two different organizational levels: the office level and the branch level. By paying careful attention to key words and themes that arose from our interviews and notes, we were able to understand best practices and think critically about impactful solutions to challenges. We identified the CSFs and recommendations through our discussions between ourselves and with our mentors.

Our analysis yielded the four following CSFs of scaling:

1. Prioritize High ROI Branches with Favorable Unit Economics
2. Strengthen Sales Agent Retention Rate
3. Enhance Trust Between Agent and Client
4. Improve Internal Organizational Trust & Communication

To bridge the gap between these CSFs and the path towards better achieving them, we have devised a menu of recommendations:

1A. Put international partnerships on hold and redirect those funds to grow peri-urban branches
1B. Implement savings circles at each branch to increase money available for transportation and/or emergencies at each branch without the need to receive more funds from headquarters

2A. Implement a tiered sales agent system
2B. Devise benchmark retention rates

3A. Modify sales agent training to emphasize the importance of building trust with clients

4A. Reward employees who perform well
4B. Create an incentive structure for branch managers to ensure they are actively working to retain sales agents

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Introduction

LivelyHoods offers training and job opportunities to unemployed youth and women in Kenya to work their way out of poverty. According to the UN, over 26% of youth in Kenya between ages 15-24 are unemployed as of 2018. Additionally, due to women lacking market opportunities to generate income, unemployment in Kenya is higher among women than men. LivelyHoods seeks to shift this unjust equilibrium by offering training and job opportunities to youth and women in Kenya to work their way out of poverty.

Like most social enterprises, LivelyHoods currently relies on grant funding to work towards achieving its mission. To lessen reliance on grant funding and move closer to financial independence, LivelyHoods created an expansion initiative. It currently focuses on developing international partnerships as a means to increase revenue and decrease fixed costs (office space, inventory hub, etc.). However, these international partnerships are more cost and resource intensive than expected, which leads us to the key paradox in its scale-out initiative: LivelyHoods' top priority is to scale its impact in a way that inches it closer to financial stability, but launching and maintaining international partnerships is resource-intensive and not

conducive to breaking even soon enough. Since we have determined the CSFs, we recommend an alternative route for LivelyHoods to scale its impact in a way that is more financially appealing.

To maintain LivelyHoods' ability to create more job opportunities for youth and women, it needs a financially responsible strategy for scaling. To assess LivelyHoods' current operations and scale-out initiative, we travelled to urban and peri-urban areas throughout Kenya, Tanzania, and Uganda and met with leadership staff, sales agents, customers, and partners. Through this process we have identified the CSFs for scaling that shape LivelyHoods' ability to scale sustainably.

Throughout this document, we provide a pathway to help LivelyHoods' further realize its mission by bridging the gap between CSFs and business strategies it can utilize for scaling in a way that is synergistic with its business and impact models. This pathway will help LivelyHoods leverage its resources efficiently to continue to create job opportunities for youth and women in slums so they can work their way out of poverty and realize their potential.

Findings

From our interviews with LivelyHoods' employees and sales agents, sales agent training session observations, four partner organization consultations, and Global Distributors Collective Conference notes, we have condensed our findings into the following list:

- Retention rate at branches with veteran sales agents is low (due to competition)
- Branch managers often give up too quickly; they might need more incentive
- Generally, branches with more female sales agents are more successful (up to around 15)
- A challenging obstacle for branch managers retaining agents is that agents want to be paid every day instead of at the end of each month
- Customer feedback almost always very positive
    - They report loving that it cooks faster, there's less smoke, they're able to save the extra money they no longer have to spend on charcoal, and it's long lasting (especially compared to the Envirofit stove that has a much weaker combustion chamber and often only lasts one year)
- It is crucial to have a good relationship with the city council and local government officials at each branch (have to pay them to put up recruitment posters)
- At branches where fewer households have electricity, the small solar lamp is generally affordable and sells well considering how much it helps the household save on paraffin over time
- Customers in peri-urban areas typically don't speak Swahili → sales agents (and the branch manager) speak the local language, which fosters trust and familiarity and boosts sales
- Monthly budget constraints for branches are one of the main factors limiting sales
- If sales agents at these peri-urban branches had more money for transportation, they would be able to reach untapped markets and generate more sales
- A variety of products are vital to producing more new sales
    - Clients want different products, especially after trust is established with agent
- Key reasons for low retention rate from the perspective of branch managers:

Current commission rate is not enough
Other companies offer higher commissions
Need to be paid more than once a month to pay expenses
Some agents leave after one month after they've gotten the certificate because they can use it to get a job at a supermarket or a competitor

Critical Success Factors of Scaling

CSFs are elements that are necessary for LivelyHoods to expand—they determine the ability to scale successfully. Through our interviews with leadership staff, sales agents, customers, and partners, we identified the following CSFs to be vital for scaling.

CSF 1: Prioritize High ROI Branches with Favorable Unit Economics

To progress towards financial sustainability, LivelyHoods needs to prioritize growing branches with high performance, defined as a ratio of revenue generated relative to costs. Geographically, this comes down to profitability at urban vs. peri-urban branches, in addition to international vs. domestic branches. While the factors that determine a branch's profitability level are complex, our field research helped us understand that in general, domestic peri-urban branches have the greatest growth potential at lower costs than either urban areas or international partnerships, as found through our conversations with branch managers and the expansion manager.

Strategy A: Put international partnerships on hold and redirect funding to grow peri-urban branches.

It costs thousands of dollars to build and maintain an international partnership. Even the most optimistic models do not show international partnerships generating net revenue for a far longer period of time than domestic branches. Thus, not only are they less productive, they take longer to pay off at all. When a company is losing money quickly, it is imperative to focus on what will pay back investments quickly. Branch managers and sales agents that we interviewed told us that their peri-urban branches have plenty of untapped markets, but agents would only be able to reach them with an increased transportation budget. So, we recommend LivelyHoods redirects money currently funding international partnerships to pay for travel in peri-urban areas. Since urban areas are more likely to be on the grid (and thus not be in the market for solar home systems), and because Jiko and Envirofit stoves are too expensive for the majority of urban residents to afford, there is less growth potential. Further, it usually costs more to set up a branch in an urban area as opposed to a branch in a peri-urban village due to the higher costs of operations, including office space, supplies, and personnel. Therefore, we recommend scaling within LivelyHoods' existing organization structure, primarily in peri-urban areas rather than in urban areas or internationally.

Strategy B: Implement savings circles at each branch to increase money available for transportation and/or emergencies at each branch without the need to supply more funds from headquarters.

Provide a box with three different locks and keys for each branch, which becomes the bank for that branch. Since there are three different keys, all have to be present to get money out of the box. When everyone gets paid, if one of the members has an emergency, they can receive a short-term loan from the bank (30-45 days) with no interest. If they want something that is a larger expense, then they can go up to seven months and repay it with a 10% flat interest rate. This provides a financial buffer for everyone in the savings group, and some of this money could be used for bus passes etc. to increase the transportation budget at each branch solely with agent earnings.

CSF 2: Strengthen Sales Agent Retention Rate

Sales agent retention is crucial to the sustainability of LivelyHoods' branches, and it is an important factor when scaling sustainably while maximizing impact. With a high turnover rate, there is a constant loss of expertise. There is never a consistent base of veteran agents to create steady sales at each branch, leading to higher volatility in each branch's sales. Veteran sales agents have knowledge of things that are not formally documented and are not in the trainings; they just know them because they have learned from their own experiences selling products. If LivelyHoods never has agents who get to this level of expertise, and if the ones who do get there leave, then LivelyHoods is constantly losing that expertise—and consequently, its best revenue producers. In addition, high turnover places an extra toll on branch managers, as they have to hire and train agents more often per year the higher the turnover rate is—time spent not generating revenue.

Sales agent retention rate is also important to measuring impact. Although it is part of LivelyHoods' mission to prepare youth and women to move up and obtain other employment or start their own businesses, if it loses too many agents too quickly, then LivelyHoods is hindering its own impact. The key is greater balance: with at least three to five veteran agents at each branch, new agents will have role models to look up to, more stoves are likely to be sold, and more livelihoods will be improved for agents as well as for end consumers. Furthermore, a well-managed sales-agent-retention rate contributes positively to the sustainability of branches, and in turn, the sustainability of LivelyHoods' scaling. Consulting with various branch managers confirmed that sales-agent retention is of utmost importance to making strategic business decisions and forecasting future trainings, impact, and financial data.

Strategy A: Implement a tiered agent system and incentivize performance.

During our time in the field, our conversations with LivelyHoods' sales agents illustrated that they are motivated to leave LivelyHoods as early as financially possible due to the fact that there is no potential for a raise on their commissions. Implementing a tiered agent-commission system would allow agents to "level-up" their earnings on each product sold based on their skills and length of experience with LivelyHoods. This commission structure will catalyze a boost in LivelyHoods' sales-agent retention by incentivizing agents to stay working with LivelyHoods for longer. It will additionally incentivize veteran agents to stay with LivelyHoods for an increased commission rate and to feel a greater sense of being valued by LivelyHoods.

Strategy A sample tiered agent-commission system:

Agent Title	Time working with LH	Commission Earnings
Junior Agent	1 month	10%
Senior Agent	6 months	12.5%
Veteran Agent	12 months	15%

In addition, we recommend the top 10% of sales agents as measured by their sales get an additional 2% tacked onto their commissions. This will incentivize performance in a way that will not just keep agents around for longer, but also keep them motivated to perform well. That will ensure that the veteran agents really do have useful experience and tactics to pass on to the new hires.

Strategy B: Devise benchmark retention rates.

Documenting and communicating intra-organizationally the 12-month and 18-month agent retention rate, for example, would eventually enable comparison. This new system will allow for varying benchmarks of impact and more closely identify agent turnover. Further, it will synergize well with the tier system we recommend above. Impact benchmarks should line up with tier-system benchmarks to maximize operational and administrative efficiencies. Once benchmarks and norms are established, regional managers will be responsible for the sales-agent retention in their region and penalize them for excessive turnover and/or reward them for lower than average rates of turnover.

Strategy B sample staggered agent retention system:

1. Establish standardized quarterly training interval
2. Names for cohorts (letter & year, e.g. A19)
   a. Goal: four per year
3. Retention capture intervals
   a. At key intervals, record how many agents in each cohort have left divided by how many remain
      i. For example, at 1 month, 3 months, 6 months, 1 year, 2 years → count number of remaining agents

b. This would be the responsibility of each branch manager
c. Completed in Excel (or shared Google Spreadsheet)
d. KPI of these intervals is six months
e. Aggregate sales-agent retention would be the average of each benchmark across all branches

We recommend standardized training intervals across branches so that sales-agent retention is more easily tracked and budget allocations remain consistent. The quarterly interval will make it easy for headquarters and branch managers to remember, while ensuring LivelyHoods is still training often without unexpected fluctuations in training expenses. After each training, the onboarded agents should have a class name to facilitate organizational and agent tracking process. For example, you might call the onboarding class in the first quarter of 2020 "[branch location] A20." And in the second quarter, "[branch location] B20," etc. This way, when tracking how many agents remain from each quarter and year, retention can easily be traced back for analyzing patterns and discovering strategies to improve further. By creating a new tab in Excel or Google Sheets for each branch of LivelyHoods, all of this information can be easily stored, accessed, and compared. Based on this data, as mentioned above, regional managers will then be responsible for penalizing and/or rewarding them.

CSF 3: Enhance Trust Between Agent and Client

Our first time hearing trust mentioned during our time in the field with LivelyHoods was in our second week, with superstar veteran agent Rachel. Although trust is implicit in LivelyHoods' sales training, we never explicitly heard agent-customer trust emphasized by the trainers when we observed agent training sessions. During our interview with Rachel, she explained how she has transformed from being so timid that even the thought of approaching someone to sell to was anxiety-inducing, to now being one of LivelyHoods top performing door-to-door agents. Along with her persistence, a key ingredient to her success has been the trust she has cultivated with each of her customers, which has led to her name being known and trusted throughout the community. This trust has created a snowball effect that led to Rachel procuring an increasing number of sales from her pipeline of customers. Her customers recommend her to their friends and family, and her focused attitude, friendly aura, and high accountability have facilitated the growth in her sales numbers and positive community presence. For this reason, agent-customer trust cultivation should be emphasized in the training as a strategy to help agents sell more stoves, become more confident in their selling abilities, and change the lives of more customers, all while generating more revenues for LivelyHoods.

Strategy A: Modify agent training to emphasize the importance of building trust with clients.

Cookstove and solar light suppliers moving into areas served by branches have the ability to undercut LivelyHoods because they're able to sell for less. If LivelyHoods doesn't leverage its trust networks, it is guaranteed that suppliers will outsell them. With the previously week-long training already shortened to three days, content expansion may prove to be difficult, but tacking on a trust module would certainly be worth the long-term gain of outselling suppliers who target the same customer segments. Building trust, and over time a rapport, with customers is just as important as thorough product knowledge because agents stimulate customers to return when they need more stuff and because LivelyHoods' reputation facilitates sales through word of mouth. Since Solar Sister, another East African social enterprise, already has a tried-and-true trust module, perhaps collaborating with them on ideas could prove to be a useful time investment. The entrepreneurs normally start by selling to their families, then branch out to others locally. By selling to friends, families, and neighbors first,

they create a trust-based social network and generate a solid foundation for a positive reputation. This helps them have further reach when trying to market a new product to peri-urban communities.

Agent-customer trust training module elements:

1. Be highly respectful of a potential customer's time
2. Focus on product benefits, not features, during sales pitch
3. Go above and beyond for customer service
4. Cultivate trust with transparency
5. Engage in dialogue with the customer
6. Show integrity
7. Be consistent

CSF 4: Improve Internal Organizational Trust & Communication

Two of LivelyHoods' top-performing branches have branch managers with similar managerial philosophies: leading rather than bossing. When it comes to similarities in how they run their respective branches, we believe this is no small coincidence. The first branch manager's strategy is to emphasize his role as a leader, rather than a boss. He goes to the field with the agents and motivates them. Agents recognize and appreciate this, which creates a stronger, more trusting relationship between them. He also has high energy and appears engaged with and committed to the work of LivelyHoods. The second branch manager's philosophy is similar in that he too strives to be a leader for his agents rather than a boss. He makes sure he lets agents know that he appreciates their sales, which makes them feel valued. He also does individual check-ins with agents during their morning meetings, where he asks how the previous day went and discusses progress on individual sales goals. This kind of close and open relationship should be a priority not only within each branch, but also between branches and headquarters to ensure employees feel comfortable speaking up about issues before it is too late, and to improve workplace happiness and productivity.

Strategy A: Reward employees who perform well.

Positive and cohesive team culture has proven to boost a company's productivity, and this comes from consistent and clear communication, performance-based rewards, and verbal acknowledgements and recognitions. Ensuring this happens at headquarters and throughout branches will boost productivity and therefore revenue, helping step LivelyHoods closer to financial sustainability without additional resources. Some examples of this include incentivizing more use of the team Slack at headquarters and between branch managers as well.

Strategy B: Create an incentive structure for branch managers to ensure they're working to retain sales agents.

Branch managers play a significant role in keeping branch sales agent retention at each branch at or above the breakeven threshold because they are in charge of their branch's performance. Regional managers can measure branch manager performance through analyzing their costs/revenues and number of agents retained. A similar structure to the agent retention strategy could be applied. For example, branch managers who exceed the agent retention threshold for that month could earn a 2% bonus.

Conclusion

While international partnerships have delimited markets for future expansion, domestic and peri-urban branches have higher immediate growth potential at a lower cost. Redirecting funding away from costly partnerships with long time-to-profitability ratios back into domestic branches will increase revenue and impact more quickly at this point in time. Use them as market research instead of mission-accomplishing. You can do this by putting these international partnerships on hold by pausing monetary investment in them and telling them you'll come back in 2-3 years. Sales agent retention, although documented, is not yet organized and communicated in a way that will benefit future agent retention. Implementing a tiered agent commission structure as well as a staggered agent retention system will incentivize agents to stay with LivelyHoods for longer and make tracking retention rate by the branch easier, so patterns can be analyzed and turned into strategies to grow branches. Through incorporating an agent-customer trust-building module in the three-day training, agents will be able to sell more with in-depth knowledge of how to go about building a trusting relationship with potential customers. By improving internal organization trust and communication, employee happiness and productivity will improve organically, which further serves to facilitate LivelyHoods on its quest to create job opportunities for youth and women in slums so they can work their way out of poverty and realize their potential.

Appendix

Summary of Recommendations

Put international partnerships on hold and redirect funding to grow peri-urban branches

Implement savings circles at each branch to increase money available for transportation and/or emergencies at each branch without the need to supply more funds from headquarters

Implement a tiered agent commission system

Devise benchmark retention rates

Modify agent training to emphasize the importance of building trust with clients

Reward employees who perform well

Create an incentive structure for branch managers to ensure they are working to retain sales agents