Changing business models to change the World
Paul Murphy (Valid Nutrition) with Nina Kruschwitz

Non-profits have the infrastructure and know-how to tackle the global malnutrition crisis, says Paul Murphy, CEO of Valid Nutrition. What they need now are for-profits with vision to be encouraged to help them.

Paul Murphy, CEO of Valid Nutrition.

WILL BUSINESSES BE WILLING to get knee deep into sustainability efforts if they're not able to make a traditional business case for it?

That's one of the crucial questions Paul Murphy, CEO of Valid Nutrition, faces as he works to partner with for-profit corporations to treat and prevent childhood malnutrition in developing countries.

"It does require them to look at a different business model, one that is less beholden to short term shareholder demands and much more focused on long term impact," says Murphy.

Valid Nutrition was founded by Dr Steve Collins, who also established Valid International, a 13-year old company which developed the methodology known as Community-based Therapeutic Care. "Severe acute malnutrition affects about 25 million kids globally at any point in time," says Murphy, and the community approach conducts treatment through local health centers rather than hospitals. Children are prescribed ready-to-use therapeutic food in one-week rations, and return regularly for assessments while living in their homes. That's easier for parents who don't have to split their time between home and hospital and more convenient in locales with limited hospital facilities. Because of the community aspect and related improved understanding on nutrition, it is also a fundamental change from a supply to a demand led dynamic for such products. "This is now the preferred intervention method for treating severe acute malnutrition in developing countries," says Murphy.

To realize its full vision — of rolling out the distribution model to more countries, working with governments and NGOs to train locals and using social marketing at the community level to encourage parents with young children to come forward for prevention as well as treatment — Valid is working to partner with corporations that have the finances and the vision to fund this kind of work.

It hasn't been easy. Murphy, who spent 27 years with Unilever and was the chairman and chief executive of Unilever Ireland before joining the social enterprise sector, says Valid is ready to scale up its projects but doesn't have the deep pockets to do so.

In a conversation with Nina Kruschwitz, an editor and the special projects manager at *MIT Sloan Management Review*, Murphy explains what companies are skittish about and how he's trying to get them to embrace "an entirely different business model" in their sustainability-related projects.

Let's start by having you explain what Valid Nutrition's role is in the Valid Group. You're the food production arm?

Yes. Once the community based methodology was established and accepted, there was a huge opportunity to produce these ready-to-use foods in developing countries. At the time, all the "ready to use" therapeutic food was coming from offshore, primarily France, from a company called Nutriset, which is the owner of the Plumpy'nut brand, a patented peanut-based paste. We managed to get a license from them to manufacture and we set about setting up factories in developing countries so that we could manufacture on the ground, close to where the product was needed.

Equally importantly, we have a multiplier effect on local economies: we both provide employment and source raw materials wherever possible from local, small-holder farmers. It's a much more sustainable model as opposed to parachuting in product from offshore.

The product that farmers are growing is peanuts, is that correct?

Yeah, at the moment it's mainly peanuts. The standard ready-to-use therapeutic formulation is a peanut- and milk-based formulation, with oils and sugars and so on. Peanuts we can get locally, milk power we can't — indeed, milk powder is not readily available at the required quality in any sub-Saharan African countries, so that is a huge issue.

Valid's success with RUTFs (ready-to-use therapeutic foods) is creating new models of treating malnutrition as well as new collaborative business models.

Valid has a significant research and development program for precisely this reason, to develop formulations that are much more conducive to the raw materials available locally. So, for example, we have a new formulation based on soy, maize and sorghum, which effectively entirely substitutes peanuts and much of the milk power. It's far more cost effective and far more readily available. We're currently going through efficacy trials with it with a view to making it available as an alternative to the peanut formulation.

How many manufacturing plants do you have?

At the moment we have just one fully operational. We've been in Malawi since 2008 with our own factory that we operate ourselves. We hope to commence production in a new collaboration in Ethiopia with a local partner shortly. We had a collaboration in Kenya which we recently terminated and are looking to reestablish there with an alternative partner. We also want to get into West Africa, Nigeria is a huge opportunity, and that's our next big priority.

Tell us about your experience in trying to partner with large corporations.

We believe that a business-led approach is imperative to make a meaningful impact in the area of malnutrition. Even if the public/private sector-NGO-charity type of approach was much

better funded, there's absolutely no way they could ever effectively reach as many people as need help.

But most of those people *are* being reached by consumer goods businesses in many shapes or forms, although not with the sort of products that are actually needed. So you can buy biscuits and carbonated drinks in most countries in the most remote villages and stalls, but can you buy a fortified nutritional snack, let alone at an affordable price? No, and that's really where we think there is an opportunity.

MARKET POTENTIAL

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The potential for marketing to bottom of the pyramid (BOP) customers is very large.

MARKET	NUMBER OF PEOPLE AFFECTED In millions	ROUTE TO MARKET Key Customers	MARKET SIZE Cost per million tons (MT), annual growth	COMPETITORS	POTENTIAL SCALE (Estimated)
Therapeutic Food TREATMENT SEVERE	20M	Institutions (UNICEF & NGOs)	$37K / MT $150M 15%	8	$100K / MT $400M
Supplementary Food TREATMENT MODERATE	60M	Institutions (World Food Program & NGOs)	$25K / MT $70M 25%	2	$300K / MT $1 Billion
Complementary Food PREVENTION CLINIC	200M	Retail	Negligible	0 (Will attract significant competition)	$2-4 M / MT $5 Billion +

We know that a lot of these for-profit food businesses recognize that there is a market opportunity at the bottom of the pyramid, in two senses. First, because there's a huge number of people. And second, because they understand the massive long term benefits of providing highly nutritious products to consumers at the bottom of the pyramid, particularly in the critical first 1,000 days of a child's life. That's the stage when a child's physiology, is being effectively hardwired. If appropriate nutrition is not provided, the consequent physical and mental stunting is irreversible. Better developed kids not only are less of a drain on state resources later in life, but they're better capable of being educated to reach their full potential and achieve higher earning power, which in turn can make a massive difference to a society's GDP.

Those are both strong forces. So what are the barriers?

The big barrier to corporations getting involved is that in order to make suitable products available, which they have the experience and capability to do, they have to sacrifice some of the conventional margin expectations they would have in more developed markets. They are being asked to effectively take a hit on margin in return for long-term gains. Some of them realize that they need to do it outside of their conventional business model, but many just fall back on Corporate Social Responsibility programs which tends to have minimal strategic or long-term impact

The other barrier is that many companies that have dipped their toe into this area in the past have been castigated by sections within the highly conservative public sector NGO not-for-profits mindset, where many have a clear view that no private enterprise company should be making profit from the poor. That's something that we have a completely different view on. We think that a business-led approach is imperative and we think that making profits is acceptable — and necessary for sustainability — provided that it's done within defined parameters. To have a blanket rejection of profit is, we believe, incredibly short-sighted.

So while our business opportunity rationale and argument for working with us is essentially convincing and persuasive, the margin dilution factor and this whole fear around the potential backlash make companies hesitate.

Are you working now with any for-profit organizations?

We're involved with an initiative with PepsiCo's Foundation in Ethiopia. It's an operation also involving the United Nations World Food Programme with a product that is targeted for what's called "supplementary feeding." This isn't for severe malnutrition, but for what's called moderate malnutrition – still a very serious condition. It's focused on chickpea as an ingredient, which is particularly important in the Ethiopian context, not least because of reasonably good availability, but also because the government sees that as one of the key crop areas that they want to develop.

Longer term, we would like to see these sorts of companies working with us and fronting programs themselves, because there's going to be a limit to what a company like Valid Nutrition can do on its own, given our scale constraints. The scale and reach and distribution capability of private enterprise is just so much bigger.

Talk a little more about this idea of a different business model, and what partnering companies would have to modify to pursue bigger projects with you.

Ultimately, it does require them to look at a different business model, one that is less beholden to short term shareholder demands and much more focused on long term impact. We do believe that the short term margin sacrifice will be more than offset by the longer term absolute return on the investments for those who are brave enough to move early.

So it means different performance indicators to their conventional way of looking at business.

You're saying that because the margins for this kind of business are so low that companies actually need an entirely different business model, and that essentially involves one with a very long time horizon—?

Perhaps I'd phrase it slightly differently. One of the problems is that the term "business model" can mean a lot of different things to different people. I'm conscious of that, and therefore when we say "different business model," it doesn't mean it has to be a completely radically new creature. It just may be as simple as defining budgets and deploying the financial treatments in a different location to that which would normally happen in a multi-national environment.

Have you done any pilot projects to test this out?

We put together a number of pilot business cases for launch with suitably fortified, affordable products, and we've done some pretty sophisticated projections of the business case to make it happen. The problem is when you look at the percentage returns, they are alien to what most consumer goods businesses would deem to be acceptable. And it's difficult to quantify the social impact and the multiplier effect.

The other thing is that the traditional way for consumer goods businesses to launch products is that they invest in the technical capability to bring the product to market: they manufacture it at scale competitively, they make it available through conventional retail channels and then they advertise like mad using, more often than not, mass marketing techniques. That approach won't work for such nutritional products that are going to be pitched to consumers at the very bottom of the pyramid, because the demand generation techniques need to be quite different. You need to create understanding and get a relevant marketing message through at the community level and generate demand from the bottom up – not top down.

We believe that if businesses are to engage in this area, two things need to happen. First, we need to undertake a meaningful test market just to see that our base case assumptions, with

lower margins than are normal, is actually viable. It's a bit of "chicken and egg," because we haven't been able to get anybody to fund such a test market and so we don't have the evidence to demonstrate that our assumptions are robust, although we're very confident they are.

What would a meaningful test look like?

Ideally, we would do a national test market. Take a relatively small country like Malawi, where you've probably got 20% or 30% of kids in any part who would be target users of such products. Working with Government and Public sector actors you would undertake a national campaign.

In conventional test markets, a corporation would look at penetration of the product and repeat purchase, ultimately leading to market share and so forth. They'd assess attractions of the product and reactions, pre and post use. Here, in addition to assessing innovative means of distribution, we would overlay all of that work with actual monitoring of the impact on the child's development.

That's an entirely new way of assessing, and one that companies probably aren't familiar with, but that you have some expertise with.

In establishing the community based approach to treating severe malnutrition, anthropological understanding and social marketing techniques were core. As our founder, Dr. Steve Collins says, "Fundamental to our vision is that malnourished people should be regarded as legitimate customers; and not as passive victims, and that nutritional products (and their delivery) should be tailored to their needs – rather than to the needs of the agencies supplying them."
We believe we can act as a bridge between the conventional public sector NGO ways of doing things, and the way we'd like to see private sector getting engaged. We think we can be a conduit for that, and a catalyst. We're not saying we have all the answers, but we think we're in a reasonably good position to have seen it from both sides and to work with partners to bring the best of both sectors to make an impact – socially and commercially.

Some companies have a chief sustainability officer, while others have their sustainability agenda coming from the CEO or a board of directors. Are there differences in how companies are organized that make it easier to approach or to work with?

To be perfectly honest, I hadn't thought of it like that, and I think it is a relevant observation. In our experience, it very much comes down to individuals, independently of how organizations are structured and what titles those people have. It's about somebody with enough scope and influence within the business seeing the growth opportunity, and then championing it and making things happen.

So in one instance, we got to somebody who was really persuaded by what we were advocating and was fully on board with us, but didn't have the sphere of influence internally to get decision makers to actually put the money up. In another totally different business, by sheer good fortune, we're dealing with the chief executive directly who is completely behind it, and we're seeing things happen at a much quicker pace.

The other thing to think about with corporate social responsibility efforts is that much of the money that is currently spent by businesses is just insurance policy type activity and people ticking boxes. One-off type of disbursements which, of course, have a powerful initial impact, but very often are not sustainable themselves. Food businesses specifically, a lot of them are engaged in CSR funding in areas that are not strategically related to growing their business. If they put some of that money into an area such as food for consumers at the bottom of the pyramid, they'd be deploying their resources in a way that we believe would be far more strategically relevant to the core of their business.

You came from Unilever, a large for-profit corporation, and now you're helming a non-profit. How has that transition been?

I've never been involved in this area before, and many I meet tell me that somebody in my role should be spending at least 50% of my time on fundraising! If I spend 5% of it on fundraising I'm doing well, purely because we run this operation on a shoestring and we're trying to do so much else to get product out the door.

Valid Nutrition was deliberately set up exclusively as a not-for-profit in the belief that this would be the best way to safeguard its ethical mission. In hindsight, that was probably a wrong decision for a number of reasons. There are ways the business could have been set up as being for profit which still would have avoided the risk of deviating from its core purpose.
One of the challenges we've had being a not-for-profit is that in the early start-up phase, we are entirely dependent on donations and grants and loans, as opposed to equity investment. If we were starting again, we would have set it up as for profit in order to be able to bring suitable equity investment on board and capitalize the business properly.

One of the handicaps of trying to compete with large offshore producers, be they in France or in the States, is that these guys have huge economies of scale, they have guaranteed reliability of quality of raw materials, they can access finance easily. Although by manufacturing in developing countries we're closer to where the product is used and definitely offering better long term "value," we have a number of initial handicaps of trying to get to scale.

The original vision was that revenue from sales of product would fund the business into the future and obviate the need to rely on donors. But we underestimated the time that required and the scale of working capital needed to start production in a number of these countries. So while that vision of becoming self-financing through our own sales operations is still very much central to our objective, it is two or three years away.

Well, that's still not very long.

It feels like a very long time when you're wondering where the next funding is coming from. One of the hugely frustrating things is that up until recently, we had actual plant capacity for about 10,000 tons of product constructed, ready to produce. We had demand for most of that capacity. But we weren't able to fund the production because we didn't have the cash to purchase raw materials. Start-up businesses in conventional markets, if they had such production capacity and they had demand, they would have funders falling over themselves to provide cash to them.

We don't want to forego our not-for-profit status entirely for a variety of reasons, not least that we owe that to those who have supported us on that basis from the outset. We'd like to be able to retain that element because we recognize that it is important for some key stakeholders.

One of the things we're actually looking at now is establishing a hybrid structure with a for-profit entity alongside Valid Nutrition that would allow us to bring suitably enlightened and focused equity investors on board. As I'm sure you're well aware, there are plenty of people out there who are willing to invest in this sort of area, and up to now, our structure has precluded us from engaging with them. Profit, if it's correctly monitored and channeled and so forth, can be extremely healthy, and we believe it's the only way we're going to make a meaningful impact at the degree of scale we aspire to.

Fonte:MIT Sloan Management Review, 22 June 2012. [Portal] Disponível em: <http://sloanreview.mit.edu/feature/changing-business-models-to-change-the-world/Acesso em: 22 June 2012.