

An Indian FOPSE

Innovations Case Discussion:
Keggfarms

I first met Vinod Kapur in the summer of 2006 when I was conducting research in India on a case for my Harvard Business School class on international entrepreneurship. A friend of mine had invited me to attend the ceremony for the first Innovations for India Awards in Mumbai. Several Indian businesspeople received the award, but I was particularly struck by a dignified silver-haired gentleman who took the stage to receive the award for social innovation. He then proceeded to eloquently describe the development of a business concept centered on the rural poor of India, which was based on a specially bred “superchicken” that was twice as big and five times as productive as the typical backyard chicken. The incongruity of Vinod Kapur’s elegant appearance and his subject matter struck me as fascinating, but the most intriguing element of the presentation was how he arranged an entire system of distribution to deliver the hatched chicks to these remote villagers and did so in a way that enabled everyone to profit in concrete financial terms, from Keggfarms itself to the rural villagers. Almost a million households are today affected by Keggfarms, and the numbers are constantly rising.

The most striking element of Keggfarms is the chicken itself—it is a beautiful, big, colorful bird, and I must say that the meat and eggs are by far the tastiest poultry products I have eaten in my life. But the most significant innovation is not the chicken per se but the business model, in particular the distribution system used to get the newly hatched chicks into the hands of the villagers quickly and safely. It is difficult to imagine a more nightmarish distribution problem: The customers are dispersed geographically in regions of relatively low population density. The transportation infrastructure is undeveloped—most of the customers can be reached only by footpath. The products are perishable, vulnerable to heat and disease. The product is considered to be a commodity with little price elasticity. The customers have extremely limited purchasing power so that high distribution costs cannot be transferred to them.

It would be prohibitively expensive for any company to establish its own distribution system to bring tens of millions of live chicks into the rural villages. Furthermore, it would be difficult to organize and even more difficult to control. Such a distribution system would be required to some extent to build on established distribution patterns, in which the various parties would be extrinsically

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incentivized to bring the products to the customers.

Keggfarms has solved this problem by exploiting established rural distribution methods, such as dealers with privately owned minivans and independent or small groups of organized bicycle vendors, and making sure that all links in the distribution chain are highly incentivized to do their part. At least initially, the dealers used existing vehicles and the bicycle vendors were already organized into groups that had bicycles.

In between the van dealers and the bicycle vendors are the mother units, which grow the chicks for 21 days. The dealers must place orders with the hatcheries and rapidly turn the purchased chicks over to the mother units. The mother units must grow the chicks, which includes providing some medications. The bicyclists must collect and distribute their orders in the villages. If one does some rough calculations, the dealers, mother-unit owners, and bicycle distributors are making several thousands of Rupees of additional income per month. In fact, some of the more successful of these “micro-entrepreneurs” actually improved their lifestyles, such the mother-unit owners who could afford to expand their houses because of the extra income.

The challenges of scaling Kuroiler™ chick distribution make it difficult to grow non-incrementally. Furthermore, with production costs relatively fixed and prices inelastic, profit margins for Keggfarms tend to be constrained, particularly because most of the profit contribution must be devoted to incentivizing the distribution channels, without which the business would stop. As a result, Keggfarms must find sources of funding other than cash flow to grow the business. Compounding this are the vicissitudes of the market, the possibility of price decreases triggering dumping by other chick hatcheries, and occasional outbreaks of Asian bird flu. So, with the dual purpose of providing cash and diversifying risk, Keggfarms has developed two related product lines that are less distribution-challenged and have higher profit margins. The KEGGS™ and the Kuroiler FFG™, both of which are closely related to the Kuroiler™ business, serve entirely different markets—upscale consumers in the first case, and small, rural, professional poultry farmers in the latter. One of the most fascinating challenges for Vinod Kapur will be to maintain the balance of investment and manage the amount of attention he gives these newer, more profitable products and the core business; the latter is inherently less profitable but directly achieves Keggfarms’s social purpose.

I would like to put the Keggfarms example in the larger context of social enterprise. In my research on entrepreneurship around the world, I am increasingly

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encountering for-profit social enterprises, which I have begun to call FOPSEs.¹ Some examples include MicroFinance International Corporation, which was established by Atsumasa Tochisako² to provide the unbanked Hispanic immigrant population in the United States with modern financial services, including services for their families who remain in Latin America; GrameenPhone,³ established by Iqbal Quadir and Mohamed Yunus to bring wireless telephony to the rural masses

of Bangladesh; Lapdesk of South Africa,⁴ established by Shane Immelman to eradicate the shortage of classroom desks in South Africa and other countries; and AviTx of the United States, established by Avichai Kremer and Robert Brown to develop a cure for ALS.

I believe that FOPSEs deserve a unique label because they are distinct from nonprofit enterprises in that the for-profit mechanisms are intentionally utilized to provide sustainability for the pursuit of social goals. On the one hand, the for-profit motive gives the FOPSE a rigorous test in a competitive marketplace, which, if successful, results in financial viability, disciplined professional management,

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and organizational robustness. This is not to imply that not-for-profit enterprises cannot be professional or robust. However, the for-profit motive implies a broadly accepted framework of entrepreneurship: first conceiving an innovative idea; then shaping that idea into a business plan, including assessing its potential benefits to all the stakeholders; and finally launching a venture. The for-profit model also provides additional motivation to succeed.

On the other hand, FOPSEs are distinct from mainstream (dare one say “ordinary”?) for-profit enterprises in that their founders make explicit the ultimate social objectives for the enterprise, and these objectives guide decisionmaking, allocation of resources, and, in some cases, difficult tradeoffs among conflicting goals. Such tradeoffs are not theoretical; for example, if a company focused on eradicating ALS has the opportunity to develop a therapy that *could* help treat or cure other neurodegenerative diseases sooner or more profitably, the corporate mission guides the decisionmakers to the apparently less-profitable path.

Many FOPSEs are international in scope, primarily because they identify problems (“opportunities”) in one region of the world and the resources to solve them (financing, expertise) in another region far away. GrameenPhone utilizes the experience, technical resources, and financing from Norway’s Telenor and Japan’s Marubeni. MicroFinance International (MFIC) is addressing an inherently inter-

national problem: how to handle a large number of cash remittances in small amounts between the United States and Latin America, and in the process providing microloans and other financial services to the underserved Hispanic immigrant population. Lapdesk utilizes the contacts and mentorship of the Endeavor organization, a nonprofit organization that fosters entrepreneurship in emerging markets around the world, to help Shane Immelman gain valuable international contacts and credibility. Even Keggfarms imported the various poultry gene stocks from the United States in order to breed their “superchicken.”

Nevertheless, the fact that valuable resources come from abroad should not distract us from the high levels of business innovation that may be exhibited by the local entrepreneurs themselves. Shane Immelman invented a new way of selling advertising to corporate clients by having them print logos and company names on the hand-carried desks that he created and that the clients donate to the schools. Iqbal Quadir invented the concept of village phone operators who subscribe to GrameenPhone’s service and then rent out the phone on a per-call basis to other villagers, thus both providing a valuable service and making money for themselves. MFIC developed a unique software platform for servicing international money transfers. It is this high level of innovation that will ultimately drive the successes of these FOPSEs and help them create a better world through profitable social enterprise.

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1. FOPSE (pronounced “foop-see”), or For Profit Social Enterprise, is a term coined by the author in April 2007. FOPSEs have explicitly stated goals of earning a profit while solving a major societal problem. This essay is based on Isenberg (2006); used with the kind permission of Harvard Business School Publishing.
 2. Isenberg (2008).
 3. Isenberg, Knoop, and Lane (2007).
 4. Isenberg (2007).

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