Case Study Social Entrepreneurship: Scaling and Financing of a Social Innovation

Business Model, Social Impact, Financing, Social Franchising

September 2014
Dr. med. Frank Hoffmann

.. trains blind women to use their superior tactile senses for detection of early signs of breast cancer
„Doctor med. Frank Hoffmann delivers the prime example of a social enterprise. He finances the education and training of the »Medical Tactile Examiners« through license fees and the sale of patented orientation strip used in the examinations. A self-sustaining financial system, helping everybody – perfect Social Entrepreneurship. “

DIE ZEIT
02.02.2013
Content

- Summary
- The social problem and the solution
- The social entrepreneur and his mission
- The business model and the social impact
- The hybrid business- and financial structure
- Financing instruments
- The investors and supporters
- Scaling plan and social franchising
- Steps toward Austria
- The next target markets
- Major Insights
discovering hands® has developed a standardized tactile procedure. In this procedure, visually impaired women use their superior tactile senses to detect early signs of breast cancer. This solution increases the chances of survival, integrates visually impaired women into the employment market and changes the way disabled people are perceived – a disability is turned into a capability. In addition to this, the costs for the social- and health care system are considerably lowered.

The social enterprise generates income through patented orientation strips and license fees. After start-up investments, discovering hands® will be long term self-sustaining through these earned income. Profits will be distributed to the non-profit holding- and affiliated organizations.

In order to scale the concept, a hybrid business model was developed, which combines two not-for-profit entities and one for-profit social business. The different components are financed sustainably though specific financing models and financial partnerships. The international expansion succeeds through a social franchising model. A partner for Austria is already on board.
The Social Problem – Breast Cancer and Discovering Early Signs

Breast cancer is still the most common cancer disease and one of the most common causes of death among women – every year, nearly 71,000 women in Germany fall ill from breast cancer, 18,000 die.

Early detection and treatment secure a less burdensome treatment and significantly increase the patients’ chances of survival.

To accomplish this, practicable prevention- and detection services for people with public health insurance are needed; however there are several issues which currently are not ideal in Germany:

- The mammography-screening is only available for women older than 50 – prevention mammographies are not covered, although approx. 20% of breast cancer cases are found in women younger than 50 years of age.
- Of the women who are older than 50 years, only 50% take part in a mammography screening – mainly due to a desire to avoid the exposure to radiation.
- The tactile breast examination offered by conventional gynecologist to women between 30-50 with a public health insurance is the only available measure for early detection. However, these are not subjected to any standardized or validated procedures and are conducted under significant time pressure.
The Social Problem
– Visual Impairment and Inclusion

**Blind means unemployed** – at least in the majority of cases. About 15,000 of the 150,000 blind people in Germany are in regular employment only. This is roughly one third of the ones of working age. Blind people of working age, especially women, even have a **significant lower employment rate** than other disability groups.

About 40 percent of blind and visually impaired people are retired or permanently sick. Reasons for retirement are mainly based on their disability or disease.

If blind people are employed they usually have limited options: Half of them are employed in only three professions: Call center agent, office support or masseur.

In other areas of our society **blind people are excluded** as well. Sighted persons treat them with uncertainty, bias or even compassion. By this social inclusion is being hindered not only by the disability itself but by the handling of this disability.

Picture license: CC by-SA 3.0
The Solution

Blind and visually impaired tactile examiners optimize the prevention of breast cancer

discovering hands® is based on a standardized tactile procedure, in which visually impaired women use their superior tactile senses to detect early indicators of breast cancer. The early diagnosis made possible through this procedure significantly increases the patients’ chances of survival (preliminary studies show a 28% increase in early detections).
Visually impaired women are offered education so they are qualified and certified, and then they are coupled with gynecological practices and clinics. Here, they are filling their positions, not in spite of their disabilities but because of their special capabilities. The perception of disability is changed: the patients experience (often for the first time) blindness as a extraordinary strength in the tactile examiners (MTE) instead of a deficit.
In addition to this, a sustainable unburdening of the health care system is secured through the lowered costs of treatment and services.
Dr. med. Frank Hoffmann

is born in 1959 and has more than 20 years of practical experience as an established gynecologist. He is the founder of the “Praxis für Frauen®” (Practice for Women) in Duisburg with 9 medical specialists in 4 locations. In 2004, Frank Hoffman had the idea to utilize the special tactile senses of impaired people in the medical diagnostics. Initial for his engagement were, among other things, the introduction of significant constrictions in the health care service catalogue for prevention mammographies.

In 2010, Frank Hoffmann was appointed Ashoka Fellow and is an enthusiastic advocate for social entrepreneurship.

His vision: discovering hands® should directly as well as indirectly function as a pioneer for a new culture of inclusion of people with disabilities. He says: “There are still numerous diagnostic fields and application areas where blind people can apply their tactile senses meaningfully. Especially in areas where an instrument-based diagnostic is no matter of course.”
The Business Model

Income from license fees and patented orientation strips for examination

The fee for examination performed by a MTE is 46.50 EUR to be paid to the doctor.

The doctor pays 10 EUR per examination to discovering hands® (for the used orientation strips).

Further income is generated by license fees for the curriculum.

The fee is covered by all private insurances and six public insurances
The Social Impact: Increasing of the Survival Chances and Lowering of the Costs of Treatment

**Survival rates according to stage of disease according to diagnosis**

- Stage I
- Stage II
- Stage III
- Stage IV

**Years after diagnosis**

**Savings in costs of treatment through early detection**

Savings per patient through diagnosis in stage I instead of stage II (EUR)

- Saved costs of treatment
- Lowered loss of productivity
- Total value of an early diagnosis

**DATA FROM THE UK**

Social Impact: Health Economic Effects

Employer of the MTE (e.g. Doctor) => employs => MTE

- takes over the costs
- conducts a better diagnosis

Examination benefactor

lower costs of treatment => Patients

Patients
Social Impact: Socio-Political Effects

1. Visually Impaired Person
   - receive benefits (e.g. pension)

2. MTE
   - take over the costs
   - contributes to

3. Public sponsors (e.g. pension funds)
   - receive benefits (e.g. pension)

= does not apply due to the discovering hands® model
Social Impact: Socio-Political Effects – a Disability Becomes a Capability

Visually Impaired Person

Weakness-Orientation: Pity

creates fear/defense

Traditional prevention strategies/instrument based diagnostic

Patient

MTE

Strength-Orientation: Respect

used proactive

Medical Tactile Examination
The Hybrid Business Model

**discovering hands® gUG**
Not-for-profit

- Further development & penetration of the dh-system globally
- Maintenance and further development of the curriculum for MTE
- Academical validation
  - Education for MTE and doctors

**discovering hands® Service GmbH**
For-profit

- Operative business entity
- Production and distribution of orientation strips
- Contractual partner of health insurances and doctors
- Public relations

**MTE-Forum e.V.**
Not-for-profit

- Subsidiary of discovering hands®
- Representation of interests of the MTE
  - Support of MTE in education and practice
    - Recruiting
  - In a later stage: Granting of education stipends
The Challenge of Funding

Retain philanthropists – attract investors

discovering hands® has build up a solid network of philanthropists. Especially foundations are supporting the non-profit organization and thus the model’s further development, expansion and quality management. Also the non-profit association MTU Forum e.V., which has the role as an “occupational union” for the tactile examiners (MTU), is funded by private donations. The costs for the training of the tactile examiners are covered by the public sector as rehabilitation activities.

A hybrid financial model has been developed in order to avoid potential conflicts with the philanthropic funders and create positive synergy: The for-profit service organization is financed independently – however, potential profits are utilized to support the social mission.

Goal: a self-sustaining financing system

The discovering hands® Service GmbH is organized as a profit-oriented “social business”. The generated profits will be exclusively invested in the expansion of the business or distributed to the non-profit holding company discovering hands® gUG. All further stakeholders (investors) commit to transfer any dividends (if not reinvested) to non-profit entities.
The Hybrid Financial Structure

- Public Grants
- Donations
- Impact Investment

... training of the tactile examiners as a public rehabilitation measure

... shareholder loan to finance investments in a self-sustaining business model

... to finance the development of the model, the scientific validation and the curriculum
Financing the new Social Business

Mezzanine financing as shareholder loan

- Minority shares in the non-profit holding (gUG) and the for-profit affiliated company (GmbH)
- Subordinated shareholder loan to the for-profit company

Structure

- Interest rate in relation to the operative profit (increasing after achievement of break-even)

Return

- Loan disbursement in relation to previously defined milestones
- Six year maturity with the option for an early repayment
- Grace period in start-up phase
- Withdrawal from shareholding after loan repayment

Maturity/Repayment

- Information-, participation-, and approval rights of the investors
- Set up of an advisory board (one representative from the investors, one representative from the organization and an independent board member)

Investor property rights
Financial model supports the social mission

The investors are involved as shareholders in both the non-profit holding organization as well as the for-profit affiliated company.

As an interests-based loan with a volume of half a million euro and a maturity of six years, the mezzanine-financing from the shareholders mainly serves to **cover the liquidity needs until break-even** in Germany. It is divided into several tranches, which can be flexibly accessed after the achievement of previously defined milestones.

After the grace period and the achievement of the operative break-even, the loan will be repaid quarterly. However, the repayment-rates can be adjusted within defined limits. The interests to pay by the social business begin as moderate and increase in relation to the operative profit. Due to the **grace period and the low interests in the start-up phase**, valuable liquidity is kept in the business. The social mission and the scaling of the business model are thus significantly supported by the chosen financial instruments.
The Investors and Supporters

BonVenture is the first social venture capital fund in Germany and supports social entrepreneurs who combine humanity and economy to solve pressing social or environmental problems and find sustainable solutions. Next to high social impact, BonVenture is striving to preserve the invested capital. In addition to this, BonVenture supports social entrepreneurs with know-how and contacts. BonVenture covers 70% of the total investment amount.

The KfW (German Development Bank) offers capital to medium sized and small businesses committed to tackle social problems in Germany through market-based innovative business models. The capital is provided as a co-investment within the KfW program 091. The KfW covers 30% of the total investment amount.

Consultation by FASE and Linklaters

The Financing Agency for Social Entrepreneurship (FASE) consulted Frank Hoffmann in the creation of the business structure and financing model. In addition, the international law firm Linklaters supported discovering hands® in all legal matter on a pro bono basis.
The sponsors who have supported discovering hands® with the development and enhancement of the model through grants or non-monetary help, have been and are still crucial to the establishment of the solution.

Only with philanthropic support and entrepreneurial facilitation it was possible to provide the basis for a scalable business model.
Scaling Plan

**Vision: A disability becomes a capability – worldwide**

The social franchising system spreads the concept globally through local, independent social entrepreneurs and expanded in emerging economies to include more diagnosis areas (ex. early detection of glaucoma, thyroid gland-/prostate disease, lymphoma diagnosis). discovering hands® is directly and indirectly a global pioneer of a new culture of inclusion of disabled people.
Basic Principles of the discovering hands® Social Franchise System

The discovering hands® model is to be scaled through a social franchise system, and thus expand its impact internationally. discovering hands® was professionally advised on the franchise system by Syncon®/Waltraud Martius, Salzburg.

Due to the fact that the overall objective is the generation of a **high social impact globally** the franchise model is based on the principles of “social entrepreneurship“ as well, e.g. the entrepreneurial solution for social challenges. The franchisees shall be **socially committed, entrepreneurial acting social businesses who share the social vision** with the ambition to finance their growth by earned income in the mid-term. They have the function, to adapt the discovering hands® model to the specific national requirements and accordingly to implement in their country.

The system head office’s generated profits are to be invested solely in the continued expansion of the discovering hands® concept, and thus benefit the implementation of the social mission.
The Step Towards Austria

The first „export“ of discovering hands® to Austria will be accompanied by philanthropy

Due to no language barriers, Austria is an ideal candidate for the discovering hands® model’s first “export country”. Additionally, the mechanisms of the model can be tested under different conditions; e.g. the facilitation of visually impaired people and the healthcare system. The implementation in Austria is also supported by Ashoka.

SEBUS Wien, the school of the Blind- and Visually Impaired People’s Association of Austria, has already qualified as the first education centre for medical tactile examiners. The first educations are to begin in 2014.

All preparation activities for the education of the first four Austrian MTEs were sponsored by donations – especially the Essl Foundation, the Katharina Turnauer Privatstiftung and SINNSTIFTER. The market introduction is coordinated by a committed project group.
Securing the Financing:
Frank Hoffmann convinces in Start-up Show: € 525.000 for the Austrian model

In the Austrian PLUS4 Start-up show „2 Minutes – 2 Million“ Frank Hoffmann succeeded in convincing all present investors. The show airs every Monday at 8.15 pm and can be viewed online under www.puls4.com.
Michael Altrichter, Austrian Social Business Angel und head of the investor group for the Austrian franchisee, has already founded a not-for-profit company to implement the model in Austria.

He is convinced that the discovering hands® model reaches new levels - not only as social business, but also as an idea of social inclusion.
For further acceleration of the model, discovering hands® is in contact with multiple organizations worldwide. The focus is largely on the necessary adaptations in relation to the specific local frame work, the operative implementation and the financing of these.

Ongoing discussions are currently focused on:

- Spain (Cooperation with the foundation ONCE)
- Isreal (Cooperation with the Ruderman Foundation)
- Netherlands

Further organizations, countries (for instance in South America) and fields of application will follow.
**Major Insights**

- **Social Impact and a successful business** are not mutually exclusive, but on the other hand are not inter-related in general – for this case study the fact is: The more successful the social business model, the higher the social impact.

- **The more effective the solution** is for the social problems, the more likely it is to attract supporters. Social innovations have the potential to re-define a whole sector.

- A **hybrid business model** (inc. legal entity structures) facilitates the combination of various financing instruments – this allows for a self-sustaining financial system.

- **Philanthropic capital** can be a crucial “leverage” to raise investment capital for sustainable scaling of a social impact model. It may be especially important for development of social innovations to reach marketability.

- There are several possibilities to **scale** a proven social innovation globally. Social Franchising allows to secure consistent quality standards in combination with entrepreneurial flexibility.
The Financing Agency for Social Entrepreneurship GmbH (FASE) was launched by Ashoka, to make growth for social enterprises financially viable. FASE allows co-investments by impact investors and philanthropists through an open pipeline of investment ready social entrepreneurs, and develops innovative financing models specifically suitable for social enterprises. The objective is to create an ecosystem for the financing of social enterprises.

FASE
Financing Agency of Social Entrepreneurship GmbH
Prinzregentenplatz 10
81675 Munich
E-Mail: info@fa-se.eu
http://www.fa-se.eu/?&lang=en

discovering hands®
discovering hands® gUG (haftungsbeschränkt)
Großenbaumer Str. 28
45479 Mülheim an der Ruhr
E-Mail: office@discovering-hands.de
www.discovering-hands.de