



GUIDANCE NOTE 4

Private sector development: How do we improve capacity of local sanitation businesses?

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In this Guidance Note you will learn:

- How fundamental business principles related to profit, risk, and investment are the core building blocks of SanMark supply-side strategies
- How to engage businesses in your SanMark program, including key criteria, phases and activities
- Practical tips and steps for UNICEF in planning, budgeting and managing the business engagement and training process

1. Why work with the private sector?

Sanitation Marketing (SanMark) engages private sector businesses as key partners in accelerating improved sanitation access. By working with the private sector, SanMark supports two fundamental programmatic objectives:

- **Sustainability:** SanMark programs support businesses to sell affordable, desirable products and services to low-income households where they can do so profitably, sustaining and growing their businesses over time (and after program interventions cease).
- **Scalability:** SanMark encourages greater household investment in improved sanitation and works with local businesses to respond to this new demand. After initial investments to catalyse the new market, on-going program investments are kept to a minimum. Supported by local government, the private market can grow as more businesses replicate new product and service models or expand into new markets.

This Guidance Note offers some tips for engaging and working with private sector partners during SanMark piloting and roll-out. It should be read alongside GN3: Sanitation Supply Chains and Business Models.

2. Thinking like a business: Some essential concepts

To work with businesses – whether they are very small service providers and masons, or large distributors and manufacturers – SanMark programs must understand what they need, worry about, and what drives them. Three related concepts are key to understanding any business:

- **Profit:** Profit is total revenue minus total costs. For a new business line like sanitation, profit is the financial reward a business receives for the risk that it takes. Without some profit in latrine sales, businesses will not be able to sustain.

- **Risk and Investment:** Business risk involves making an investment in the hope of seeing a financial return. Investments in sanitation can be financial, for example to purchase moulds, equipment, stock, and inputs like cement. Investments can also be non-financial, for example time and effort to learn about new production methods or business management techniques. Although SanMark programs try to lower risks and barriers to entry for new sanitation businesses, some risk is essential: partner businesses must demonstrate they have a stake in the business by making up-front and on-going investments.

Approaching sanitation *as a business* requires a shift in how we think and work. Whereas in the past, sanitation strategies often looked at businesses as input suppliers and contractors, SanMark sees businesses as key partners and independent, viable enterprises.

3. Key phases and activities in SanMark business development

As part of market research, product design and business model design steps in the 7-step SanMark framework, you will have identified the existing businesses in the sanitation supply chain to understand key opportunities and constraints (see GN3 for more details on initial supply-side research and business model design). Once you have identified your products and the type of businesses you need to work with, you are ready to start an iterative process of market and business development that has 2 key phases:

PHASE ONE: Working with ‘first mover’ businesses

SanMark gets businesses motivated to sell new products to household consumers that have historically shown little demand or interest in investing in sanitation. At the beginning, some effort may be needed to recruit and engage a few ‘first mover’ businesses to take a risk and make an investment on this unproven market. It is best to start with a small number of businesses to test and refine business models before rolling out on a larger scale.

What to do:

- **Identify specific businesses in the target area:** The first step is to find the businesses you want to work with in your target area. Depending on the new products and services you design, this could include builders, masons, retailers, distributors, pre-cast concrete manufacturers, and others. Collect basic data on each business, including contact details, location and existing products and services they offer. If possible, develop a simple database and map. Depending on the size of your target area, it should take about 1 month or less to collect the basic data you need.

Tips

Box 1: Look beyond the hardware supply chain

In some more challenging areas, it may be difficult or impossible to find existing businesses already selling sanitation products or services. Sometimes these types of businesses exist only in major cities or market towns far away from your target area. In these areas, you may need to look more broadly at other businesses and evidence of entrepreneurship. For example, in Papua New Guinea we found small-scale village entrepreneurs acting as ‘middlemen’ to get produce from the village to the market town, and returning with small items like soap and salt to sell in their ‘kiosk’ shops. When these businesses were approached, they immediately understood the sanitation opportunity *as a business* and were interested in getting involved.

- **‘Sell’ the sanitation business opportunity:** Arrange meetings with potential businesses to discuss the sanitation opportunity. During the meeting, show the new products and services the program has designed

(see GN5) and present market research data: the number of potential new customers in their area, how much money they will need to invest up-front on initial stock or equipment and rough estimates of potential profit per sale.¹ Explain what the SanMark program will provide to partner businesses, and clarify what the program will not provide (see Box 2). One-on-one meetings are recommended for larger businesses, but a group meeting is suitable when working with masons.

Tips

Box 2: Approach businesses with a commercial business proposition

Many businesses in the sanitation supply chain will have experience working on contract to programs that offer subsidized latrines. At first, they may not understand the SanMark concept. You may need to explain that the program is not looking for a contractor. You are offering services and support to help them tap the consumer market. They will need to sell sanitation products and services to individual households as they do for their other commercial business lines. They will want to know clearly 'What is in it for me?' so be prepared to explain this clearly.

During meetings, discuss **benefits of partnering with the program**, including:

- Program-supported promotional campaign and links to CATS to generate new demand
- Access to new product know-how, and technical and business training
- Opportunity to reach new villages through program introductions and referrals
- Reputational benefits and networking opportunities with local government leaders (this can help expand their customer base for other products and services they offer)

Be sure to **clarify what the program does NOT provide**, for example:

- Partner businesses will not get bulk orders or contracts for subsidized hardware
- They will not have 'monopoly status' in the new market
- They should not receive large amounts of seed capital
- The program cannot promise or guarantee sales
- Partner businesses (including masons) will not receive direct payments from the program

The program may want to set out some clear 'rules of engagement' for business partnership. For example, businesses might be required to meet minimum quality standards, or agree to some 'fair pricing' rules. These can be set out in a simple agreement or memorandum of understanding. If a business is not interested, thank them for their time and move on. They may change their mind later on.

- **Start working with a small number of high-potential 'first mover' businesses:** Use the criteria from Box 3 to select a small number of pilot businesses to work with. Key elements of a SanMark business training package are provided in Box 4, and tips for training approaches are provided below. It could take 6 to 9 months to identify and support the first group of Phase 1 businesses. During this time, the SanMark team will be learning and adapting their engagement and training approaches.

¹ Existing businesses will often need to be convinced of a 'low margin, high volume' business model, in which making less profit per latrine allows them to sell or build more latrines and thus increase overall profit (see GN3 Sanitation Supply Chains and Business Models for further discussion).

Tips

Box 3: Criteria for Selecting High-Potential Businesses

Finding and convincing the 'right' businesses – especially at the beginning – is one of the most challenging parts of sanitation business development. The following criteria can help you identify the businesses that are most likely to succeed:

- **Existing businesses:** Wherever possible, target existing businesses and avoid creating completely new sanitation businesses or retail outlets. Existing businesses are more likely to take the required commercial risk. They will have the staff, resources, networks, management skills and business acumen needed to succeed.
- **Diversified product line:** It is unlikely that selling latrine products or services will be a full-time 'stand-alone' business. Latrine sales can complement an overall business, but will probably not sustain it. Ask businesses about what other products and services they sell and when. Revenues from latrines typically comprise about 5 – 20% of an overall business, although this will fluctuate with the season.
- **Willingness to make up-front investment:** Successful businesses are willing to commit their own financial and non-financial resources. Calculate the specific costs involved in up-front investment and talk with businesses to understand whether these costs are barriers to program involvement. Consider facilitating access to credit, providing product guarantees or leasing equipment rather than offering out-right grants.
- **Willingness to try new products and promotional techniques:** Take the time to learn about other products or services the business has launched on their own. Why did they introduce this new product or service? How did they tell consumers about it? Experience with active promotions and willingness to launch new products is a good sign of entrepreneurship.
- **Reasonable cash position and capacity to sustain and grow:** Partner businesses must have the capacity to deliver high quality products and services on time. They will need sufficient financial resources to start up and cash flow to continue operations. Ask businesses about their cash flow situation. Ask if they have taken a loan for their business in the past and what they used the loan for. Entrepreneurial businesses are usually willing to invest profit or take on debt to expand operations.
- **Willingness to reach rural consumers with retail sales:** Ask businesses about their client base and what percentage is from rural villages. Ask them to describe how they currently promote their products and services. If the business is used to sanitation subsidy contracts, explain the long-term benefits of developing a new consumer market rather than relying on short-term contracts (Box 2).

PHASE TWO: Scaling through replication and addressing evolving business needs

Once your SanMark program has supported a few businesses to profitably sell the new products and services, other businesses may want to jump into the new market. SanMark programs can help scale up the number of partner businesses by spreading information about the sanitation business opportunity. The program should provide equal access to information, market intelligence and training opportunities, so that any business can get involved. Businesses should be encouraged to innovate and compete with one another to capture new customers.

What to do:

- **For smaller businesses, organize exposure tours to existing pilot businesses:** During exposure visits to a successful business, the owners can share how they got involved in the program, how many more latrines they can now produce and sell, their key challenges and future plans. A strong successful business profitably selling latrines is the best way to 'sell' the business opportunity.
- **Provide opportunities for on-going business exchange and networking:** After the initial training or mentoring support, SanMark programs should bring program partner businesses together periodically so they can talk directly to each other about common technical and business management issues they face. Be sure to bring together businesses that are working in different areas and are not in direct competition with each other.
- **Provide opportunities for business-government networking:** SanMark brokers new relationships and builds trust between the private sector and local governments. Arrange forums that bring together businesses and government officials to talk about issues such as quality standards and government sanitation goals. Forums are an opportunity to reward business partners with networking opportunities that can help them build their reputation. Do not offer to pay for business partners to attend. But remember, for a business 'time is money' so be strategic about where, when and how you ask for their participation.

In practice, these business engagement phases will overlap. At any given time, there may be some businesses that are just entering the new market, and other trained partner businesses that are already confident with the new products and business models you have introduced.

4. Planning, budgeting and managing the business development process

UNICEF may not be directly involved in the identification and training of businesses in the new sanitation market. However, there are numerous ways to ensure that partner organizations are adequately supporting businesses. UNICEF can consider the 'Do's and Don'ts (Box 5), and follow some key steps as you manage the process:

Step 1: Budgeting and planning for business development

In developing your overall SanMark budget or reviewing the budget of an implementing partner, consider key line items such as supply chain assessment (see GN3), meeting businesses in the target area, mentoring and training curriculum development and delivery, and business exposure tours and forums. Avoid including large line items for set amounts of grant 'seed funding' for each business; once it is in the budget there will be pressure to disburse this funding whether or not it is needed. In work plans, allow for at least 6 months for Phase 1 recruitment and support to 'first mover' businesses before moving into Phase 2 exposure and training activities. Training packages and curriculums should evolve and develop during Phase 1.

Step 2: Recruiting the right business development skills

Ensure that you have adequate skills in small business development, both within UNICEF and within your implementing partners. You may want to ensure there is at least one Business Development Specialist on the implementing partner team to engage and select businesses, deliver business training packages (see Box 3) and

refine business models as the market develops. At the program proposal stage, review résumés of key staff to be sure that they have at least some private sector experience, ideally in the local rural business context in your country. It may be necessary for traditional WASH partner agencies to recruit new ‘non-WASH’ skills, and draw on small business development experience from other sectors (for example, agricultural market development and financial services). Consult resources from other sectors (see Resources for Further Reading below) to get an idea for what types of market development skills you will need. If you and your partners do not have these skills, consider ‘outsourcing’ business training to external business development service providers or consultants that specialize in these areas.

Step 3: Reviewing the business engagement and training approach

Implementing partners should share their proposed business development approach with UNICEF before they begin training. Training design should begin with a clear identification of training needs. Encourage partners to consider hands-on business mentoring and on-the-job training conducted at the place of business, rather than ‘one-off’ classroom-based training. Small businesses usually prefer practical and skills-based training. Ensure that implementing partners do not focus too heavily on theory and consider literacy levels of business owners. Trainings should cover some key elements (see Box 4) and have clear and measurable competency-based outcomes.

Box 4: Common elements of a SanMark Business training program

SanMark business training packages should be tailored to local business needs, but typically cover the following:

- **General product and service information:** Businesses should understand the benefits of good sanitation and hygiene. They should be able to explain key technical features and functions of the products they offer and advise on product use and maintenance.
- **Technical production of new products and services:** Businesses will need technical training on production and installation techniques; curing times (for concrete); handling and transporting components; and correct product operation and maintenance.
- **Business management and finances:** Most small businesses in rural areas have very limited business management skills. Areas to focus on include basic business and sales planning, inventory and stock control, record-keeping, calculating a balance sheet and managing cash flow.
- **Sales and promotions:** Very few rural businesses actively promote their products and services. Support may be needed to develop basic sales, marketing, and customer service skills, use sales tools such as brochures and banners, and make a simple sales and marketing plan.

Step 4: Monitoring business-level indicators

UNICEF can work with implementing partners to develop and track indicators that measure key sanitation business metrics over time (see GN9: Monitoring and Evaluation). Implementing partners should provide regular updates on the total number of businesses engaged in the program, their geographic scope and growth in latrine-related sales. This type of monitoring data shows how businesses are responding to the new sanitation opportunity, and whether any program changes are needed.

Box 5: Dos and Don'ts for SanMark Business Development

DO!	DON'T!
<p>DO link businesses to CATS communities. Let businesses know which communities have been triggered so they can prioritize them in sales plans. Facilitate introductions to these communities, but be clear about the roles of CATS facilitators in this process (see GN10: SanMark and CATS).</p>	<p>DON'T offer 'free' seed money. This funding is often not necessary to motivate a business to enter the market. Instead of seed grants, consider lease arrangements or loans on a case-by-case basis. Consider partnering with a microfinance institution, rather than disburse loans on your own.</p>
<p>DO encourage innovation and competition. Competition among businesses can help drive down costs and improve quality for consumers.</p>	<p>DON'T limit businesses geographically. Encourage businesses to reach as many new consumers as they can. Do not limit them to 'program villages'.</p>
<p>DO take a 'hands off' approach to businesses. Make sure that businesses take real risks and make investments. Be prepared for some businesses to fail or pull out.</p>	<p>DON'T set up new businesses. New businesses created by external programs often remain heavily reliant on program support and unable to sustain themselves after program completion.</p>
<p>DO learn from other sectors. Small businesses often have similar challenges and needs. Learn from rural market facilitation and business development programs and use existing toolkits and guidance (see Resources for Further Reading below).</p>	<p>DON'T attempt to set prices. Market prices will fluctuate based on inputs and fuel costs, competition, and other factors. Discuss lowering margins to increase volume and encourage fair pricing, but allow the market to determine final retail prices.</p>
<p>DO consider certifying, accrediting and rewarding good partners. Accreditation can increase consumer confidence and enforce standards. Informal recognition and introductions to program communities can be strong incentives for program partners to offer good quality at fair prices.</p>	<p>DON'T rush into training events. Take time to vet high potential businesses and understand their needs. Be open to new modes of training and mentoring, rather than one-off training events.</p>

5. Doing Sanitation Differently

Sanitation marketing requires us to treat households as consumers. But just as critical to the process is treating the private sector as business partners. This means understanding profit, risk and investment and 'thinking like a business.' No matter how small a business is – whether a single independent mason or small family enterprise – there are always opportunities to encourage entrepreneurship and profitable business practices. This brokering of new relationships with the private sector is what sets SanMark apart from other sanitation approaches.

Resources for Further Reading

Reports and Case Studies

1. Heirli, U. and Frias, J. (2008). One Fly is Deadlier than 1000 Tigers: Total Sanitation as a Business and Community Action in Bangladesh and Elsewhere.
www.unwater.org/.../One_fly_is_deadlier_than_100_tigers.pdf
2. WSP (2012) Sanitation Marketing Lessons from Cambodia: A Market-Based Approach to Delivering Sanitation. Field Note. <http://bit.ly/TaT79G>
3. Heirli, U. (2008). Market Approaches that Work for Development. www.poverty.ch/documents/Synthesis.pdf
4. M4P (nd) Being a Market Facilitator: A Guide to Staff Roles and Capacities.
<http://www.m4phub.org/userfiles/resources/292011123547370-Market-Facilitation-Roles-and-Capacities-Guide.pdf>

Websites and Toolkits:

1. USAID Microlinks – Microenterprise Learning Information and Knowledge Sharing: www.microlinks.org
2. SEEP Network – Resources and Tools for Enterprise Development: www.seepnetwork.org
3. M4P Hub – Sharing Knowledge on Making Markets Work for Poor (M4P): <http://www.m4phub.org>
4. Market Approaches to Development: www.poverty.ch
5. Next Billion – Development Through Enterprise: www.nextbillion.net
6. IFC MSME Toolkit: www.smetoolkit.org

About the UNICEF Sanitation Marketing Learning Series

This Guidance Note is part of the UNICEF Sanitation Marketing Learning Series, a learning initiative designed by the University of California Davis (UCD) to improve Sanitation Marketing knowledge and practice within UNICEF. The Learning Series is delivered by Mimi Jenkins (UCD and London School of Hygiene and Tropical Medicine), Danielle Pedi (Consultant, WASH Catalyst), Jeff Chapin (Consultant, IDEO), and Mike Rios (17 Triggers Behavior Change Lab).

The ten Guidance Notes in the Series are available for download here: <http://uni.cf/Xo2o2l>

1. *Situation Analysis – How do I know if SanMark will work in my country?*
2. *Consumer Behavior – How can we understand sanitation consumers in target markets?*
3. *Sanitation Supply Chains and Business Models – How can we improve market systems?*
4. *Private Sector development - How do we improve capacity of local sanitation businesses?*
5. *Getting the Product 'Right' – How do we design affordable, desirable latrines that businesses can profitably produce and sell?*
6. *Enabling Environment – What roles and functions are needed in the new market?*
7. *Demand Promotion and Marketing – How do we reach rural target markets in san mark?*
8. *Equity in Sanitation Marketing - How can we support the market to reach the poorest?*
9. *Monitoring and Evaluation – How do we measure sanitation marketing progress?*
10. *Sanitation Marketing and CATS – How do we link approaches?*