

SOWK2203/ UGEC  
2693

## Lecture 4

**Case Study (I):  
Social Enterprises for  
Poverty Reduction &  
Employment of  
Vulnerable groups**

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Grameen Danone Foods, Bogra Plant, Exterior



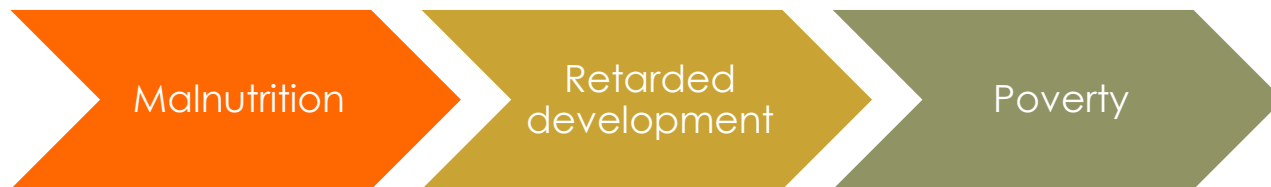
**Grameen Denone Food**

# Need

- 30% of all Bangladeshis and 56% of Bangladeshi children under the age of 5 suffer from moderate to severe malnutrition. |
- highest child and maternal malnutrition rates.
- This in itself is a human tragedy. Malnutrition, however, is also a major impediment to development:
  - malnourished people become sick more easily,
  - can work less and
  - find it more difficult to study.
- While Bangladesh produces sufficient rice to nourish its people, diets often lack vital nutrients such as vitamins and minerals.

# Theory of change

- The lack of protein and the micronutrient deficiencies due to the lack of dietary diversity had an impact on survival.
- They also affected cognitive and physical development, productivity, and, much more broadly, economic development, and caused illnesses



# The Grameen Group

- In 1976, Prof. Muhammad Yunus launched a research project to examine the possibility of designing a credit delivery system to provide banking services to the poor . By 1983, Yunus's project , the Grameen Bank, had become an independent bank, which provided "credit to the poorest of the poor in rural Bangladesh, without any collateral." In 2006, the Grameen Bank and Yunus were awarded the Nobel Peace Prize

# From Grameen Bank to Grameen Group

- As of April 2010, the Grameen Bank had 8.29 million borrowers, 97% of whom were women. The bank had 2,564 branches and provided services in 81,355 villages, offering services in more than 97% of the villages in Bangladesh.
- The bank had loaned \$9.54 billion, of which \$8.50 billion had been repaid. The loans outstanding totaled \$93.97 million. The bank's loan recovery rate was 96.83%.
- The Grameen Bank had 25 sister companies. Four of the companies made up the Grameen Group — Byabosha Bikash, Grameen Kalyan, Grameen Shakti, and Grameen Telecom — that cofounded Grameen Danone Foods with Groupe Danone

# Groupe Danone

- Groupe Danone was a multinational company headquartered in Paris. The company's mission was to “bring health through food to a majority of people.”
- In 2009, the company was first worldwide in fresh dairy products, second in bottled waters, second in baby nutrition, and first, in Europe, in medical nutrition .
- The company's brands included Evian, Volvic, Aqua, Activia, and Dannon. In 2009, the company employed 80,976 people and had a net income of \$2.1 billion

**Exhibit 1** Groupe Danone: Income Statement and Balance Sheet (in millions of US\$ except for per share amounts)

	December 2009	December 2008	December 2007
<b>Income Statement</b>			
Revenue	21,472.20	21,452.60	18,805.00
Cost of Goods Sold	9,672.70	10,108.90	9,390.70
Gross Profit	11,799.50	11,343.70	9,414.30
Gross Profit Margin	55%	52.90%	50.10%
SG&A Expense	7,980.10	7,743.80	6,538.70
Depreciation & Amortization	786.8	740	618.2
Operating Income	3,598.80	3,082.60	2,275.60
Operating Margin	16.80%	14.40%	12.10%
Non-operating Income	-322.5	0	0
Non-operating Expenses	-378.4	-823.1	-260.5
Income Before Taxes	2,897.90	2,259.40	2,015.00
Income Taxes	607.7	624.4	603.5
Net Income After Taxes	2,290.30	1,635.00	1,411.60
Continuing Operations	2,179.90	1,722.40	1,539.60
Discontinued Operations	0	379.2	4,845.50
Total Operations	2,179.90	2,101.60	6,385.10
Total Net Income	2,179.90	2,101.60	6,385.10
Net Profit Margin	10.20%	9.80%	34%
Diluted EPS from Total Net Income	3.55	3.88	12.82
Dividends per Share	1.72	1.55	--



# The handshake

- In October 2005, Franck Riboud, chairman and CEO of Groupe Danone, and Muhammad Yunus met for lunch in a Paris restaurant. The two men discussed how their two organizations could work together to improve the health of children in Bangladesh by providing nutritious food.
- By the end of their lunch, the two men had agreed, with a handshake, to create a new company called Grameen Danone Foods Ltd., which would operate as a social business.
- They intended it to be “the world’s very first consciously designed multinational social business.”

# Rapid establishment

- In November 2005, individuals from Groupe Danone and the Grameen Group met to further develop the business plan.
- At this meeting, they determined that the product the company would produce and distribute would be a nutritious yogurt and that the target market would be young children.
- Just four months later, in March 2006, Grameen Danone Foods was founded

# Yunus:

- This represents a unique initiative in creating a social business enterprise, i.e., an enterprise created not to maximize profit, but **created with a declared mission to maximize benefits to the people served, without incurring losses.**
- It is a small project to begin with, but **contains the seed of a new breed of business, which can change the economic world fundamentally**

## Riboud:

- I'm deeply convinced that our future relies on our ability to explore and invent new business models and new types of business corporations.
- This partnership with a company as iconic and visionary as the Grameen Bank is for Danone a huge step in that direction and in better achieving our mission: **to bring health through food to the largest number of people.**

# Start-up

Grameen Danone Foods, Bogra Plant, Interior



- Once the company was formed, things continued to move quickly;
- It acquired land to build its first plant in July 2006, and in February 2007, the plant produced the first cup of yogurt.

# Business Model

- Yunus : “We would run the business in such a way as to incur no losses and to generate a small surplus. Out of this surplus, the initial investment of the two parties would be repaid as early as possible.”
- Any profit paid to investors was to be reinvested in the business to enable it to grow.

# Company's objectives

- To **bring health through nutrition** at a very affordable price to all Bangladeshi children.
- To **improve living conditions** of the poorest of the community by **involving them in all stages of the business model** (supply, production, sales), creating jobs, and improving local competencies.
- To **preserve nonrenewable resources** as much as possible.
- To be **profitable** to ensure economic sustainability.

**A yoghurt that brings the strength  
of a lion!**





# yogurt sold daily to school children



# Farmers selling their milk to Grameen Danone



# The product: Shoktidoi

- Groupe Danone's R&D team, together with the nongovernmental organization Global Alliance for Improved Nutrition (GAIN), developed Shoktidoi, which literally means "yogurt for power." It was a yogurt made from cow's milk, date molasses, and sugar. Shoktidoi was a natural source of calcium and protein.
- Being a yogurt, it contained active cultures, which helped to promote good intestinal health and reduced the severity and duration of diarrhea.
- Shoktidoi was also enriched with micronutrients; a single 60-gram cup provided 30% of a child's daily requirement of vitamin A, zinc, and iodine.

# Production

- Groupe Danone traditionally operated large factories that served a wide geographic area. In Indonesia, for example, Groupe Danone had one plant that served the entire country.
- This was not the model Yunus wanted for Grameen Danone Foods. He pushed for “the smallest plant technically possible, located in a rural area, surrounded by the village people it would serve.

# Production

- Yunus: Our goal is not only financial efficiency, but also maximum social benefit. Grameen Danone will make tasty, nutritious food, but also maximize social benefit. The milk we use to make our yogurt should come from local suppliers. . . . These people should be our suppliers as well as our customers. If the factory is small and produces food that is sold immediately to the people who live nearby, they will think of it as their factory.

# Production

- The job of designing and building the plant fell to Guy Gavelle, the company's design engineer. Gavelle was accustomed to building large plants for Danone, so designing and constructing a small plant was something new. After completing the design of the plant, he told Yunus: "Professor, I want to report some very happy news. I have designed the small plant you wanted—a very small plant. But it is not only small. It is very cute and very efficient, equipped with a full range of state-of-the-art technology

# state-of-the-art technology Production

- In fact, it is more advanced than the huge plants I have designed in Brazil, Indonesia, China and India. I am very happy today.”<sup>31</sup> After the plant was completed, Yunus noted: “Guy Gavelle says that designing and building the Bogra plant has been one of the richest learning experiences of his decade-long career at Danone.

# Energy-saving Production

- It was designed to be a “green” plant to limit the use of fossil fuels by avoiding wasted energy. Energy-saving light bulbs were installed, and timers placed on light switches, so the lights would automatically go off when the area was not in use. The plant also used solar water heaters and collected rainwater, which was stored and used by a boiler that produced steam for the processing lines



## Degrade polylactic acid residues

- a system that produced and consumed biogas, a mixture of CO<sub>2</sub> and methane, through the anaerobic digestion of effluents generated during the manufacturing process. This biogas, along with biogas produced by the plant's biodigester, which was used to degrade polylactic acid residues (also part of the manufacturing process), were used to light the plant's outer walls by gas lamps.
- When the production volumes increased, the plant hoped to provide the local community with natural gas.

# Price

- In February 2007, when the first yogurt was produced, it was sold in an 80-gram cup for 5 takas (\$0.08). By September, Grameen Danone Foods was selling around 350,000 cups per month.
- However, in April 2008, the price of raw milk increased by more than 100%, and, to remain economically sustainable, the company decided to increase the price of Shoktidoi by 60%.
- The result was that the demand for the product dropped to almost nothing, and the network of Grameen Danone Ladies, who distributed the yogurt, collapsed.

# Market Segmentation

- Grameen Danone Foods decided to produce a 60-gram cup (the smaller cup still contained 30% of the recommended daily allowance of nutrients) for 6 takas (\$0.09). The company also decided to expand sales to Dhaka, and in November 2008, it began to send a refrigerated truck to the capital city twice a week.
- The product sent there was an 80-gram cup priced at 12 takas (\$0.18). Yunus explained why the product was priced higher in Dhaka: “We sell our products in Dhaka with a margin aiming to sell those at lower prices to poor people in remote areas to get them nutrient-rich food.”

# Specific Product for different Market

- With the increase in raw milk prices, Grameen Danone Foods also decided to move ahead with expanding its line of products. By September 2010, it sold six different products. The three lowest-priced products—plain Shoktidoi (6 takas [\$0.09] for 60 grams), mango Shoktidoi (8 takas [\$0.12] for 60 grams), and the Shoktidoi pouch (5 takas [\$0.075])—were sold in rural areas.
- The more expensive products—plain and mango Shoktidoi that were packaged in 80-gram cups for 12 takas (\$0.18)—were sold in urban areas. The plain-plus-protein Shoktidoi was sold in 60-gram cups for 8 takas (\$0.12) in both urban and rural areas.

# Distribution

- Shoktidoi was distributed primarily within a 30-mile radius of the Bogra plant. Rickshaw vans and small motorized vehicles powered by natural gas transported the Shoktidoi from the plant to Grameen Bank locations. From there, the products would either be delivered to shops or picked up by the Grameen Danone Ladies

# Grameen Danone Ladies

- The Ladies were micro-entrepreneurs who were trained and coached on how to sell Shoktidoi by staff from Grameen Danone Foods.
- They had a one-day sales credit, and they would remit to the company the revenue from the previous day's sales, plus any unsold cups.
- They were paid a margin on sales volume. Each Lady had a goal of selling 50 cups a day, which meant her daily income would be 67 takas (\$1.00) if she was successful.

## To Dhaka

- Grameen Danone Ladies accounted for about 20% of Shoktidoi sales; the remaining 80% was sold in shops or small stores located in both rural and urban areas. The shops were provided with refrigerators or an insulated box to store the products.
- Shoktidoi could keep for 48 hours without refrigeration. For the most part, the company sought to produce and distribute the product so that it would be consumed within this time frame. In late 2008, Grameen Danone Foods started to transport its products by truck to Dhaka

# Results

- By 2009, Grameen Danone Foods had sold 35,319 cups of Shoktidoi per day, a significant increase over the 3,414 cups per day it sold in 2007. Sales were divided between rural and urban areas, with approximately one-third of sales in Dhaka.
- In December 2009, there were 3,863 shops and 500 Grameen Danone Ladies; at the start of the year, there had been only 621 shops and 42 Grameen Danone Ladies.
- While not yet profitable in 2009, the company projected it would reach profitability by 2011 or 2012.



# Yunus

- Yunus called Grameen Danone Foods a “well-known example of a social business” and went on to say: “By investing in this joint venture with Grameen Group, Groupe Danone can help to eradicate malnutrition in Bangladesh, one of the least developed countries in the world, by doing business, not simply by donating money.”

# Riboud

- For Riboud the enterprise is about expanding into new markets with nutrition-enhancing products. “It’s really a growth strategy for our company,”
- “We are convinced that in this world, when you are a consumer-goods company and the country is a developing country, it would be crazy to think only about the peak of the pyramid.” But it’s clear also that Riboud agrees with Yunus’s worldview. “Is the classic economic model working?” he asks.
- “No! But I told him, ‘I don’t want to make charity.’ The strength is that it is a business, and if it is a business, it is sustainable. Your shareholders are happy.”

# Impacts

- 100,000 cups of yogurt sold daily
- 300,000 beneficiaries
- 475 farmers living better by selling their milk to Grameen Danone
- 250 women micro-entrepreneurs

# Outlook

- Grameen Danone plans to expand. Within the next 10 years, more plants will be established and several hundred distribution jobs will be created. The [Danone Communities Fund](#) has been created to support this endeavor. At the beginning of 2007 the independent NGO [The Global Alliance for Improved Nutrition \(GAIN\)](#) launched a trial designed to test the benefits from a regular consumption of the yoghurt. In November 2011, the [preliminary study results](#) were released saying that the impact of the Grameen Danone yoghurt shows a positive impact on growth and cognitive performance of children



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