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**Securing Venture Capital for a Social Business in Latin America: Approaching the Case from the Standpoint of Sustainability or Financial Gain<sup>1</sup>**

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Just under three years after launching his journey as an entrepreneur, Juan Nicolás Suárez was at a crossroads regarding the destiny of Diseclar, a recycled furniture manufacturing company that he had founded in Cali, Colombia (see Annex 1).

Diseclar originated from Juan Nicolás's idea to produce a raw material from recycled waste products that could compete with wood in terms of durability, cost, and aesthetics. With some assistance, he created and perfected the material, and explored various applications such as tables, pergolas, floors, chairs, and benches. He still wondered whether his value proposition should be defined as the end product—furniture made from recycled materials such as plastics and plant fibers—or as the raw material itself, which could have many possible applications beyond just furniture.

Juan Nicolás's connections and past experience with the beverage industry and its distribution channels had revealed the local market's need for low-cost tables and chairs. Thus far, he had sold his products to individual consumers through direct references, and had tried—with much success—to sell his outdoor pergolas and floors wholesale to large distribution companies. Though aware of the stark differences between these two types of customers, he

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<sup>1</sup>This case was written by Randall Trejos and Urs Jäger. The study was intended to serve as a basis for class discussion. The case is not an illustration of the correct or incorrect ways in which to manage a particular administrative situation.

decided to target both because he needed all the income that he could access if he wished to grow his business.

For over two years, Juan Nicolás had produced his initial prototypes by outsourcing manufacturing, and had sold his products to anyone who was interested. During this period, he received funding from entities that supported social entrepreneurship, and earned awards from business plan competitions. Thanks to USD 85,000 raised in this way and some of his personal savings, Juan Nicolás was on his way to obtaining one of seven machines that he would need in order to move the manufacturing process in-house. He saw the acquisition of machinery as the next logical step in Diseclar's development, as this would reduce his reliance on third parties and allow him to cut costs. He could then, in turn, pass on these savings to the consumer. This would make his products much more attractive and competitive with budget furniture alternatives from China that were also available in the Colombian market. The cost of all seven machines was USD 500,000.

It was another hot day in Cali, and Juan Nicolás had just arrived at his workshop after a meeting with a prospective client. As he sat at his desk, he returned to a question he had been entertaining for several months: *What if I could raise that half a million dollars? Would that take Diseclar to the next level?* He turned to look at the one thing that comforted him during difficult times: Spread across his desk were the various certificates from prizes that his business had won, along with multiple newspapers articles praising Diseclar. He knew that this display of support had to mean that he was onto something big.

Through the exposure that he had gained through awards and recognitions, Juan Nicolás had met several potential investors. One of these was the Red Nacional de Ángeles Inversionistas (RNAI),<sup>2</sup> which by early 2014 had 194 registered companies and had funded six projects, three of which amounted to around USD 100,000. According to Fernando Pereira, the regional leader

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<sup>2</sup> The Red Nacional de Ángeles Inversionistas is an initiative of the Ministry of Industry and Trade of the Colombian government, seeking to establish a network of entrepreneurs and venture capitalists. Created in July 2013, it began as the answer to a context in which pairing investors and entrepreneurs had not, traditionally, been fruitful.

of the RNAI, Diseclar stood out from other applicants because it was more than just an idea; it already had a minimum viable product and prototypes, as well as some exposure in the market.

Juan Nicolás continued to reflect: *I've not always been 100% sure of what investors are looking for. Some want to see financial results, while others are attracted to sustainability or the social aspect of my business.* Throughout the almost three years that he had been in business, he had come into contact with various traditional investors who offered support, most of them foreigners who were only willing to invest in Diseclar if it could expand into other countries. Having not even established full in-house production in Colombia, this would be a tough route to pursue. He could always look for other investors interested in funding Diseclar—perhaps even Colombian ones.

He had also come into contact with socially and environmentally-minded organizations, of which Chivas was probably the best shot at a large amount of funding. Through its global social startup competition called “The Venture,” Diseclar had been selected as one of 15 other startups to compete for portions of a USD 1 million fund. Juan Nicolás thought: *What if I just focused entirely on our sustainability and social impact? I come across an increasing number of organizations that care about these things.*

He knew that this was not an easy decision. “You never want to close a door to a potential investor, but it's becoming harder and harder to please everyone at the same time,” he had told a friend during lunch the day before. “I feel like if I focus too much on sustainability and social impact over profits and ROI, then I might lose access to more traditional angel investors and VC funds. On the other hand, I don't want to be all about profits and growth because we might lose the soul of what Diseclar stands for. To be honest, I really don't know how to pitch this business anymore.”

## **Recycling in Colombia**

Diseclar competed with several companies that manufactured furniture from real wood and others that used plastic or faux wood (priced slightly lower). A real wood table and four chairs were priced at USD 210, while plastic ones costed about 40% less. These competitors sold through major retailers like Homecenter, Jumbo, Tugo, and PriceSmart, and their value proposition was based on low prices. However, none of these companies had Diseclar's approach of using recycled materials.

Colombia's National Study of Recycling, conducted from 2010 to 2011, showed that 25,999 tons of solid waste was being produced daily, of which 6,025 tons was recovered from recycling over 312 days of operation (16.54%). Experts believed that with sufficient public policy and a greater public awareness regarding recycling, Colombia could aspire to recovery rates of between 20% and 25%. However, the country was still far from these levels. Medellin, the city with the most positive figures, was recovering 17% of its solid waste, with Bogota at just 3.9%. Of this, nearly 60% was organic, 8.4% was cardboard and paper, about 13% was plastic, 2.4% was glass, and 16.7% was an aggregate of metals, electronics, wood, batteries, and other materials.

The recycling industry generated significant economic value. In 2011, experts estimated that more than 50,000 of the country's citizens practiced recycling as their primary occupation, and at least 200,000 people were indirectly related to the industry. Despite its size, however, economic value was not distributed evenly throughout the value chain, and the recycling market presented considerable challenges for each of its stakeholders.

For collection—the first step in the value chain—the average monthly income of male and female workers ranged from COP 68,000 to 697,000,<sup>3</sup> with 80% earning below the legal minimum salary of COP 616,000. The vast majority of collectors worked under precarious

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<sup>3</sup> In April 2011, the month during which fieldwork was completed for the study, the exchange rate of the Colombian peso was 1,772 pesos per U.S. dollar, so the maximum monthly income of a collector in the recycling industry ranged between USD 38 and USD 400.

conditions, did not have health care coverage, and had a guild associativity of less than 30%, with little opportunity to organize and improve their conditions.

The second step in the value chain—the one dedicated to the collection, transportation, and processing of materials—was largely concentrated, with a few companies controlling pricing. This issue was exacerbated by little state intervention to restrict monopolistic practices. Representatives of the sector thrived on this lack of public policy, and used it to protect their particular interests.

Companies that transformed recycled material—the third step in the value chain—required high volumes of it to sustain their activities because of the scale requirements that came with large manufacturing equipment. Because of the way in which the value chain was set up in the previous two steps (with individual collectors turning up very small volumes and the monopolistic practices of the collection companies), manufacturers were often exposed to fluctuations in the availability and price of raw materials, forcing them to import.

Actors from the recycling sector felt that public institutions did not make enough of an effort to promote recycling as an “economic source” and the separation of private, household garbage as a citizen responsibility. A systematic and sustained effort to raise awareness about the importance of recycling, as well as regulations that would require the public to separate its waste, were still missing.

In addition, the payment model structure for sanitary landfills, along with the existence of waste disposal concessionary companies, generated incentives that were contrary to recycling efforts. Local governments paid per ton of waste, so it was in companies’ interest to move the greatest amount of waste possible to the landfill.

## **Development Stages of Diseclar**

### *Phase I: The Idea*

One of Juan Nicolás's earliest positions was an eight-month project at SAB Miller, in which he was in charge of overseeing campaigns and brand activation events for the beverage brand Bavaria. During that time, he witnessed excessive plastic waste generated by the drink factories, as well as by many distributors (e.g., small bars and restaurants). He also noticed that only a small portion of this plastic waste was being reused or recycled.

As a result of his contact with restaurants, bars, and small shops, he also came to understand that these businesses had a need for low-cost furniture. This furniture (sometimes purchased, and other times on loan from the beverage companies) consisted of affordable yet short-lived plastic or wooden tables and chairs.

If he could find a way to utilize the waste produced by the beverage industry to manufacture the plastic chairs and tables that its establishments required, he could solve both problems. Companies such as Bavaria could reuse their waste responsibly, with the incentive of getting back the low-cost chairs and tables that they had lent to their distributors. Distributors would have better quality, more durable furniture at a lower cost. In the end, all parties would be helping the environment.

### *Phase II: Incubation at Campus Nova*

In 2011, shortly after the SAB Miller project and while he was working for Corbeta, Juan Nicolás received an award from the Pontifical Xavierian University, which resulted in USD 2,500 in seed capital and the opportunity to join Campus Nova, the university's incubator and entrepreneurship center.

Campus Nova was created in 2010, after the university decided to make entrepreneurialism a cross-cutting subject for all majors (rather than just an elective, as it had been in the past). Now, under the Academic Vice-Chancellorship, the initiative would provide students with the option to go from being an employee to generating employment. Campus Nova seemed to be the most concrete way to support entrepreneurs both inside and outside the university.

Like many other incubator programs, Campus Nova supported ideas that were in their early stages of conception and maturity with market testing and, in cases where a project was determined viable, the formalization of the company. By 2014, the initiative had incubated 2,000 entrepreneurs and created 210 companies. Each month, 50 new people entered the program, of which 40% had no affiliation with the university. The majority (70%) of the incubated projects were considered traditional companies, 20% were of a cultural or artistic nature, and just 10% were social or environmental businesses.

Under the mentorship of Oscar Mauricio Vásquez, the Campus Nova director, Juan Nicolás began to refine his idea, and took the first steps toward turning it into a company. One of those steps was to decide what materials he would use and how he would process them. However, neither Juan Nicolás nor Campus Nova had sufficient technical knowledge of the materials, nor the facilities needed to perform the necessary tests. They decided to contact the Servicio Nacional de Aprendizaje (SENA) for support.

### *Phase III: SENA and the Emprender Fund*

Thanks to his relationship with Campus Nova, in 2012, Juan Nicolás met with Andrés Fernando Tellez, an adviser for SENA's Entrepreneurship Unit. Tellez became key to the project's development, because he gave Juan Nicolás access to chemical and material engineers who

were experts in polymers, as well as professionals who were researching the use of organic waste to replace the petrochemicals used in plastics.

With support from SENA, Juan Nicolás decided to compete for support from the Emprender Fund, an initiative of the national government to support projects that demonstrate either a strong component of innovation, or significant social or environmental impact. The fund was offering a USD 50,000 award and the opportunity to participate in SENA's mentorship program for one year. This program consisted of two or three monthly sessions that would help entrepreneurs to accelerate their projects. In November 2012, Diseclar became one of the award winners, leading Juan Nicolás to resign from his job and devote his time entirely to his company.

In February 2013, the company became incorporated—though Juan Nicolás was still waiting to receive the USD 50,000 funding. Eager to move forward, he and his adviser, Andrés, began to test the materials. One of the first challenges that they faced was that the material, made entirely from plastic waste, was aesthetically unattractive. It was lightweight and low-cost, but would not be well accepted by consumers. The pair began to experiment with a combination of materials, particularly those of organic origin. Bagasse coffee, once dried, mixed well with the plastic to provide greater flexibility, which was a desirable characteristic when using it for furniture. It also had a more attractive color and texture than the previous versions, but was still a product geared toward a market motivated by low cost and durability, rather than design and aesthetics.

Once the problem of what material to use was solved—at least partially—Juan Nicolás and his colleague took on the task of defining their target audience, identifying its needs, and whether or not their company could successfully compete with other products on the market. At the time, they focused solely on tables and chairs (see Annex 4). They started by polling restaurants that served traditional foods, since those sites typically needed low-cost furniture and would not be discouraged by a “simple,” “rustic” look. Although Diseclar’s value proposition was, to a

large extent, based on the environmental sustainability of its products from the use of recycled materials, they realized that the restaurateurs' main priority was that the furniture be as cheap as plastic and as attractive as wood. For this audience, the fact that the product was eco-friendly was not as important.

The results of the market study and the possibilities that arose with a new material based on recycled plastic and bagasse coffee provided Diseclar with an approach that went beyond the provision of alternatives to plastic chairs and tables: They would also try to produce a replacement for wood. According to their calculations, if produced internally, they could offer a product that was as cheap as plastic, but aesthetically capable of competing with wood.

#### *Phase IV: Awards as a Source of Funding*

The concept of using waste materials while creating low-cost furniture that was capable of replacing wood was certainly an attractive idea. In an effort to publicize the project and seek funding alternatives, Juan Nicolás entered several business plan and innovation competitions in 2013.

The Stephan Schmidheiny awards recognized Diseclar in its Environmental Innovation category, granting it a USD 20,000 award. The Ventures contest also awarded the initiative with USD 10,000, and a competition organized by the United Nations awarded it with USD 5,000.

These distinctions, in addition to providing a financial boost at a time when he was still waiting for the financing promised by the Emprender Fund, were key to motivating the entrepreneur to press on:

*"Receiving so many awards convinced me that this was a good idea; that it was worth continuing to fight for, even at a point when I hadn't yet seen any profit."*

- Juan Nicolás Suárez

### *Phase V: Formalization and Development of a Minimum Viable Product*

In September 2013, still waiting the receipt of the awards he had won, Juan Nicolás began to plan the first steps that he would take once the funds had been received. Initially, he had thought that the first step would be to acquire an extruder machine to process the material and manufacture the basic parts with which to assemble his products. However, this would cost USD 100,000—nearly all of the funds he had raised to date.

Still under the mentorship of Andrés Fernando Tellez, Juan Nicolás opted for a more cautious approach: to outsource manufacturing and generate some prototypes to test the market reaction. Meanwhile, he had decided to spend some time on learning about the manufacturing process before investing in machinery. This would allow him to invest in marketing and building up an inventory of raw materials without incurring significant sunk costs. Outsourced manufacturing, however, entailed certain risks. Much of his value proposition lay precisely with the material that he had succeeded in perfecting over the past year. Furthermore, processing it at an outside plant would involve sharing the formula with a third party. He decided to take the risk and, by the end of the year, had the parts ready for assembly.

In April 2014, with the first pieces assembled, he launched marketing efforts that focused on the segment that had been targeted during the market study: small restaurants serving traditional cuisine. The response was not encouraging, as many indicated that they had already met their need through other channels, such as plastic and wood furniture suppliers.

Drawing from his circle of acquaintances, in June, Juan Nicolás began to visit potential clients who had shown an interest in the material and inquired about other potential uses apart from furniture. Some saw it as a durable replacement for wood, and asked if it would be possible to use it to manufacture pergolas and outdoor flooring. Though unexpected, this application for the material was attractive to Juan Nicolás, and he decided to produce both products: furniture on the one hand, and pergolas and flooring on the other.

In the same month, with feedback provided by these first customers, he decided to rethink Diseclar's brand, logo, and positioning strategy. He distanced the logo from the notion of chairs and tables, and incorporated other products such as pergolas and outdoor flooring, as well as other applications of his material (see Annex 5).

By mid-2014, Juan Nicolás finally received funding from the Emprender Fund and, after several months of market testing and accumulating lessons learned, he was finally in a position to acquire the extruder machine that would help cut his dependence on third parties for the manufacture of parts. This independence was only partial, however, as the initial processing of the material from plant fibers and recycled plastic continued to be outsourced.

### **Diseclar by 2015**

#### *Mission and Vision*

Diseclar's mission was to contribute to the culture of recycling and environmental conservation, and the improvement of Colombian citizens' quality of life.

Its four-year vision was to meet the needs of the national and international furniture market, using eco-friendly raw materials while generating a viable social impact.

#### *Target Market*

Although Diseclar had initially intended to exclusively serve corporate customers as a B2B company (see Annex 4), by 2015 its sales were primarily to end users who purchased furniture, outdoor floors, and pergolas for their homes.

Aware that negotiations with large companies tended to move slowly, Juan Nicolás had chosen to serve the general public as a way of publicizing his products and generating some income. As he saw it, at this stage, they “could not afford to say no to any potential customer.”

More recently, Juan Nicolás had tried to get a foot in the door of the construction and real estate industries, seeking larger sales with housing developments.

On the institutional end, the company had been contacted by the city government to bid on a USD 500,000 project to build low-cost stands for street vendors. Due to the volume required and its dependence on outsourced manufacturing, Diseclar was unable to participate in the bid.

### *Products*

By July 2015, Diseclar’s sales were evenly divided between furniture (50%) and outdoor flooring and pergolas (50%). The material was durable and resembled wood (see Annex 3), but was considerably heavy. The fact that the products were made from recycled materials generated a positive image, but was rarely a decisive factor in the Colombian market.

### *Costs and Competitiveness*

Before purchasing the extruder machine, Diseclar had depended on outsourcers for two key operational processes: the processing of raw materials from waste (recycled plastics and plant fibers) and the assembly of the resulting parts into furniture. Its outdoor flooring, for example, was cheaper than fine wood flooring (such as teak), but couldn’t compete with low-cost products imported from China. In terms of tables and chairs, however, outsourcing these processes allowed Diseclar to offer prices that were 15% lower than wood alternatives and 25% lower than what was known as “plastic wood.”

Until that point, Juan Nicolás had purchased the extruder machine in order to manufacture the parts from materials processed by third parties. But the machine was just the last piece of the process—creating the parts from the already processed material. He would need seven other pieces of equipment if he also wanted to process the raw materials in-house.

If Diseclar acquired the machinery needed to complete the entire production process in-house, its costs could be reduced significantly enough that it could compete with Asian imports, reducing its current manufacturing costs by 35% to 40%. This equipment came with a steep price tag, which Juan Nicolás had estimated at roughly USD 350,000.

By 2015, however, securing a way to process the raw materials was not only a matter of reducing costs and becoming more competitive; SENA, which had thus far allowed Diseclar to produce the material in its facilities, had warned that they could no longer keep supporting the company in this way. It had been two years since they did the first tests, and the organization felt that the company should now find a way to produce the material on its own.

#### *Assurance of Raw Material*

Plant, coffee, and sugarcane fibers were not difficult to find, given the volume of agriculture around Cali and throughout Colombia. Plastics, on the other hand, were different. Although the amount of materials recovered was improving in several Colombian cities, high fragmentation between individual collectors and the nearly monopolistic collection centers made the availability and price of large volumes of plastics uncertain. Diseclar was able to negotiate the supply of plastics with one local company, and though his need of the material remained small, he was not comfortable with relying on just one supplier.

### *Infrastructure and Assets*

Diseclar had 14,000 kg of raw material, worth roughly USD 20,000. The material was processed externally and was not intended to be a final product, but used for the construction of furniture, pergolas, and flooring.

The 350 m<sup>2</sup> warehouse in which it operated cost Diseclar USD 280/month. Thanks to the funds received by the awards, Diseclar had just acquired the extruder machine for USD 100,000. Juan Nicolás wondered if it would be a better idea to acquire his own land on which to build a factory while he acquired the rest of the necessary machinery.

### *Finances*

As of mid-2015, Diseclar had raised USD 85,000 through awards from organizations such as the Empreder Fund, the Stephan Schmidheiny Awards for Innovation in Sustainability, The Venture competition, and the United Nations. Juan Nicolás had also contributed nearly USD 15,000 of his own funds during the company's early stages.

Though nothing had yet been decided, Juan Nicolás had been exploring possible financing from angel investors, both local and foreign. The goal was to obtain USD 500,000 to purchase the machinery needed to conduct all production stages in-house, from the processing of materials to the manufacture of the final product.

Based on his projections, the company could generate sales of more than USD 300,000, yielding slightly more than a USD 50,000 net profit in its first year (see Annex 6).

## *Organization and Work Team*

By 2015, the company had hired its first operator, Ever Guzmán, whose extensive carpentry experience would provide invaluable insight into how to adapt the new material to the manufacture of products that were traditionally made of wood. Assisting Ever was Sebastián Ramírez, who by then had become a full-time employee. In addition, Olga Bonilla was hired as part-time support for Juan Nicolás in sales management. Other external collaborators included Carlos Gustavo Orozco, in charge of accounting services, and Monica Nieto, who collaborated with advertising and media campaigns.

## **Sustainability as a Competitive Advantage**

From the very beginning, the issue of environmental/social impact had been at the core of Diseclar's mission and its communication strategy. However, as Juan Nicolás interacted with customers in the Colombian market, he realized that the eco-friendly aspect of his business was seen as a "nice" detail, but not as a differentiating factor that customers would be willing to pay for. Unlike consumers in more developed markets, Colombians were much more concerned about price, durability, and aesthetics than they were about sustainability.

In terms of the value chain, Diseclar had an opportunity to create a notable environmental and social impact. So far, Juan Nicolás and every supporter that he had found along the way agreed that the company's "secret sauce" was the material that he and the SENA engineers had come up with: a combination of recycled plastics and organic waste from coffee and sugarcane. To secure the plastic for production, he had so far relied on the only plastic collection center in town, which at no point guaranteed future availability nor price stability. Juan Nicolás knew that if Diseclar went on to manufacture larger volumes, this sole supplier would be insufficient. But, even if he somehow managed to meet the company's needs by importing waste plastic

during shortages, he would be completely exposed to price fluctuations that could eat away his margins.

The organic component of his material, a by-product of either sugarcane or coffee, was less worrisome. Cali was known for its sugarcane plantations, and there were more than enough potential providers to deliver any materials needed. However, the company had not yet tried to work together with stakeholders higher up in the value chain, such as small farmers. Until then, Diseclar had simply viewed these actors as providers of its raw material. Now, Juan Nicolás was starting to wonder whether it would make sense to try to resort to backward vertical integration, particularly given the success that the company's sustainability story had had in competitions and initial rounds of funding.

Environmental and social impact was precisely what the organizations providing financial support were interested in. With each competition, the case for social and environmental impact became more central to Diseclar's story, turning it into a powerful tool to convince these stakeholders. The company's market-facing selling point had been a durable, affordable alternative to wood furniture. For donors and organizations, however, the selling point had been the social/environmental concern with recycling plastic and reducing deforestation.

If Diseclar managed to "close the loop" by integrating both low-income recyclers and low-income farmers in its value chain, it would have a much stronger case in terms of its social and environmental impact (see Annex 9). On the recycling end, Diseclar could play a valuable role precisely where the inefficiencies of the market were hurting small collectors: by providing an alternative to the monopolistic practices of the very few collection centers. By doing this, the company could, in turn, loosen its dependency on one or two providers and reduce its potential exposure to the price fluctuations that this relationship created. To conceptualize and implement this project, Juan Nicolás expected an extra one-time cost of USD 30,000 for an external consultant (spread out over one year), and the subsequent operational cost of maintaining the recyclers (USD 15,000 per year for one additional employee).

With this scenario, Diseclar could “walk the talk,” and could very tangibly create social and environmental value by including the base of the pyramid stakeholders in its business model. This could move its sustainability discourse far beyond a mere selling point for organizations and potential funders, and turn it into a stronger, more defensible competitive advantage. This would, of course, make the company’s operation more complicated and difficult to manage, since it would have to deal with processes that, up until that point, had been outside its scope of action.

It would also mean that Juan Nicolás would have to start measuring impact, both social and environmental. If he was to take this route, he knew he couldn’t simply get away with saying Diseclar was “helping out” individual recyclers and farmers. He would have to show it with numbers. Through some online research, he came up with a list of key performance indicators that, if implemented properly, could help him to measure and build Diseclar’s sustainability case. The most important ones included the:

- Number of individual recyclers formally employed
- Average income (and increase %) of individual recyclers
- Tons of plastic recovered per month
- Percentage of utilization of recovered plastics
- Number of individual farmers incorporated as suppliers of raw materials
- Tons of natural fibers waste (coffee and sugarcane) recovered per month
- Percentage of utilization of recovered natural fibers
- Total tons of waste converted

In terms of customers, the decision had different implications depending on who Diseclar planned to serve. By now, it was clear that sustainability was not a main value driver for Diseclar’s products in the Colombian market; it was a nice addition, but significantly less important than price, durability, or looks. However, if Juan Nicolás ever wished to explore other markets, such as the United States and Europe, the sustainability factor would be a much more

important selling point. In these markets, his socially and environmentally responsible products could even command a premium price that customers would be willing to pay, converting what had been thus far conceived as a value product in Colombia into a potentially premium one in more developed markets.

### **Defining the Company's Future**

Three years after resigning from his job as a business manager, and after experimenting with various types of customers and different applications for his material, Juan Nicolás wondered where he should next take Diseclar. By 2015, he had acquired an extruder machine valued at USD 100,000, depleting nearly all of the funds that he had raised. Now, he believed that the company needed an additional USD 500,000 to reach the next stage.

The company still had some strategic issues to solve. It was unsure of whether to focus on end-user customers or companies, or if it should define its value proposition around the furniture/pergolas/flooring or the innovative material with endless applications. The entrepreneur's compelling story had made most organizations overlook these unresolved issues with the company's business model, helping him to raise USD 85,000. Facing what Juan Nicolas perceived as an urgent need for capital, the question was whether or not he could continue to rely exclusively on the sustainability argument for funding, and what that would require of the still-young company.

Grants and awards are, in essence, aid that is in line with the organization's goals; however, an investor's motivations are often completely different. Depending on an investor's profile and personal preferences, the environmental or social impact (which had helped Diseclar so much in the past) might not even be a factor. It is possible that factors such as a path to profitability, the ability to scale the business, key partnerships, or a proven track record would be more deciding factors.

### **The investor from Yucatán**

Through one of the competitions, Juan Nicolás had come into contact with an angel investor from Mexico called Rubén Herrera, an experienced business man who owned and managed large companies in the agave industry. The leaves of the agave yield a fiber called “henequen,” which is traditionally used for rope due to its resistance, and the investor was now curious if they could do with henequen what Diseclar had done with coffee and sugarcane fibers.

Rubén thought that this could be an opportunity to find alternative uses for his crops, and although the recycling argument made for good PR, he made it clear that he was not in the recycling business. If Juan Nicolás could prove that they could make furniture out of this raw material that he controlled in large quantities, then he would consider this a spin-off and invest in it.

This would require Diseclar to set up shop in Mexico—an idea that Juan Nicolás was not thrilled about. He was barely considering establishing full manufacturing capabilities in Colombia, so expanding to another country seemed far-fetched. On the other hand, he thought that partnering up with somebody this big would be a game-changer for Diseclar. He wouldn’t have to struggle for funding anymore, and he would be closer to the United States market. With Rubén’s connections, expanding to other markets would be infinitely easier.

Rubén had shown to be interested, but by no means was he writing checks just yet. First, he needed to see some samples made out of henequen. Because it is not possible to find the plant in Colombia, and they couldn’t process it in Mexico, the plan was to have Fernando send some raw material for processing in Cali. After proving that the venture would be technically feasible, they would get into the details about the business. Juan Nicolás did not know Rubén very well, but from their conversations, he could tell that he wouldn’t partner up without thorough scrutiny. “I have to do my homework, and I’ll put you to the test,” he had told him, meaning that he would take due diligence very seriously.

This defiant manner of negotiating made Juan Nicolás feel uneasy. He had the sensation of being overpowered by somebody with deep pockets, and he did not like that. He had built Diseclar from the ground up, and although he recognized the value of the investment and Rubén's connections, he wasn't ready to take a back seat in his own startup.

### **The Impact Investor**

Another potential investor was an impact fund manager, also from Mexico, that had learned about Diseclar during the Stephan Schmidheiny Awards from Viva. Rodrigo Benavidez ran a fund aimed at supporting companies that were trying to solve environmental and social problems. They defined their mission as follows:

“Our mission is to promote sustainable economic development through strategic services to companies that address environmental and social challenges, contributing to the strengthening of a startup culture and responsible consumption in Latin America.”

To Rodrigo, Diseclar was attractive not only because of the environmental impact through the use of materials that otherwise ended up in landfills, but also because of the social component; the model had opportunities to improve the livelihoods of the many low-income families of the disenfranchised individual collectors.

The fund, although operating out of Mexico, did not make it a requirement for Diseclar to move its operation there. This sat well with Juan Nicolás, who felt more comfortable growing the business in Colombia before expanding, although he couldn't help but wonder if he was just playing it safe by not pursuing other markets more aggressively.

So far, Juan Nicolás had had just two conversations with Rodrigo, and he had found him to be very approachable. *Maybe this time I won't have to deal with the aggressiveness I've*

*encountered with traditional investors, but it really is too soon to tell*, he thought. One thing was clear: No matter how much of a nice guy Rodrigo was, this was going to be different from all of the competitions that had awarded him seed capital. Although the fund's focus might not have been on financial returns, it was clear that Rubén was expecting something in return for his money. Juan Nicolás knew that he would now have to demonstrate, with data, the social and environmental impact that he had been talking about. The key performance indicators that he had been researching might be a good first step toward that, but he was nowhere near having them implemented, and it would take a lot of work to do so.

### **The Venture Competition**

Looking ahead, one of the most significant opportunities to raise the funds that Diseclar needed was The Venture competition, organized by Chivas. Having been recognized locally in Colombia, Diseclar had been selected to compete in the grand finale against 15 other social startups from around the world. The mission of the competition was clearly defined around social and environmental impact, stating that it wanted to fund and support startups that aimed to make a profit while also creating positive change (see trailer).

Winning the competition meant not only receiving part of the USD 1 million fund, but also receiving expert support and global exposure. The process had begun with a crowdfunding campaign in which Chivas committed the first USD 250,000, split among the 16 candidates according to the votes that they received online. During this initial stage, Diseclar had secured USD 38,000 (coming in third place). For the second phase, all participants would fly to Silicon Valley to pitch their businesses to a panel of experts for the remaining USD 750,000.

Juan Nicolás had a few months to prepare for these processes. This was, without a doubt, a step up from previous contests—in terms of both the award and the rigorousness of the evaluation. If he could win this one, he might not even need to resort to investors at all, retaining all of his startup's equity and, even more important to Juan Nicolás, entire control.

## **The Decision**

Juan Nicolás was convinced that Diseclar needed capital in order to go to the next stage, but he was torn about where to search for this money. Pursuing the opportunity with Rubén Herrera would mean showing that his business model had a clear path to profitability and a reasonable expectation of return; it would also mean dealing with powerful traditional investors that could take Diseclar far, but perhaps prioritizing profits over the social and environmental mission. So far, he had won many awards and gained supporters without having faced tough scrutiny over his business model. He knew that if he were to go after these more traditional sources of capital, he would have to become much more market-oriented.

On the other hand, pursuing the opportunity with Rodrigo Benavidez and his impact fund allowed Juan Nicolás to keep the sustainability and social mission at the core of the business, but he would now have to professionalize the way Diseclar approached these aspects by measuring its impact much more concretely. This would also involve eventually integrating backward to include collectors and farmers in his value chain, which was not only a lot of work, but would also add complexity to his operations.

Precisely because of the work involved in pursuing either of these two options, Juan Nicolás felt that he could not have it both ways. So far, Diseclar had managed to get by without committing to one single strategy and, as many startups, had had the luxury of trying out different things. But now, Juan Nicolás wanted to expand and he knew that he had to make a choice. He had read in an article citing Michael Porter: “The essence of strategy is choosing what not to do.” He smiled, thinking that this was easier said than done.

Finally, the Chivas’ competition offered a potential cash prize that could single-handedly solve all capital needs without requiring Juan Nicolás to forfeit any equity of his company. But at this level, seriously competing would require a lot of preparation and, in the end, this was a one-shot deal. If he didn’t win it, there weren’t other competitions with this kind of prize. At least

with investors, traditional or impact-driven, there would always be others if it didn't work out with Rubén or Rodrigo. The Chivas' path did not seem completely incompatible with that of the impact investor, which made Juan Nicolás wonder if he could manage to do both. This was risky, though, because he didn't want to give Rodrigo the impression that the impact fund investment was a consolation prize.

Juan Nicolás was still in his office. It was the end of yet another long day at work, and he still felt uneasy. Several questions were on his mind: *How profit oriented could I become without drifting away from the purpose that gave birth to Diseclar? Would traditional investors lose their interest if I relied too heavy on the sustainability part of my business model and tried to do things like integrating poor recyclers? Would impact investors and Chivas not regard me as "social enough" if I were to focus mainly on profitability, ROI, and growth?* Juan Nicolás often faced tradeoffs, but here it was especially difficult for him to determine where to draw the line.

He was convinced that he needed the money in order to grow, but wondered: *Should I look for the funding among traditional investors such as Rubén or should I strengthen Diseclar's sustainability arguments to cater to impact investors? Furthermore, should I invest the time required to compete for the USD 750,000 prize in The Venture?*

### **Annex 1: The entrepreneur and the start of his venture**

Entrepreneurship and professional independence had always appealed to Juan Nicolás Suárez. After graduating from the Pontifical Xavierian University in 2009 with a degree in Industrial Engineering, he first sought stable, formal employment with several different companies.

One of his earliest jobs was an eight-month project at SAB Miller, in which he oversaw campaigns and brand activations for the Bavaria beverage brand. There, he noticed two things that would mark the fate of his future undertaking. First, he witnessed the tremendous volume of plastic waste that was being generated by the beverage industry. Second, he saw how many distributors, such as small bars and restaurants, needed low-cost furniture for their establishments.

After the project with Bavaria, he was then hired by Corbeta, a local Procter & Gamble distributor, to manage its chain of stores. He was responsible for overseeing the region's sales force (24 staff members). Through this experience, Juan Nicolás learned how to manage and train personnel, and how to lead efficient work teams.

Finally, in 2012—at just 26 years of age—he got a job with Carvajal as their commercial manager. After five months, however, he decided to resign from the position (which had provided him with a good salary and a solid sense of stability) in order to found Diseclar. Juan Nicolás reflected on his reasons for the decision:

“...my cousin had just been fired from a company and was unemployed. I told myself that I did not want to be 30 years old and suddenly fired from my job and unable to cope with responsibilities such as a house and a family. If I was going to start a business venture, this was the time to do it.”

The other circumstance that drove him to make the leap from employee to entrepreneur was that after having worked for some time with the Servicio Nacional de Aprendizaje (SENA) on an application for a government contest called Fondo Emprender, he learned that he had been awarded a large sum of money to launch his project.

## **Annex 2: Diseclar's value proposition**

(Extracted from the company's business plan, May 2014)

**Value Proposition:** Diseclar manufactures and designs furniture (chairs, tables, desks, bookcases, etc.) using plastic waste and plant fibers, thus contributing to the reutilization of plastics that otherwise pollute our environment. It provides clients with a 100% eco-friendly product, offered in five different colors, depending on the customer's preference. Three of these colors imitate natural wood, but with a rustic look. Diseclar's leading products are chairs and tables that come in a kit comprised of four chairs and one table. The products are innovative in the following aspects:

- They are manufactured with recycled plastic and agro-industrial waste, and are eco-friendly products that will not rot, splinter, or chip.
- They are resistant to rodents, pests, fungi, bacteria, and mold.
- They are weather-resistant (rain, snow, cold, heat).
- They can be used both outdoors and indoors.
- They are highly durable, even under extreme conditions.
- The furniture is wood-like.
- Logging and deforestation is decreased.
- The environment is preserved and protected.
- No maintenance is needed; there is no need to apply oil, glaze, wax, and/or paint.
- The product is 100% recyclable, making it possible to reuse.

With Diseclar's advantages, customers acquire a more durable, easy-to-maintain product. A market study revealed several advantages over competing products, which could represent opportunities for Diseclar (e.g., chairs and tables made of wood can deteriorate and rot, thus decreasing their life span when they are constantly cleaned).

### Annex 3: Diseclar's main product line

<p><b>GARDEN LOUNGE SET</b></p>  <p>Ideal for outdoor use on terraces, balconies, in gardens, and at poolsides. Made from recycled plastic and plant fibers that are resistant to water, light, mold, and external agents, the garden lounge set will not rot.</p>	<p><b>COFFEE BREAK SET</b></p>  <p>Ideal for outdoor use because it is impermeable, resistant to high-temperature areas, easily maintained, and has a modern design that provides elegance and style to any space. It is great for terraces, balconies, gardens, poolsides, etc.</p>	<p><b>FARALLONES BENCH</b></p>  <p>Ideal for outdoor spaces and hallways, with a modern, decorative and eco-friendly design. Today's decor emphasizes open-home designs and the use of eco-friendly products that are resistant to extreme weather and are easy to maintain. Our materials are chosen to create beautiful, comfortable products that are also highly durable.</p>
 <p>A modern comfortable design that turns your terrace or garden into the perfect place to share the outdoors with family and friends. Its comfortable, practical, and eco-friendly finish makes it ideal for country homes and the enjoyment of nature.</p>	<p><b>ABSENTA SET</b></p>  <p>Bar-type furniture with a backrest to provide additional comfort and a modern, functional design. This is an ecological product that can be used in various environments. It is ideal for both inside and outside homes, farms, and similar spaces, because they are easy to handle and maintain.</p>	<p><b>TAYRONA FOLDABLE CHAIR</b></p>  <p>A foldable chair for outdoor areas. Its comfortable design and easy assembly make it ideal to bring for camping and fishing; or carry to the beach, riversides, and other recreational areas.</p>

#### **Annex 4: Target market segment**

(Extracted from the company's business plan, May 2014)

Diseclar's target market is restaurants and recreational centers in the region that have a rustic or "country" feel, and that identify with environmental conservation and the improvement of society's quality of life. When this market was approached by secondary sources, it became evident that the importance of the environmental component is gaining traction. Designer Trino Sánchez is the CEO at Arquint, a company dedicated to the conceptualization and design of spaces for the hospitality industry. In his article entitled "Everything you need to know about the design and decoration of a restaurant," published in *La Barra* magazine (issue 50), Trino explained that a restaurant's interior design is vital to attracting and maintaining clients who sit at tables while eating. Two of his "10 commandments to avoid mistakes" stand out here: 1) Materials: this is the "interface" between the restaurant and its clients, and should reflect warmth, comfort, energy, tranquility, immediacy, suggestiveness, and branding; and 2) Environment and sustainability at the forefront: The designer explains that "environmental awareness is growing, and there are multiple ways to be environmental supporters and energy savers; thus, all 276,180 of the restaurants and recreational centers registered in Colombia (DANE, 2012) have been identified as customers. The market study identified that purchasing budgets are geared toward full sets in order to ensure aesthetics and a fluid business concept. Therefore, the proposal was to sell a kit comprised of four chairs and one table. Diseclar would be capable of selling 53,945 sets to restaurants and recreational centers.

#### Annex 5: Reconceptualization of the brand and logo

Following are a couple of proposals presented in early 2014 by AdWorks, the agency responsible for Diseclar's image.

MUESTRA 7



DISECLAR

diseño y fabricación ambiental



DISECLAR

diseño y fabricación ambiental



**Annex 6: Projected profit and loss statement, in USD, years 1–5<sup>4</sup>**

<b>Income Statement (tsd USD)</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Sales	321	456	678	897	1034
Raw materials, labour	111	159	194	236	272
Depreciation	81	114	114	114	114
Other costs	8	21	33	39	61
<b>Gross income</b>	<b>121</b>	<b>162</b>	<b>337</b>	<b>508</b>	<b>587</b>
Sales expenses	61	86	132	178	195
Administration expenses	98	129	185	249	273
<b>Operating Income</b>	<b>-38</b>	<b>-53</b>	<b>20</b>	<b>81</b>	<b>119</b>

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<sup>4</sup> This income statement is not real as DIseclar did not disclose to us its financial projections.

## **Annex 7: Letters of intent to purchase**

M&M Cleaning and Maintenance Services  
6288 Riverwalk Ln # 4 Jupiter FL 33458  
(561) 741-4294 (561) 339-3201

## M&M Cleaning and Maintenance Services

Jupiter, Florida

5/06/2013

Mr.  
JUAN NICOLAS SUAREZ  
DISECLAR S.A.  
Cali – Colombia.

Intent to purchase furniture and chairs made of recycled plastic.

Dear Mr. Juan N. Suarez,

I MIGUEL F. BEJARANO, owner and President of M & M SERVICES, INC. registered and recorded since the year 2000: Solidarity with the conservation of the environment.

We would be interested in acquired and possibly selling items of recycled plastic that are manufactured in Cali , Colombia. By the DISECLAR, S.A.

We are waiting for major information and cost of items manufactured and offered. This intention to purchase is not legal binding to any party, nor attempts to create expectations.

Cordially,

MIGUEL F. BEJARANO.  
President.  
M & M SERVICES, INC.

MIGUEL F. BEJARANO.  
President.  
M & M SERVICES, INC.

*Service that exceeds your expectations*



Miami, August 12, 2013

Mr. JUAN NICOLAS SUAREZ  
Legal Representative  
DISECLAR; DISEÑO Y FABRICACION AMBIENTAL

Reference: Letter of Intent to purchase furniture manufactured with recycled plastic

Please accept a cordial greeting,

By means of the present letter we wish to inform you that I, Enrique Ortiz Ricci, in my position as co-owner of the company ACOR TRADING & LOGISTICS, INC., based in DORAL, Florida, am very interested in trading the tables and chairs made from recycled plastic by the company DISECLAR, in my country of residence, the United States of America.

This document is only a letter of intent to purchase. It does not represent any type of legal commitment by any of the parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Enrique Ortiz Ricci".

ENRIQUE ORTIZ RICCI  
ACOR TLC, INC  
Address: 6020 NW 99<sup>th</sup> Avenue, Unit #303 – Building B  
Doral, FL 33178- USA

Phone: 786-581-4140

Cell: 786-417-3932

Website: [www.acortrading.com](http://www.acortrading.com)

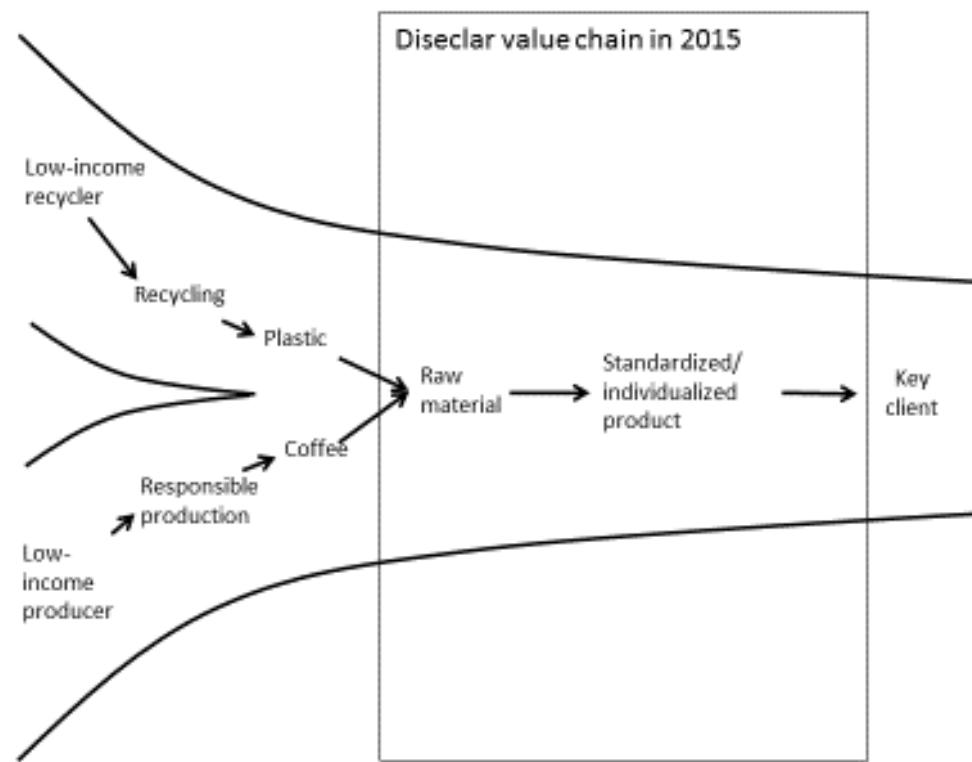
E-mail: [info@acortrading.com](mailto:info@acortrading.com)

#### **Annex 8: Implications of becoming a B2C vs. B2B company**

On the one hand, Juan Nicolás Suárez could continue on the path of exclusively serving end-users, providing customized products with a high perceived value (B2C). He had already installed several outdoor floors and pergolas with this model, and had made adjustments to his chair designs. He had managed the work with each client personally, according to their specifications, which had in turn provided insights into how to improve designs and better understand the end user's needs. If he were to choose this path, he would need to set up direct distribution and provide extremely personalized customer service. To continue with this strategy, he knew he would need to invest significant efforts in communicating the benefits of his products to his target audience—something that, until that time, had been limited to direct, mouth-to-mouth referrals.

The alternative was to supply to other businesses (B2B), both large furniture distributors and companies that required large volumes of tables and chairs (e.g., beverage companies that provide furniture to small bars and restaurants). This would open the gates to selling significant volumes in mass production. He would not have to worry about distribution, because he would be focused on just a few customers who would purchase his products in large quantities. Trade, under this scenario, would be through direct sales with companies, rather than through communication and marketing to the general public.

### Annex 9: Disclar's value chain



### Diseclar value chain with possible backward integration

