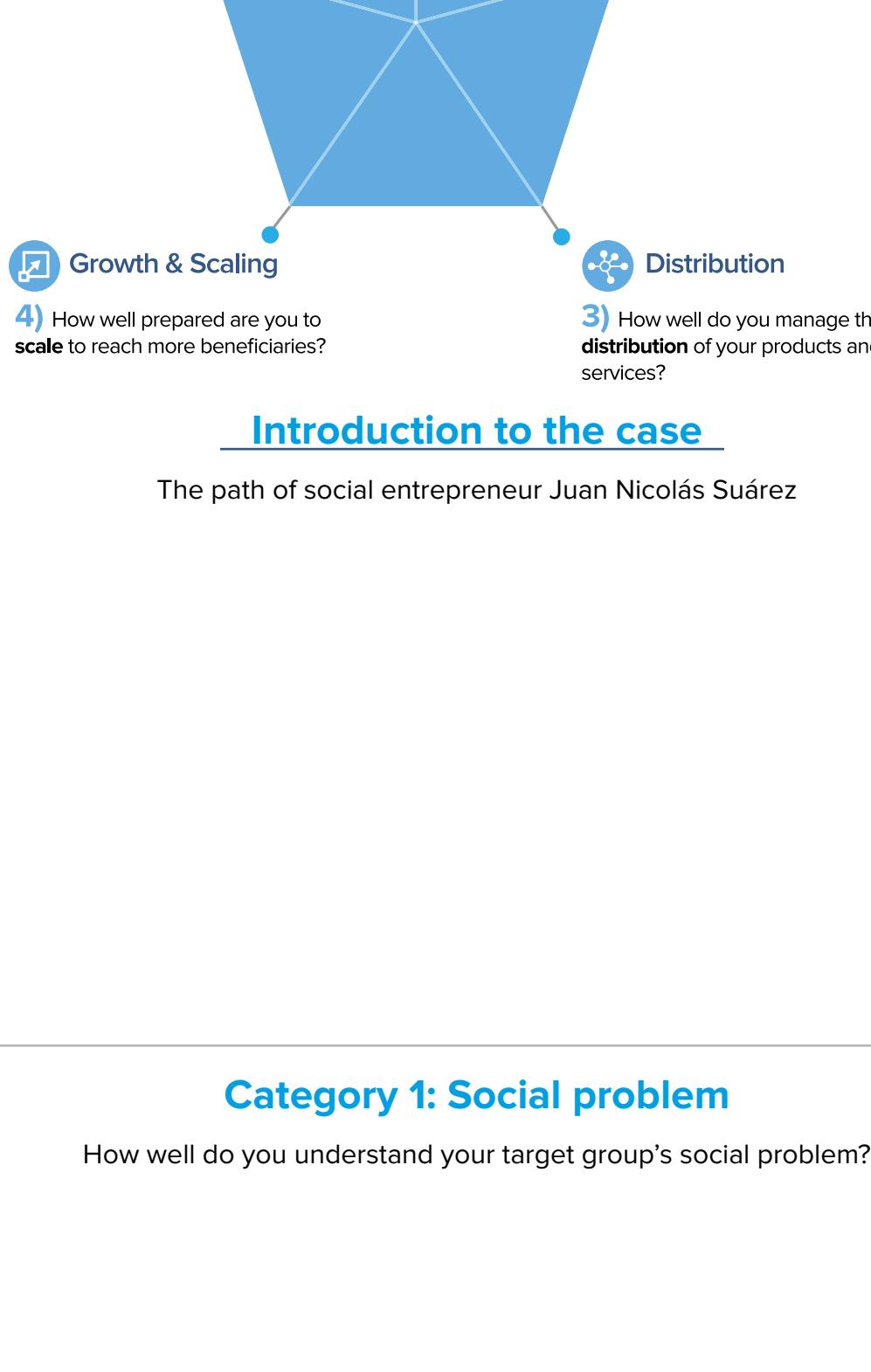


To What Extent is Diseclar INVESTMENT READY?

Framework: The Investment Readiness Check

Below is a summary of key events and information regarding the case of Diseclar, which will help you adapt the Investment Readiness Check questions to this organization. The summary does not replace the written case, so we suggest that you read through the entire case before tackling the structure below.



Introduction to the case

The path of social entrepreneur Juan Nicolás Suárez

Category 1: Social problem

How well do you understand your target group's social problem?

Category 2: Solution

How effective is your solution, and how much impact do you create?

Category 3: Distribution

How well do you manage the distribution of your products and services?

Category 4: Growth and scaling

How well prepared are you to scale and reach more beneficiaries?

How to use this case:

- Discuss each question in the boxes above.

- Based on your answers, evaluate each category.

- Document your evaluation by filling out the Investment Readiness Check for Diseclar.

Category 5: Financing and forecast

Does Diseclar have transparency regarding its financial drivers and capital needs?

Introduction to the case

Motivation and personal story

Key events

While working in Cali (Colombia) at Sab Miller, Juan Nicolás witnessed three issues:

- a) He saw the excessive plastic waste being generated by beverage factories, as well as many distributors. He also noticed that only a small portion of this plastic waste was being reused or recycled.
- b) Living in a sugar cane and coffee production zone, he also saw the organic waste that was being produced by agricultural sectors.
- c) While working in sales, Juan Nicolás had visited many restaurants and recognized their needs for chairs and tables.

These observations led Juan Nicolás to contemplate how he could use the waste produced by the beverage industry and the organic waste produced by farmers to create a wood-like raw material. With this material, he could build chairs and tables to sell to the numerous bars and restaurants in the region.

Juan Nicolás created a business plan, and applied for an award from the Pontifical Xavierian University. He won, and took advantage of the opportunity to join Campus Nova, the university's entrepreneurship incubator.

Influenced by the experience of his uncle, who had worked for years in a company and was suddenly fired, Juan Nicolás chose to found Diseclar and embark on a career as an entrepreneur.

What do you think?

- Which parts of Juan Nicolas' "story" might be of interest for impact investors?
- What are the reasons for an impact investor to be interested in the personal story of a social entrepreneur as Juan Nicolás?

Introduction to the case

Capabilities and learnings

Key events

In 2009, Juan Nicolás graduated from the Pontifical Xavierian University (Cali, Colombia) with a degree in Industrial Engineering. He then worked with a series of private companies, the last being Sab Miller.

Working for other companies permitted him to:

- a)** Learn about the market and the plastic problem, which he would later tackle with the creation of Diseclar.
- b)** Develop practical business skills.
- c)** Establish a network of potential clients such as restaurants.

In 2012, on the Nova Campus, Juan Nicolás met with Andrés Fernando Tellez, an adviser of SENA's (Servicio Nacional de Aprendizaje, Colombia) Entrepreneurship Unit, a government organization that supports entrepreneurs with technological knowhow.

Tellez 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.

Juan Nicolás hired these experts to create the basic formula he needed to transform plastic and organic waste into a wood-like raw material.

What do you think?

- What are Juan Nicolás' capabilities with respect to creating a social enterprise?
- How would you evaluate Juan Nicolás' capabilities from the perspective of an impact investor?

Introduction to the case

Reputation and awards

Key events

As of mid-2015, Diseclar had won several awards, such as the Empreder Fund, the Stephan Schmidheiny Award for Innovation in Sustainability, the Venture competition, and the United Nations award.

Due to these awards, multiple newspapers articles praising Diseclar's solution were published in local and international media outlets.

Juan Nicolás learned that environmental and social impact was the driver for him to raise grants and cash prizes that most awards gave (a total of US \$85,000 in 2015).

What do you think?

- How were the awards Juan Nicolás earned important for Diseclar's success?
- How would you validate awards and other forms of recognition (e.g., newspaper articles) to attract impact investors?

Category 1: Social problem

Social/ecological problem

Key events

Diseclar's mission is to help build a culture of recycling and environmental conservation and improve the quality of life of Colombian citizens.

Juan Nicolás describes the recycling industry as one that generates significant economic value in Colombia. More than 50,000 people (primarily poor) recycle garbage for their primary income, and at least 200,000 people are indirectly related to the industry. Nevertheless, objective data shows that the economic value of the recycling value chain is not evenly distributed. 80% of recyclers earn less than the legal minimum salary of COP 616,000 (US \$215) per month.

Also, a small number of collection centers control collection, transportation and processing of garbage and can therefore control pricing, leaving individual grassroots recyclers in a clear competitive disadvantage.

Finally, although Juan Nicolás considers this industry to be the solution for many environmental problems, companies that transform recycled materials into products require high volumes to sustain their activities. This significantly hinders the proliferation of economically sustainable recycling companies.

What do you think?

- To what extent has Juan Nicolás identified the root cause(s) of the social problem that he is trying to solve?
- What information is he lacking to get to a sufficiently deep understanding of the problem he wants to tackle?

Category 1: Social problem

Needs of target groups

Key events

Diseclar has two main target groups:

a) Grassroots recyclers: Juan Nicolás' wife worked for a nonprofit that supported poor recyclers, so he was familiar with their needs: most were informal with no public insurance or other government support. Their income was nearly enough to cover the daily needs of their families. Most did not finish primary school, and lived in precarious conditions without access to health care or organized associativity that could improve their conditions.

b) Customers: With respect to Diseclar's paying customers, Juan Nicolás' learned that local markets have a strong need for low-cost tables and chairs. Until then, customers such as restaurants, bars and small shops had resorted to higher-cost wood or plastic and faux wood. Juan Nicolás' vision was to meet these needs by using sustainable, eco-friendly raw materials while also staying competitive in terms of the durability, cost and aesthetics of the products. However, Diseclar quickly realized that its potential customers were not primarily interested in sustainability issues, but rather in low-cost products with decent durability and a nice appearance. The interests and perspectives of these two groups led Juan Nicolás to strive to find a compelling value proposition, which oscillated between two possibilities:

- Extend the offering of products such as pergolas, benches and flooring.
- Explore whether he should start to support poor recyclers, and not just buy from large collection centers.

What do you think?

- What information is missing to sufficiently understand the needs of Diseclar's target groups?
- What are the pros and cons for Diseclar to start supporting poor recyclers and not just buy raw material from large collection centers?

Category 1: Social problem

Competitors

Key events

Diseclar's competitors either manufacture furniture from real wood or use plastic or faux wood furniture that is priced slightly lower.

A real wood table and four chairs are typically priced at US \$210, while plastic furniture costs roughly 40% less.

Diseclar's competitors sell through major retailers like Homecenter, Jumbo, Tugo and PriceSmart, and their value proposition is mainly based on low prices.

However, none of these competitors have Diseclar's ecological and social approach of using recycled materials for their products. Therefore, they have not even considered grassroots recyclers and poor producers for recycling materials.

What do you think?

- What are the competitive advantages/disadvantages of Diseclar when following its ecological and social mission?
- What reasons are there for Juan Nicolás to stick with his social/environmental mission?

Category 2: Solutions

Solution

Key events

a) Solution for paying customers:

Diseclar's value proposition is manufacturing and designing furniture (chairs, tables, desks, bookcases, etc.) using plastic waste and plant fibers, thus contributing to the reuse of plastics that would otherwise pollute the environment.

It provides clients with a 100% eco-friendly product. According to Juan Nicolás, his products are innovative in the following aspects:

- They are eco-friendly products that are manufactured with recycled plastic and agro-industrial waste, and 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 appearance is wood-like.
- Logging and deforestation is decreased.
- 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.

b) Solution for grassroots recyclers:

Juan Nicolás still struggles with the decision of whether to also create a direct solution for grassroots recyclers to treat them in a fair and supportive manner, or to simply trust the large collection centers that purchase the garbage from poor recyclers and sell it to Diseclar.

If he worked directly with grassroots recyclers, he would need to create training programs, collection centers and—most importantly—trust relationships with the poor communities. He believes that this could support Diseclar's mission, as it could allow the company to impact social issues in addition to environmental ones.

What do you think?

- If you were in Juan Nicolás' position, would you create and implement a solution for the grassroots recyclers, or trust the large collection centers to treat them well? Do you see any other solution?
- How would you explain the additional investment of including grassroots recyclers into Diseclar's value chain to impact investors? How would you explain the choice not to include them?
- Would you suggest that Diseclar makes and implements the decision to include or not include the recyclers before approaching impact investors? If "yes," why?

Category 2: Solutions

Impact Assessment

Key events

Diseclar has not yet installed a management reporting system for social impact, as Juan Nicolás is still exploring the possibility of including poor recyclers in Diseclar's value chain.

If he works directly with poor recyclers, he thinks he would measure Diseclar's impact based on the following indicators:

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

What do you think?

- Do the indicators used to measure impact on grassroots recyclers make sense, or is anything missing or misleading?
- How would you explain to an impact investor that you have not yet decided to include recyclers, but that you already have a clear idea of how you would include them and measure the associated impact?

Category 3: Distribution

Distribution channels

Key events

The distribution channels vary per target group segment and strategy. Diseclar has still not determined whether it will focus on selling to private customers (B2C) or traders (B2B), or both.

In a B2C strategy, Diseclar would build on direct distribution, and provide very personalized customer service. This is how Juan Nicolás initially generated the income needed to run his business. To continue with the B2C strategy, however, he would need to invest significant efforts in communicating the benefits of its products to its target groups.

The alternative is to supply products to other businesses (B2B), both large furniture distributors and companies that require substantial volumes of tables and chairs. This would provide opportunities to increase sales and reach scale through mass production. In this distribution strategy, Diseclar would focus on just a small group of customers who would purchase its products in large quantities and handle distribution to end customers.

More recently, Juan Nicolás has also been trying to get a foot in the construction and real estate industries, seeking larger sales to housing developers by providing flooring or outdoor installations such as bridges and pergolas.

What do you think?

- How would you evaluate Juan Nicolás knowledge regarding the distribution of his products to his customers?
- How would you explain to an investor Diseclar's situation and the decisions it must make regarding distribution channels?

Category 3: Distribution

Sales capacities

Key events

Juan Nicolás began to interact directly with potential clients during the sale and delivery process. However, the rising success made it less and less possible for him to invest sufficient time in visiting his customers and delivering the chairs/tables or installing the floors for the outdoor areas.

Thus, in 2015, Nicolás hired Ever Guzmán, whose extensive carpentry experience would provide invaluable insight on how to integrate the new material and free Nicolás from the entire production process.

Sebastián Ramirez, who was a full-time employee, assisted Ever. In addition, Olga Bonilla was hired as part-time sales management support.

As Nicolás did not have enough money to hire several other employees, but still needed to be focused on sales, he hired external collaborators. Carlos Gustavo Orozco oversaw accounting services, while Monica Nieto helped with advertising and media campaigns.

What do you think?

- How would you evaluate the organization of Diseclar's distribution process in general, and Juan Nicolás personal focus on sales?
- How would you explain Juan Nicolás emphasis on sales to a potential impact investor?

Category 4: Growth and scaling

Capacity for scaling

Key events

Since its inception, Diseclar intended to internalize production so that it would not depend too greatly on subcontractors/ suppliers. For this purpose, Diseclar acquired an extruder machine that would help decrease its dependence on third parties for manufacturing the essential components of its products.

Since high fragmentation between individual collectors and the nearly monopolistic collection centers made the availability and price of large volumes of plastics uncertain, Diseclar had to find another solution.

By integrating poor recyclers into its value chain Nicolás would gain direct access to the raw material, and could make a stronger case for Diseclar's sustainability value offer as it now included a clear social impact (the work of grassroots recyclers) along with its environmental impact (recycled materials).

What do you think?

- How would you evaluate Diseclar's dependency on the collection centers when intending to scale?
- How would you explain Diseclar's production capacity to an investor?
- How would you evaluate Diseclar's strategic options?

Category 4: Growth and scaling

Level of preparation and growth plan

Key events

Juan Nicolás decided to take a leap and seek investments to scale Diseclar. To do this, he decided to take a step that would attract potential investors who could support Diseclar's capital needs. Specifically, the organization needed to acquire 7 additional machines to reach the next stage. He also planned to strengthen the sales team with new hires.

This investment would cut costs and reduce its reliance on third party subcontractors, enabling Diseclar to pass these savings on to its customers, which would, in turn, make its products more low-cost and increase its competitive advantage vis-a-vis the provision of budget furniture from suppliers in Asia.

What do you think?

- How would you evaluate the growth plan?
- How would you explain this plan to an impact investor?

Category 5: Financing and forecast

Capital needs

Key events

At the time Diseclar launched its operations, it was mainly financed mainly by sales and awards. This allowed the company to grow during its first years. With these resources, in 2015, Diseclar also acquired an extruder machine for US \$100,000, a step that depleted nearly all the funds the organization had raised to date.

The investment needed for the seven new machines was USD 500,000- USD 300,000 in year 1 and USD 200,000 in the following year. Nicolas planned to hire new sales team members step by step.

Also, as Juan Nicolás considered including poor recyclers in his value chain, he recognized that this would need additional investments. At the time, he was unclear of the exact amount he needed, but thought that he could collaborate with local nonprofits and reduce the needed capital. Nevertheless, Juan Nicolás did not know if including the poor recyclers would cause him to lose investors.

What do you think?

- How would you evaluate Juan Nicolás fear of losing the interest of traditional investors when including poor recyclers in his value chain?
- How would you determine the amount of investment Juan Nicolás is asking for when approaching impact investors?
- How important is it to know the exact amount needed to invest in the inclusion of poor recyclers before approaching impact investors?

Category 5: Financing and forecast

Projections

Key events

Here you can find the hypothetical financial plan Disclar had projected. The following figure is a summary of this hypothetical projection (if Disclar receives investment):

Income Statement - simplified (tsd USD)	Year 1	Year 2	Year 3	Year 4	Year 5
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
Gross income	121	162	337	508	587
Sales expenses	61	86	132	178	195
Administration expenses	98	129	185	249	273
Operating Income	-38	-53	20	81	119

What do you think?

- How would you evaluate the financial plan in general, and the information available?
- How would you explain this plan to an impact investor?