Lessons from the field

All staff workshop: Sep 2019

balloon
VENTURES

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Introduction

The focus of this workshop was Balloon's growth work with small businesses, from our ability to define accurate investment theses to the effectiveness of our post-investment support. We conducted workshops with staff and clients in Kenya and Uganda, and observed growth meetings in the field.

The aim was to uncover insights about the model that will inform evidence-based changes. This document synthesizes our findings (from the 1000s of post-it notes). It is split over four sections: [1] What businesses value [2] The credit we offer [3] Our growth support [4] New approaches.

At the end of each section, we have also included a list of suggested proposals based on the insights uncovered. These proposals are under review and will eventually make up the core elements of a series of improvement projects, implemented at global- and branch-level.

Section 1: What businesses value

Insight 1.1: Business's primary reason for working with Balloon is to access credit.

Across the portfolio, varying amounts of value are placed on accessing credit versus the growth support. Two broad client categories emerged:

- **Credit only**: these businesses do not feel they need any support running their business. They chose to take Balloon's money because accessing capital through alternative sources was proving difficult/more expensive and, in some cases, because they were curious about the model.
- **Credit plus growth support**: these businesses value the growth support to some extent, even if it was a secondary driver when deciding to partner with Balloon (access to credit is the primary driver). This category should be the focus of our work.

It is not clear whether businesses end up in category 1 or 2 because of the perceived efficacy of support (i.e. the credit plus support category is made up of businesses that are satisfied with the support they've received) or because they were never likely to value the non-financial aspects of Balloon's product.

Moving forward, we need to be better at:
- identifying those businesses that genuinely want and will benefit from our growth support
- demonstrating the value our growth support for those that are interested; during the pre-investment phase and in the first 3-6 months post-investment

Proposals

1. Review and refine the criteria we use and our methods of measurement to identify businesses open to our growth support
2. Create "the Balloon pitch", outlining exactly what we offer, what we need from businesses, and how we expect to deliver growth

3. Evaluate viability of credit-only product (viability includes fit with broader model and goals)

Section 2: The credit we offer

Insight 2.1: Revenue share incentivises inaccurate financial reporting which hinders Balloon's growth support. It also is unpopular among businesses.

Balloon staff cannot make evidence-based decisions when there are uncertainties about the accuracy of financial information. Businesses do not share accurate information because doing so will increase their repayment obligation. Some also expressed concerns about paying Balloon more based on growth that the business would have achieved without our support (i.e. Balloon benefitting from successes that they did not influence).

Insight 2.2: Total repayment obligation is considered too high by businesses, especially alongside pressure from Balloon to further invest in growth (e.g. employing sales or finance staff).

Some portfolio companies are struggling to meet their monthly obligations. Many also underestimated the total cost of capital at the outset of the investment (see also insight 2.5 below). The value of growth support is not considered sufficiently high to justify the higher cost versus alternative sources of funding. This issues will become more acute as businesses are required to pay more in yr 2 and yr 3 of investments (and as we reduce the time we can commit to growth support in each business).

Insight 2.3: Access to working capital is a significant barrier to growth for most businesses.

LPO financing is an effective instrument for B2B businesses with formal customers. There is also need for working capital that is not linked to specific customer orders; several businesses listed working capital constraints as a major challenge. Working capital contributions should also be considered alongside any asset-based investments to ensure that the business is liquid enough to fully capitalise on the new acquisition.

Insight 2.4: Investing outside of a business's "core" increases the likelihood of post-investment set-backs and challenges.

Across Kenya and Uganda, investments in the "core" business of portfolio companies have typically performed better (e.g. targeting the same customers with existing products through the same channels). Where we have funded adjacencies (i.e. initiatives outside of the business's main pre-investment focus) more problems have emerged, e.g. with Ample and Kings.

Insight 2.5: Pre-investment communication is not clear and, in some cases, misunderstandings about our credit have damaged the relationship between Balloon and portfolio companies.

This has manifested itself in several ways:

- Unmet expectations about when businesses would access money (i.e. how long the process would take) and how much they would receive
- A feeling that information about requirements (e.g. collateral, post-dated cheques, standing orders) and investment terms was "hidden" until late into the process
- Poor understanding of the product and therefore what they've signed up to (e.g. total repayment obligation, nature of growth support, and relationship between the two)
- No information about reasons for investment committee decisions and why new requests are introduced after investment committee meetings

Proposals

1. End the use of revenue share in new investments and reprofile current investments to remove revenue share obligations
2. Evaluate viability of reducing required return for Balloon and therefore terms available for businesses (risk policy/criteria)
3. Require that every first investment is awarded to focus on the "core" business
4. Formalise working capital product(s) terms, timelines, requirements and growth work
5. Consider making LPO or working capital investments (e.g. <12 months, <2m) a pre-requisite before accessing a larger, longer term investment (<36 months, <3m)
6. Require evidence of working capital availability or access (even if through Balloon) in asset-based investments
7. Overhaul pre-investment comms to simplify messaging and ensure requirements, timelines and products (incl. limits, terms and growth work) are fully understood
   a. Separate cost of growth work from cost of interest and present separately
   b. Streamline investment contracts to only include what's needed (review with lawyers before roll-out)
8. Share written feedback with all businesses presented to investment committee (directly from investment committee)

Section 3: Our growth support

Insight 3.1: Portfolio companies require support to address challenges across the same 5 broad themes (even if the amount of support needed within each theme varies between businesses).

1. **Strategy, Planning and Management –** *business owners want* help developing roadmaps for growth and appreciate being held to account against agreed strategies and plans (e.g. "my IM keeps me on my toes"). When done well, this involves Balloon:
   a. collaborating to create quarterly growth plans with SMART KPIs, targets and activities
   b. monitoring and reporting performance against these plans at weekly meetings and quarterly reviews
   c. combining meetings and reviews with:
      i. sales visits/activities

      ii. providing useful tools and templates for the business (e.g. new financial system)

      iii. working directly with staff (e.g. delivering training and attending staff meetings)

  d. sticking to the commitments we make, on time and quality

  e. involving business owners in decision-making (i.e. listen and adapt guidance/tone based on feedback)

  f. showing a deep commitment to the business's success ("now I know that my problem becomes our problem – it helps")

2. **Financial Management and Accounting** – *business owners want* to understand:
   a. how much money they are making (or not making)
   b. whether there is any leakage in business (e.g. from theft, mis-management or customer non-payment)
   c. how to build effective financial policies, checks and balances (linked to leakage concern)
   d. how to better manage credit and debt collection

Some businesses are also concerned about how operating with fully transparent financial systems may impact their tax bill, and their ability to extract money from the business on an ad hoc basis (e.g. for other projects).

3. **Human Resources –** *business owners want* to know that their business can operate effectively without them (e.g. "I just want peace of mind that my people can get on without me"). This requires:
   a. an org structure with well-defined roles, responsibilities and accountabilities
   b. effective recruitment and onboarding of appropriately qualified, skilled and committed staff
   c. performance management of staff, with effective incentives and deterrents (carrots and sticks)
   d. contracts of employment and other legal protections

4. **Sales and Marketing –** *business owners want Balloon* to grow revenue, although there's no fixed idea about the best method(s). So far, we have tried the following (often combined):
   a. finding and referring customers for businesses to close
   b. "pounding the pavement" with flyers, samples etc.
   c. appointing a sales team or sales person
   d. building and helping to track a sales pipeline
   e. accompanying businesses to sales meetings with prospective clients
   f. creating marketing collateral (website, company profile, business cards etc.)
   g. setting up sales through other companies (e.g. agri-product stockists and furniture show rooms)
   h. connecting businesses within our portfolio so they can sell to each other

5. **Production/operations** – *business owners want* processes that ensure:
   a. operations are not interrupted, e.g. because of supply issues, staff delinquency or machine breakdown
   b. consistent quality in the products and services they sell
   c. efficient production delivering value for money
   d. compliance with legal and regulatory requirements for growth, e.g. NEMA and KEBS

How effective Balloon's support is across the 5 themes outlined above will <u>significantly</u> impact the likelihood of our model succeeding.

Insight 3.2: Defining the best focus of growth support is hard and our model is currently under-developed in this area (defined as strategy formulation).

Balloon does not have an organisation-wide method for strategy formulation. There is no agreed definition of what good looks like in our businesses and no consistent way to decide which of the 5 themes described in Insight 3.1 we should focus on with each business. This has several negative knock-on effects, such as limiting our ability to:
- recruit, train and performance manage IMs effectively (i.e. what should they be experts in and responsible for?)
- build guides, tools and templates that are repeatable, efficient and ensure consistency
- embed learning in our approach on an ongoing basis (i.e. through updates to centralised resources)

Insight 3.3: Balloon's intervention relies on being able to effectively influence behaviour in portfolio companies.

Defining the appropriate course of action to grow a business is only part of the challenge. We also need to be excellent influencing behaviour to ensure that the guidance we provide is effectively implemented. The workshop highlighted ideas to help with this, such as:
- **Technology**: using existing technologies to make it easier for businesses to follow guidance. For example, we still do not have reliable and verifiable financial data from most businesses. Using software like Quickbooks or Buymore may have the dual benefit of improving financial systems and giving us greater visibility of the performance data.
- **Language**: using language that responds directly to the concerns and priorities of business owners. For example, rather than saying "we need to introduce financial system", try "we need to help you understand how much money you're making", or "we need to help you ensure there's no leakage in the business". Focus business goals, not the method to achieve them.
- **Incentives**: using incentives to promote better behaviours. For example, presenting awards to the best performing businesses, reducing the interest rates to reward progress, or making follow-on investments contingent on improvements in business practices.
- **Meetings**: using weekly meetings to effectively monitor progress, hold businesses to account and celebrate successes. Meetings are conducted differently, based on which IM is leading it. When done well, the following aspects were typically present:
  o Agenda and objectives described at start of meeting
  o Businesses invited to share additions to agenda (needs to respond to their perceived issues as well as our priorities)
  o Attendees held to account based on actions from previous meeting
  o Key staff members involved, where suitable (e.g. held to account against their own KPIs and targets)
  o Conducted in a quiet environment away from distractions (e.g. customers and operations)

- o Structured around tools and data, (e.g. in pipeline tracker) not opinions (e.g. off the cuff advice)
- o Linked to the bigger picture and focus (e.g. through presenting growth plan or CSFs)
- o Notes taken throughout to capture key points and actions
- o Ends with summary agreed actions
- o Agreed actions shared with business after the meeting

Insight 3.4: Good relationships between IMs and their portfolio companies impact the effectiveness of our growth support.

Good relationships are typically formed when IMs:
- show they understand the practical side of running a business, not just the theory
- go to the business premises rather than asking business owners to come to the office
- treat all information shared by businesses confidentially
- (see also bullet points in the Planning and Management section, under insight 3.1)

Proposals

1. Create repeatable method to evaluate quality of business performance and help uncover priorities in growth work
2. Define one route for growth work that every Balloon business follows (e.g. we always start with finances)
3. Build standardised guides, templates and tools for each of the 5 areas of focus covered in insight 3.1.
4. Link staff recruitment and training to capabilities required for effective growth work
5. Review and refine quarterly growth plan template and quarterly board reviews (e.g. more collaborative, less jargon, more focused/prioritisation)
6. Review and refine weekly growth support cycles (e.g. meeting template and guide, how to build a good relationship, how to influence businesses)
7. Pilot new methods to improve financial management (e.g. technology)
8. Prepare proposals for incentive framework for businesses to improve behaviours and practices

Section 4: New approaches

Insight 4.1: Building a vibrant network (or networks) among portfolio companies is both highly valuable and under-explored by Balloon.

Involving business owners through peer exchange and support can help reduce the cost of our work, and make it more effective. For example:

- Businesses that are performing well typically surround themselves with other good businesses. **Referrals therefore represent a good way of building the pipeline.**
- Traditional forms of security are sometimes not available for the businesses we target. **Peers may represent another means through which to take security**, i.e. acting as a guarantor for other clients.

- By facilitating interactions and relationships, peer network **create opportunities to attract new customers, suppliers and partners.**
- Balloon clients often come with resources that are valuable to other businesses, e.g. they are brilliant at sales or they have experience acquiring KEBS. **Business owners can therefore learn from the network.**
- **Peer meet-ups represent an efficient means of:**
    o **collecting feedback** which provides the data needed to improve on an ongoing basis in ways that are valuable across the portfolio
    o **celebrating and rewarding success** in a way that motivates businesses and incentives better behaviours (see also bullet point on incentives in insight 3.3)
- Businesses who **value Balloon's support represent a compelling way to sell our product(s)**. Networks help to build the goodwill needed to help in this way.

<u>Any peer initiatives managed by Balloon (e.g. peer workshops) must be carefully curated and facilitated.</u> We should not be presenting ourselves as the experts in this space. Instead, the focus should be creating an environment and structure for feedback, networking, and peer led learning (i.e. it's more about enabling than dictating).

Insight 4.2: The quality of data we access is generally poor or non-existent, both in terms of the businesses we work with and the local industries they inhabit.

Businesses often share inaccurate information about their performance. This is usually because they do not have reliable data about the business (e.g. they have poor record keeping practices) or because they want to present the business more favourably than the real picture, especially when access to credit is part of the conversation. There is also very little industry level data that is both relevant locally and available via desk based research. It is hard therefore to verify whatever information businesses are able to/ choose to share.

This is especially challenging for Balloon because we work across a range of industries which makes it difficult to become experts; we will only ever be good generalists. Methods to improve the quality of data at our disposal are needed.

Insight 4.3: Balloon's response to client non-payment, defaults, recovery and repossession is inconsistent and ineffective.

We have several examples of clients not complying with the terms of their contract with Balloon, especially in relation to repayment obligations. At present, each case is dealt with on its individual merits. This is largely because Balloon does not have a central policy outlining how staff should respond to cases of non-compliance, which has led to inconsistencies in our approach and measure that have proved slow and ineffective.

Proposals

1. Run monthly/quarterly peer meet-ups that are:
    a. carefully designed based on business need, Balloon need (e.g. collecting feedback), and industry best practice
    b. brilliantly facilitated (by staff and business owners)

2. Introduce award/reward for best Balloon business(es) (e.g. present at every meet-up)
3. Explore viability of business guarantee model (i.e. Balloon businesses guaranteeing each other)
4. Create formal method of encouraging peer referrals to Balloon (possibly including incentives)
5. Develop guidance for market research in this context; e.g. speak to suppliers, customers, competitors and experts
6. Build a folder of business and industry insights as we work with businesses on an ongoing basis – integrate in process
7. Create credit policy covering defaults, recovery and repossession, and train key staff in the implementation of related procedures (align details with updated investment agreements)

Next steps

We will list and categorise all the Proposals from this document - these categories will be used to help define next steps and monitor progress, e.g. we will allocate accountabilities and agree more detailed timelines for execution and review.

The work will be delivered by a mix of staff in the UK, Kenya and Uganda.