

Making a Healthy Exit

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VIEWPOINT

Making a Healthy Exit

In places like rural Guatemala, the quest to sustain a vital social enterprise often depends on finding the right private-sector partner.

BY DAVID LEHR

In rural Guatemala, access to basic health services is often minimal at best. In many areas of the country, the only available health options are to consult a traditional healer, to self-medicate, or to make an expensive visit to a doctor in a town that is several hours away. Overall, health outcomes in Guatemala compare unfavorably with those of much poorer countries. That's especially true in rural, indigenous communities, where child mortality and malnutrition rates are 50 percent higher than in urban, non-indigenous communities.

To tackle this problem, several organizations have collaborated to create *Tiendas de la Salud*, or TISA. (In English, *Tienda de la Salud* means "health shop.") Using microfranchising, TISA has established a network of financially sustainable health stores that provide affordable, high-quality medicines and basic health products to people in rural communities throughout Guatemala. *Tienda* franchise owners are able to build a social enterprise that not only generates income for their families and provides jobs in their communities, but also helps their neighbors to become healthier.

Today there are nearly 70 *Tiendas* in place; together, they serve a population of 117,000. Each *Tienda* sells about 60 types of medicine, and roughly one-third of those medications treat the leading causes of mortality and morbidity in rural Guatemala. Typical stocks include antibiotics, pain relievers, rehydration fluids for diarrhea, and other health-related items—soap, toothpaste, sanitary pads, and fortified milk powder, for example. Most franchisees also sell SIM cards, flashlights, toilet paper, and other consumer products.

I started working on TISA back in 2008, when I traveled to Guatemala to investigate the potential for market-based approaches to improving rural health care. In 2009, I began building the team that would develop TISA from the ground up. As the skill and knowledge level of the team increased, the focus of my work shifted to strategy development and problem solving. Today, as a consultant, I continue to play that role.

TISA, in my view, offers a prime illustration of using "catalytic investment"—a combination of patient capital, management assistance, and other forms of support—to develop a social enterprise. Equally important, it offers a rare example of achieving a successful exit for such an enterprise by means of private sector acquisition. Earlier efforts by NGOs to build a business around medicine sales in rural Guatemala

had failed, largely because of supply chain challenges and because the absence of a profit motive had limited the potential for widespread expansion and financial sustainability. From the inception of TISA, our aim was to prove the practicality of a strictly commercial approach and then to transfer the TISA network to a Guatemalan partner.

A BENEFICIAL PARTNERSHIP

TISA emerged from a collaboration between Mercy Corps, a global humanitarian agency that has worked in Guatemala since 1995, and Linked Foundation, a private US foundation that invests in market-based solutions to improve the health of women in Latin America. (During this period, I was an employee of Mercy Corps.) In 2008, these two groups hatched a plan to develop a micro-franchise model. "We had a vision to be a catalyst for market-based solutions on women's health issues in Latin America, leveraging our grant capital and partnering expertise. Mercy Corps shared our interest and had deep roots in Guatemala," says Dorothy Largay, founder of Linked Foundation.

For more than three years, Mercy Corps and Linked tested various products, services, pricing options, and owner-support arrangements. Along with providing other

resources, Linked provided \$400,000 in grant financing for the project. Sales of medicines in the *Tiendas* grew steadily, and soon the expansion of the TISA network caught the eye of Farmacias de la Comunidad (FdeC), the largest pharmacy chain and one of the largest pharmaceutical manufacturers in Guatemala. "We bought discounted product from Farmacias de la Comunidad, and as TISA expanded, so too did the volume of business we brought to them," says Stephanie Skillman, the Mercy Corps project leader for TISA during this period.



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“Over time, the company got more and more involved, realizing the potential to expand their business into an untapped market.”

Partnership discussions began to take place. Leaders at Mercy Corps and Linked saw that FdeC could supply the financial and human resources needed to address the rural health problem on a large scale. In mid-2012, the three organizations agreed that FdeC would integrate TISA into its operations, and today it is the sole owner of the TISA network. Mercy Corps remains an advisor to TISA, and as its social programs expand into new areas of Guatemala, it assists in fostering community acceptance of the TISA model.

Today TISA brings clear benefits to multiple stakeholders.

To local entrepreneurs, TISA offers an opportunity to build and manage a business of their own. For almost all franchisees, opening a *Tienda* represents their first contact both with the formal economy of Guatemala and with the country’s legal system. In addition, nearly one-third of franchise owners are women, and husband-and-wife teams manage many other franchises. The *Tiendas*, therefore, open new opportunities for women to access resources and to take on greater leadership roles in their communities.

To Farmacias de la Comunidad, TISA serves as a vehicle for extending the company’s footprint and its brand recognition into rural areas where its competitors have no presence. “Very few companies in Guatemala are focusing on society’s challenges. This [TISA] is consistent with our company’s social responsibility philosophy. But no matter what approach we take, we expect it to be profitable,” says Claudia Luna, general manager of TISA at FdeC.

Arguably, though, the group that benefits most profoundly from TISA is the residents of rural Guatemala. By extending the supply chain for pharmaceutical and other products to areas never previously reached, TISA expands the range of health options for an underserved population. As for-profit ventures, the *Tiendas* present a sustainable approach to a problem that the public sector has been unable to solve.

A LONG-TERM PRESCRIPTION

In building a network of *Tiendas* in rural Guatemala, TISA leaders have relied on several implementation principles.

Focus on partnerships | Before Mercy Corps and Linked proved the commercial viability of the micro-franchise model, FdeC had little interest in rural Guatemala. But once the model became operational, FdeC was willing to bring in resources and expertise that TISA’s founders did not have. Collaboration between FdeC and Mercy Corps continues to be of mutual benefit. In communities where Mercy Corps supports TISA expansion,

but they indicated a basic interest in the commercial sale of medicine. In each community, there was also a resident who tracked births and deaths. That connection to the formal health system gave such residents credibility within their community; where possible, we recruited them to become TISA franchisees.

Develop the capabilities of store owners | TISA has taken several steps to ensure that franchisees will manage their stores successfully and responsibly. Each franchise owner goes through a series of business and health training sessions. Topics include basic accounting, operations, inven-

Franchise owners build a social enterprise that not only generates income for their families, but also helps their neighbors to become healthier.

the entry costs for FdeC are lower, and the health impact that Mercy Corps can achieve is higher. FdeC, through its relationship with the Guatemalan bank BanRural, also helped secure long-term financing for TISA.

Adopt a phased approach | During its startup phase, the primary aim of the TISA team was to understand demand patterns. Instead of building a fully formed business with mechanisms for franchisee financing and supply-chain management, the team provided initial loans to franchisees and even hand-carried products to each store. Once the level and nature of consumer demand became clear, we sought a partner to provide franchisee financing and to build a supply chain. Had we started by looking for a financing and supply-chain partner, we would have had only a rough idea about what the needs of the operation would be in those areas.

Build on existing local capacity | During our initial market research, we discovered that many rural communities in Guatemala had a resident who kept a handful of medicines on hand and sold them to other residents at a slight markup. These arrangements were very informal and often operated at a loss,

tory management, record keeping, health advice, and handling of prescriptions. FdeC has also set up a hotline that offers guidance to storeowners and referrals to the formal health-care system.

Plan for an exit | TISA focused squarely on developing a social business model that local organizations would be able to sustain. “The initial idea was that the pharmacy network would be incubated and handed over to a local entity,” says Skillman. “We didn’t know if this would be a government organization, an NGO, or a private business, but there was a strong focus on local ownership.”

The partnership between Mercy Corps, the Linked Foundation, and Farmacias de la Comunidad illustrates the potential inherent in using market-based solutions to tackle issues related to poverty. Together, these three organizations have transformed TISA from a donor-funded effort to a self-sustaining, commercially operated network. “Traditionally, aid assistance is short-term only,” Luna notes. “And the government does not have a budget to adequately improve health-care access and ensure that the poor have basic medicines. We [at FdeC] are filling a much-needed niche.” ■