FONSELP: CREATING SHARED VALUE TO MAKE THE WORLD A BETTER PLACE

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Matías Laurenz, founder of the Argentine social impact startup, Fonselp, sat down at his office desk in Buenos Aires and opened his laptop. He had just finished pitching his digital platform to the Sales Director of SAP Argentina with the hopes of adding another user. His company was gaining traction. Fonselp had just recently surpassed 1,200 registered users, 800 of whom were active. However, Matías knew he needed to exponentially increase that number within the next year. He estimated he would run out of funds by the end of 2019.

Matías logged in to his email. He still had not responded to the proposal he had recently received from a consultant known for helping B2B startups scale their businesses. He contemplated whether to pursue this option or other ideas. He opened the email message and stared at it.

Background

Fonselp's Early History

Fonselp was officially launched in April 2018 as a digital platform that served as a business solution by connecting nonprofit organizations with companies in Argentina and Latin America. Essentially, Fonselp set out to answer the question, "*How do we help companies to help?*"

(Fonselp.com n.d.). The founder recognized an important problem related to corporate social responsibility (CSR) in Argentina and Latin America:

> *"With medium and small companies the biggest obstacles to get involved and donate have been the time to carry out the task and the resources associated with providing the aid. Fonselp eliminates obstacles by saving time, preserving the privacy of the donor and nonprofit, and allowing them to connect and identify opportunities without costs"* (Fonselp.com n.d.).

The Fonselp digital platform enabled companies to donate almost anything of value to nonprofits: used furniture, computers, equipment, mobile phones, use of office space or event halls, educational workshops, professional services, etc. (Fonselp.com n.d.).

Matías had obtained his MBA from IAE Business School - Universidad Austral. He was one of the individuals responsible for establishing Idealist.org in Latin America, which sought to connect people for volunteering opportunities with organizations in need. Through these experiences, Matías discovered that business leaders were becoming frustrated by their inability to have a simple and reliable tool to facilitate positive change in society (Fonselp.com n.d.).

Matías was no stranger to entrepreneurship. Previously, he had founded CentralPos in 2012. CentralPos was established to develop web tools which allowed organizations to automate and manage their credit card transactions in a simple, secure way (Centralpos.com n.d.). He later sold that company and invested the proceeds into his new startup.

Fonselp was incorporated in the United States. This increased the probability of access to capital from U.S. based angel investors and venture capital firms, and enhanced the company's potential as a future acquisition target. The decision also positioned the company for possible future expansion into North America.

Innovative Solution for Nonprofit Sector

It was estimated that 800,000 nonprofits existed in Latin America, of which 10,000 were registered in Argentina. Another 90,000 informal nonprofits had a presence too. In comparison, over six million companies operated in Latin America (Economist Intelligence Unit n.d.). In addition to the unstable economic environment in Argentina (see Exhibit 1), the nonprofit sector faced several challenges. A lack of support from individual donors, the private sector, and government was a major issue. Jaskyte and De Riobó (2004) argued that an innovative solution should be employed to facilitate collaboration within and across sectors to enhance societal well-being.

Matías illustrated how Fonselp could promote such nonprofit sector innovation:

> *"Not all donations need to be physical goods. You should be innovative. You can donate your time. If you are an expert on AIDS... You can teach the ABCs of AIDS prevention to the schools kids. I am dreaming about a day when nonprofits transfer parts of the knowledge that they possess to other nonprofits. I want to create the platform and the vehicle for this knowledge transfer."*

Target Market Evolves

To generate awareness, Matías utilized social media such as LinkedIn, Twitter, and Facebook. He also experimented with Facebook ad campaigns to determine the costs of acquiring customers. Nonetheless, Fonselp limited its online marketing expenditures. Matías stated, *"I can put $20,000 in marketing online, but I think it's not intelligent...I think you're wasting money... I have to divide myself in percentages: Some days selling, some days in meetings with programmers, and some days just thinking about 2019."*

Fonselp also gained credibility with the business community after being featured on *La Nación TV* (Torres 2018).

Matías hoped to capitalize on growing interest in CSR and the lack of tools available in Latin America for corporate giving and CSR reporting. Matías explained Fonselp's focused differentiation strategy, *"We are different, but we are more or less the same idea. I think we*

have an opportunity with the small and medium companies. U.S. competitors go for the big

companies."

Success resulted from persistent emails, phone calls, and finally pitching the Fonselp digital
platform in face-to-face meetings. Consequently, the Argentine technology company, Globant,
adopted the platform and identified four nonprofits to donate its used furniture. However, the
number of recipient candidates far exceeded the furniture available for donation (Fonselp.com
n.d.).

Thus, there was a problem: a shortage of private sector donors and an overabundance of
nonprofits in need. A company might list two computers, *"But it's two computers...then 110*
nonprofits apply for those two computers." Matías commented, *"...imagine a situation where*
you bring 1,000 people to a restaurant and you only have 20 tables...the idea is the same, that I
need to have more companies posting offerings."

Fonselp Adapts to Marketplace

Subsequently, Matías reconsidered ways to create greater shared value. Fonselp began
registering nonprofits throughout Latin America. Then, Fonselp formed an agreement with
Banco Santander, which adopted the platform to connect in a seamless way their 9,000+
employees with impact projects designated by the BSR area of the bank. Finally, to enhance
the user experience, Fonselp began revamping the website and had a mobile App under
development.[1]

Fonselp added the following features to version 2.0 of its digital platform:
- Companies could communicate with each other to foster matching donations, etc.
- Individuals could register in order to volunteer and track their hours, and
- Nonprofits could post donations to share resources and expertise.

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[1] A new marketing landing page was available at https://app.fonselp.com/sumarse.

Matías also realized human resources (HR) had larger budgets than CSR at most businesses.

This led to a shift in tactics:

> *"Instead of speaking to CSR departments, where maybe in Argentina there are only 200, we began speaking to HR departments. With HR, you're talking to maybe 10,000 or 20,000 or 50,000 managers...And we've adapted our message to say that by doing the volunteer work, you're boosting employee morale, reducing turnover, creating a better work environment, etc. That definitely fits in HR."*

Competition Poses Threat

Several formidable U.S. based competitors existed at the time of launch. All had established a digital media presence with blogs, Twitter, Facebook, and LinkedIn. Their websites emphasized the simplicity of the platform interface and user experience, time savings in coordinating volunteer efforts, donations, and CSR reporting, and organizational benefits of implementing CSR. The largest competitors had a strong presence with Fortune 500 companies in North America and other global markets. They included Benevity, YourCause, and Causecast.

Additionally, a recently defunct Latin American competitor had been charging $1,000 per month to large multinationals, such as Nestlé. However, it likely failed because of the time and work required to use the platform's dashboard and enter data.

Fonselp's Freemium Revenue Model

Fonselp adopted a freemium revenue model, something common among web-based services. Typically, this model offered basic services with options to upgrade to premium services (Neck, Neck & Murray 2018). Fonselp's revenue model was based on the assumption that some companies would pay a $25/month subscription fee to track CSR performance and generate reports (see Exhibit 2). Matías was also aware that Software-as-a-Service (SaaS) business models like Fonselp were expected to have costs of goods sold equal to 10-20% of total revenue (Valchev 2016).

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Matías was committed to the idea that nonprofits should not pay to receive donations. The initial fee for nonprofits was set at $0. Other relevant alternatives originally under consideration had included an advertising revenue model (e.g. Google AdSense), a subscription revenue model, an intermediation revenue model (e.g. commission per transaction like eBay), or some combination thereof. Regardless, Matías wanted Fonselp to succeed because of the potential social impact: *"The main point is that the site is not going to fail. I will never unplug this site."*

More recently, Matías had been approached by a consultant offering to boost Fonselp's revenues. The terms were as follows: The consultant proposed a fixed fee of $1,000/month, plus 50% of revenue, plus 10% equity. Although the proposal seemed one-sided, Matías was intrigued, and believed he could negotiate better terms.

Startup Financing Strategy

Like many entrepreneurs, Matías adopted a bootstrapping approach. He used proceeds from the sale of CentralPos as seed money. He spent approximately $15,000 in the first year to get Fonselp up and running, and had another $70,000 deposited to cover Fonselp's operating expenses through 2019. Matías had in place a small team of investors and programmers. Fonselp's 2017 Profit & Loss Statement showed net income of -$15,367.91 (see Exhibit 3). Despite losses, Matías remained confident, "I can maintain the investment for four years basically, because everything on the site is automated." Nevertheless, he recognized that an angel investor or partner who could invest another $50,000 or more in capital might improve the platform's functionality, and establish its financial viability.

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Fonselp Looking Ahead

Matías leaned back and smiled. He was happy with the progress so far. Fonselp was solving problems for businesses, nonprofits, and society, and simultaneously creating greater shared value. Nonetheless, Matías recognized important decisions needed to be made soon:

- How could he ensure Fonselp continued to exist beyond 2019?

- Should he seek investors or alternative startup financing?

- Should he accept the proposal from the B2B consultant?

- Would it make sense to change the Fonselp revenue model?

As an entrepreneur*, Matías had ambitions as well as fears about being a first mover. He thought to himself, "Clearly when you are an entrepreneur it is not a sprint. It's a marathon. You have to conserve your energy and that's what I'm doing right now. I'm building up momentum."* Matías then proceeded to type his reply to the consultant.

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Exhibit 1. Indicators of Macroeconomic and Social Conditions in Argentina
Source: Adapted from the Economist Intelligence Unit, World Bank Data Portal, Trading Economics, and UN Human Development Report

	2015	2016	2017	2018
Exchange Rate				
Argentine pesos (ARS) per US dollar	14.76	14.76	16.92	29.06
Interest Rates				
Lending interest rate (Average %)	24.90	31.20	26.60	45.20
Inflation				
Consumer prices (End Period, % Change)	26.90	41.00	24.80	44.60
GDP deflator (Index Points)	866.20	1101.00	1347.80	1887.00
Unemployment				
Recorded unemployment (Average %)	6.50	8.50	8.40	9.60
Wages and labor costs				
Monthly minimum wages (ARS)	4716.00	6060.00	8061.00	9500.00
Poverty				
People living below national poverty line (%)	30.00	30.30	25.70	32.20
Inequality				
Inequality in income (% Difference)	27.40	26.50	25.80	-
Country income inequality (Gini Index)	-	42.4	-	-
Inequality in life expectancy (%)	10.00	9.50	9.50	-
Human Development Index (HDI)	0.82	0.82	0.83	-

Exhibit 2. Fonselp Freemium Revenue Model
Source: Fonselp.com

Prices

STARTER
I am a recurrent donor or just today I want to collaborate with the community.

$ 0 / month

free of charge

Check in

PRO
I need a tool to inform me of the contribution that my company makes to society.

$ 25 / month

usd

Check in

IMPACT
I have a great team of volunteers + staff and the excel is NOT the solution.

CONTACT US FOR MORE INFORMATION.

Contact

Functions

	STARTER	PRO	IMPACT
Profiles of Donors and Org beneficiaries	✓	✓	✓
Create offers of donations, volunteer opportunities, pro bono, training and purchases of impact towards the social sector	✓	✓	✓
Tracking of donations to beneficiary organizations	✗	✓	✓
Tracking internal company donations	✗	✓	✓
Reports and data export	LIMITED	✓	✓
Budgeting	✗	✓	✓
Users	Max. 10	Max. twenty	UNLIMITED
Support	email	mail + chat	request

Note. Webpage translated to English by Google Chrome.

Exhibit 3. Fonselp Profit & Loss Statement
Source: Fonselp (2018)

January - December 2017

	TOTAL
Income	
Total Income	
Cost of Goods Sold	
Subcontractors - COS	3,180.25
Total Cost of Goods Sold	**$3,180.25**
GROSS PROFIT	$ -3,180.25
Expenses	
Accounting & Consulting	4,000.63
Accounting system	440.00
Advertising/Promotional	2,220.83
Bank Charges	250.73
Computer & Internet expenses	145.00
Legal & Professional Fees	280.00
Office Expenses	72.00
Promotional	135.62
Taxes & Licenses	300.00
Web Development	4,342.85
Total Expenses	**$12,187.66**
NET OPERATING INCOME	$ -15,367.91
NET INCOME	$ -15,367.91

Note. Matías Laurenz invoiced work hours to Fonselp as Consulting at $3,000/month beginning April 2018. He held a salaried job outside the company during most of 2017.

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