As their car idled in the Jakarta traffic, Usye Umayah and her colleague Dini Marhendra were discussing the future of Kedai Balitaku (KeBal), a pilot program run by the global NGO Mercy Corps. KeBal sold nutritious food to poor children from street carts. Although the pilot program had been successful, Usye and Dini needed to transition KeBal from a non-profit, donor-funded pilot to a self-sustaining, scalable, and independent business. The funding Mercy Corps headquarters had provided to start up the pilot would be ending in November 2010, just ten months away, and if the KeBal carts were to remain in business thereafter, they would have to be financially self-sustaining. Though Usye and Dini, both program managers with Mercy Corps, had successfully set up and managed community programs, they had little business experience and weren’t sure how to structure KeBal as a business that could flourish. To help with the effort, Mercy Corps had brought in four MIT Sloan MBA students from the school’s Global Entrepreneurship Lab (G-Lab) to act as consultants for three weeks in January 2010.

Besides the funding issue, a retired midwife named Ibu Ana was placing additional urgency on Usye and Dini’s need to identify a sustainable business model for KeBal. Ibu Ana felt strongly that young children in Jakarta were failing to thrive due to their poor nutrition, and she loved the KeBal approach. She had a second home in one of the poor neighborhoods in North Jakarta that she was turning into a center where cooks could prepare healthy food, mothers could get nutrition education, and trainings could take place—all on her own dime. She even planned to build a playground for children so they could play while their mothers met with the nutritionist. In light of their

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1 Pronounced “Oo-shah.”
2 “Ibu” is the Bahasa Indonesia word for “Mrs.,” commonly used to show respect.

This case was prepared by Erica Carlisle, Chris Lin, Libby Putman, and Emily Sporl (MIT Sloan MBAs, Class of 2010) under the supervision of lecturer M. Jonathan Lehrich.

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complementary goals, Usye and Dini recognized the vital role Ibu Ana could play in helping to transform KeBal, and they knew a business relationship needed to be formalized.

Usye and Dini’s boss, Sean Granville-Ross, the country-level director in Indonesia, believed that KeBal should maintain ownership of its brand and use a franchise model to formalize the relationship with Ibu Ana. Given the talent and resources Ibu Ana was prepared to commit, it seemed the best answer for her situation. Whether it was the best answer for Mercy Corps, or for the children of Jakarta, was a problem as snarled and intransigent as the traffic jam outside Usye and Dini’s car.

**Mercy Corps**

Headquartered in Portland, Oregon and Edinburgh, Scotland, Mercy Corps was founded in 1979 to “alleviate suffering, poverty, and oppression by helping people build secure, productive, and just communities.” Over the course of its 30-year history, Mercy Corps had provided nearly $2 billion in aid to people in 107 nations. With program offices in over 40 countries, Mercy Corps was one of the world’s largest NGOs, relying on U.S. and foreign government grants as well as private support to fund its operations.

Mercy Corps stressed the importance of social entrepreneurship and thinking creatively in searching for ways to carry out its mission. The NGO’s field office in Jakarta, Indonesia took these two methods to heart, especially in its approach to solving one of the more pernicious problems plaguing Jakarta: malnutrition in children under five years of age.

**Indonesia and Malnutrition**

With a population of 240 million spread over 17,500 islands, Indonesia was the world’s fourth most-populous country and 16th largest in land area. According to a United Nations Children’s Fund (UNICEF) report released in January 2010, one-third of Indonesian children under the age of five – nearly 8 million in total – suffered from the effects of malnutrition. Internationally, Indonesia ranked fifth in the number of children under five who showed signs of stunted growth, a side effect of malnutrition during a child’s early developmental years. There were many causes of malnutrition in Indonesia, but poverty, the feeding practices of mothers, and a general decline in breast-feeding were considered the main culprits. As the head of UNICEF’s health and nutrition department in Indonesia

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3 Grossman and King, p. 2.
argued, “The lives of 30,000 children could be saved annually if mothers breastfed their babies exclusively for the first six months.” It was estimated that a mere 7% of mothers were doing so. There were several reasons why mothers quit breastfeeding so early, including lack of education on the benefits of breastfeeding for the first six months, a dearth of facilities where working mothers could express milk, and the advertising prowess of formula milk companies. Perhaps as a consequence of the advertising, many Indonesian mothers saw using formula milk as a status symbol, indicating they were modern mothers.

Malnutrition was noticeably prevalent in North Jakarta, a section of the city pressed up against the Java Sea and home to two marine ports. Certain sections of North Jakarta were especially impoverished, with the average income of workers hovering around 500,000 to 1 million Indonesian rupiah (IDR) per month ($53 to $106). In comparison, Indonesia’s GDP per capita was roughly twice as much, about $187/month ($2,246 annual). In these neighborhoods, mothers tended to purchase food for their infants and toddlers from the many food cart vendors who roamed the area selling fried food and sweets. The food provided by these street vendors, though abundant, convenient, and cheap, was unhealthy and often prepared in unsanitary conditions.

The KeBal Pilot Program

To address Indonesia’s rampant malnutrition, Mercy Corps had created a pilot food cart program with a menu that catered to children under five. Launched in April 2009, KeBal, or “My Child’s Café” in Bahasa Indonesian, had three specific goals:

1. Provide nutritious, high-quality food options to children under five while raising community awareness around nutritional issues.
2. Create employment opportunities for local North Jakartans.
3. Create a profitable, self-sustaining business model that could be spun off from Mercy Corps and operate on its own.

Initially, four custom KeBal food carts were deployed in various neighborhoods (referred to by their Indonesian acronym “RW”) in North Jakarta. With brightly colored pictures of “super kids” representing four nutritional groups (protein, grains, vegetables, and fruits) painted on the sides of the cart, speakers that played a musical jingle extolling the virtues of healthy eating, and food displayed at children’s eye-level, KeBal’s carts were notably different from regular street carts. (See Exhibit 1.)

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11 Ibid.
12 Based on interviews with mothers, teachers, midwives, and other healthcare providers in Jakarta, January 2010.
13 Figures collected from primary interviews with North Jakartans, January 2010.
14 World Bank World Development Indicators, 2008.
15 RW is the acronym for Rukun Warga, which is a city sub-district. In Indonesian the letters RW are pronounced “air-way.”
Four vendors were recruited to run the carts and sell the KeBal menu in the RWs. In selecting vendors, Mercy Corps followed several steps. First, they advertised the vendor positions in the RWs where they believed KeBal would have the most impact. Next, applicants were interviewed and screened by a committee consisting of Mercy Corps staff, local health center representatives, and community leaders. While the ideal vendor was someone with an entrepreneurial mindset who was interested both in making a profit and in the social mission of the KeBal program, Mercy Corps also wanted to hire people who would benefit most from a better income, namely women who were supporting families. The vendor recruitment process often included a third step whereby local RW government officials reviewed the list of potential candidates and provided input on who was well known in the neighborhood. The entire selection process took two months.

KeBal’s menu, developed by a nutritionist, included rice porridge with chicken and vegetables, fruit jellies (a homemade gelatin similar to Jell-O, but made with real fruit), meatballs, and baked macaroni. Because the vendors had to cook menu items from scratch every day, the majority only sold chicken porridge and fruit jellies due to time constraints. Vendors typically started cooking around 12:30am so that the food would be ready to sell by 6:00am. They sold food seven days a week, and during the school year they were open for business from 6:00am to 8:30am, when children were getting ready for school, and from 3:00pm to 5:00pm, when children were heading home. Vendors often prepared slightly less food than they thought they could sell because they were not allowed to reheat or reuse the food. They were allowed to keep all of their profits.

Overall, Mercy Corps was responsible for vendor recruitment, menu development, training and quality control—Usye and Dini enforced hygiene and food quality standards by visiting each vendor weekly—and setting menu prices. Vendors, in turn, bought raw ingredients, cooked and sold the food, managed the food carts (although not required to purchase or lease the food carts, they were responsible for repairing any damage), and did all bookkeeping.

After six months, Dini and Usye collected and analyzed data from the pilot program. Mercy Corps’ target profit margin for its menu items was between 20% and 30%. Individual vendors tended to sell approximately 40 to 70 portions of porridge at 2,000 IDR (US$0.20) per serving and 30 to 50 jellies per day at 1000 IDR (US$0.10) per serving. Typically customers bought one to two servings of porridge and one or two jellies. Each vendor’s total customer base was determined by how far they could push the food cart during their shift. Exhibit 2 shows average revenues per vendor per month for June through September 2009, while monthly profitability is shown in Exhibit 3. Exhibit 4 shows a sample monthly income statement.

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16 Amounts based on field data.
Customers

According to customer interviews and surveys conducted by the G-Lab team and Mercy Corps, the KeBal pilot program had been very successful in its half year of operation. Among the findings:

- **Customers were very loyal.** Nearly every customer interviewed bought from a KeBal vendor multiple times a week. The survey data confirmed that roughly 97% of customers bought from KeBal at least three times per week.

- **Purchases were made based on taste and nutritional value.** Mothers liked that KeBal’s porridges were nutritious and appealing to their children. They recognized the nutritional value because they were able to see the various food groups in the rice porridge. Customers valued the quality of the food, as well as the cleanliness of the cart.

- **Customers trusted the vendors.** Vendors felt that their local knowledge of the area, along with their personal ties to the neighborhood residents, enabled them to develop strong relationships with their customers. One vendor, Gunanto, said his previous job had allowed him to get to know most of the people in the neighborhood, which helped him establish trust with his customers when he began selling KeBal foods.

- **Prices were fair, and maybe even a little low.** Mothers generally believed that prices were fair and competitive with foods of a similar portion size. In fact, most mothers did not dismiss the possibility of paying higher prices because they believed the KeBal product was superior in taste and nutritional value to other available porridges.

- **Customers desired more menu variety.** When asked what they would change about KeBal, most mothers (70%) requested more menu variety. Customers complained that their children became bored with the same chicken porridge and fruit jellies day after day.

KeBal’s Business Models

The KeBal pilot program had experimented with a number of business models. In the simplest model, one person acted as both cook and vendor. While this model was simple and generated ample profits, it required individuals to be proficient in both cooking and selling. Vendors often could not cook enough food on their own to satisfy customer demand. A more complex model, the group cooperative, was made up of four people who shared responsibilities and profits. This group structure had proven problematic as certain group members inevitably worked harder than others making the task of sharing profits both difficult and awkward. A third model, the “mini cooking center partnership,” in which one person prepared food and sold it to a vendor who then sold it to customers, appeared to be the most effective and efficient model. The cook was able to cook for twice as long, thereby doubling output. This structure resulted in healthy profits for both the cook and the vendor, and also allowed for easier scalability.

The partnership model developed when one vendor, Ibu Saripah, discovered that pushing the large cart through North Jakarta’s narrow, bumpy streets was more than she could physically handle. She decided to partner with another vendor, Gunanto, and divide up the labor: Ibu Saripah did all of the cooking and Gunanto, who bought the cooked items from Ibu Saripah, did the selling. Gunanto was
not refunded for food he could not sell. Because of the division of labor, they could produce enough to sell both in the mornings and the afternoons, something single vendors were too time constrained to do. Ibu Saripah charged Gunanto 1,500 IDR (about US$0.16) per portion of chicken porridge and 750 IDR for jellies. Gunanto then sold the chicken porridge for 2,000 IDR and the jellies for 1,000 IDR.\(^{17}\) To keep volumes at a level he could sell, each evening Gunanto told Ibu Saripah the number of portions he wanted for the next day. Through this partnership, Ibu Saripah and Gunanto doubled their revenues in four months.

By closely observing KeBal’s cooking and selling process, the G-Lab team had drawn three major conclusions.

- **Cooking was a highly laborious process.** The cooks in the pilot worked out of small home kitchens. Often they prepared food while sitting on the floor due to lack of sufficient counter space. Cooks lacked basic kitchen equipment and performed many tasks manually. For example, they grated coconuts by hand and then hand pressed the pulp to make coconut milk. With only one cook, there was no opportunity for preparing a wider variety of dishes on a given day since it already took 5-6 hours to prepare porridge and jellies. A centralized kitchen with a larger work space would lead to more efficient food production and menu variety.

- **Vendors made a good profit each month.** Although the work was difficult, the vendors and cooks were able to earn a living wage. One vendor spoke proudly of how he was able to buy a new cell phone for his wife based on his earnings. Within a few months of startup, Gunanto and Ibu Saripah, were each able to earn approximately 2 million IDR a month (~$200/month).

- **A larger, centralized cooking center would require high start-up capital.** More than 50 million IDR (~$5000) would be required to buy enough equipment to start a larger cooking center. This would include the cost of renovating an existing kitchen and purchasing cooking equipment and refrigeration.

The capital needed to start a cooking center appeared out of reach for KeBal until Ibu Ana volunteered to build the first centralized kitchen in one of her homes. Ibu Ana and her family were wealthy and had become active in non-profit community work in Indonesia. They wanted to help mothers and children live healthier lives, and thanks to her health training Ibu Ana knew nutrition was key for young children. She designed a cooking center with a large kitchen, living quarters for the staff who would work there, an office for the nutritionist, and a playground for the children.

Construction of the centralized kitchen was already underway by the time the G-Lab team arrived in Jakarta. From discussions with Ibu Ana and the Mercy Corps KeBal team, the G-Lab team realized that much of the underlying business relationship between Mercy Corps and Ibu Ana had not been defined (or in some cases, even discussed). No one was sure who would hire the kitchen staff or how

\(^{17}\) Transfer and selling prices based on field data.
they would be paid. What would happen, for instance, if Ibu Ana’s staff started cooking food differently from how the KeBal nutritionist had specified? KeBal’s business model needed to be defined soon before confusion arose about ownership, management, branding, and other issues.

Comparison Businesses

In addition to interviewing the existing KeBal team, Usye, Dini, and the G-Lab team spoke with a large number of business owners and franchisees from around Jakarta to get a better sense of how food businesses were typically structured.

According to the Indonesian Franchise Association (IFA), there were 1,010 franchises in Indonesia: 750 local, 260 foreign.\(^{18}\) Popular though the business model was among Indonesians, the chairman of the IFA maintained that the greatest challenge for starting a new franchise in Indonesia was finding true entrepreneurs. Although there were many self-employed people in the country, he believed that the pool of risk-takers with innovative ideas was relatively small.\(^ {19}\)

During their interviews, the G-Lab team identified two distinct groups of local franchises, differentiated by their size and business structure.

Small Franchises

Often family-run and limited in scope, small food “franchises” could be found on most street corners in Jakarta. Although the type of food sold varied, their business models were similar.

**Texas Chicken**

Texas Chicken started as a single stand and grew to eight over the course of two years. By limiting the product to fried chicken and using a simple set-up, Texas Chicken was able to earn a profit of roughly 1,000 IDR per serving based on a retail price of 4,000 IDR per serving. However, true operating profit margins were hard to determine as the owner only considered raw material costs (the cost of food) to calculate profit.

The owner of Texas Chicken relied on two mechanisms to ensure profitability. First, all production was centralized in one kitchen. The twelve vendors cooked together in the morning and then transported the food via motorbikes to their various stand locations. This model enabled the owner to always know how much food was produced. Second, the owner only employed vendors who came from his home village.

Each vendor was paid a daily salary and given a place to live in return for running a stand. Vendors did not receive a sales commission, take on any risk for unsold chicken, or formally report their

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\(^ {19}\) Interview with Anang Sukandar, President of the IFA, January, 2010.
revenues. Their loyalty, however, was never in question since they were from the same village as the owner. No one was getting rich in this simple organization built on personal trust, but everyone earned enough to live on.

**Honey Juice**

Launched in 2007, Honey Juice sold made-to-order fresh juices throughout Jakarta. Although the owner’s family members, each of whom received a salary and daily stipend, managed all seven stands there were two types of franchises available. An investor could buy a franchise for 6 million IDR. In return for that fee, the franchisee would receive a stand as well as an initial supply of fresh fruit. In addition, the franchisee would be responsible for a monthly fee of 300,000 IDR. If a franchisee did not have start-up capital, Honey Juice would provide a start-up package of cart and fruit and would receive 60% of the franchisees’ profit in exchange. As of early 2010, Honey Juice had not sold any franchises.

**Ibu Dias’ Porridge**

The business most similar to KeBal was Ibu Dias’ Porridge. In business since 2001, Ibu Dias’ experience as a health volunteer and her belief that mothers, particularly those living in Jakarta’s slums, needed a healthier alternative for their children, inspired her to start her business. While her porridge used safe, healthy ingredients, it lacked some of the ingredients that provided the most protein and nutrients in the KeBal porridge, like chicken and coconut milk.

Originally a one-woman operation, by 2010 Ibu Dias’ Porridge had grown to ten kitchens (grouped into two clusters of five each) serving 58 vendors. Instead of mobile street carts, Ibu Dias recruited vendors who sold from stands in front of their homes. Vendors were carefully vetted to ensure they had strong ties to their local community and potential customers, that they were located in a high traffic area, and that the location was not too close to an existing vendor.

Like Texas Chicken, Ibu Dias’ porridge was prepared centrally. Each vendor purchased the porridge from the kitchen for 1,500 IDR and resold it to consumers at a marked up price of 2,000 IDR. Centralized kitchens made quality monitoring simpler and ensured consistency across vendors. Producing in higher volumes also gave Ibu Dias the flexibility to offer more menu variety. Chicken porridge was offered every day, along with a beef or fish option.

Ibu Dias owned all the kitchens and each cluster of five kitchens was managed by one of her sons. Because this was a family-run business, the sons did not generate formal financial reports and no regular profits were sent up to the head office, which was responsible for administration, marketing and promotion, as well as menu development. Ibu Dias received no salary. If there was an expense at the headquarters level, her sons helped cover the cost. This informal system allowed Ibu Dias to have employees dedicated to the success of the business without having to worry about overhead. However, it also placed all of the demands of raising new capital to start new kitchens on her family.
Growth of the business was at a standstill as Ibu Dias had reached the end of her resources both in personnel (she had run out of sons) and capital.

Large Franchises

Although there were many international franchises like McDonald’s, KFC, and others in Indonesia, there were also several large domestic franchises that were rapidly expanding across the country.

**Edam Burger**

Started by a self-proclaimed entrepreneur, Edam Burger was the brainchild of Made Ngurah Bagiana. Beginning with just one cart, Made spent six years learning the street cart trade before expanding. From 1990 to 2003, Made grew the business to 700 carts, and from 2003 to 2010 he had expanded the business to 4,000 locations, including twelve restaurants. To support these locations, he had fourteen production centers that were owned by him but run independently.

Unwilling to describe his business as a “franchise,” Made sold “business opportunities” to local entrepreneurs. For 2.3 million IDR ($250 USD), a new vendor would receive a fully equipped pushcart and the use of the Edam Burger brand. The cart itself cost around 1.5 million IDR, so in effect vendors were paying an 800,000 IDR premium for the brand name. However, because he came from a modest background, Made sometimes waived the signup fee or loaned the money to the vendor in order to get him started.

As in the small franchises, food production was centralized in facilities that made all of the menu items. Vendors purchased the food from Edam Burger and resold it at a marked up price. For instance, a customer would pay 3,000 IDR for a mini burger that would cost the vendor only 1,500 IDR.

**Ice Cendol Idol**

Deddy Rustandi began a series of entrepreneurial food ventures after working for years in larger corporations. One of these ventures was Ice Cendol Idol. Ice Cendol was a popular drink in Indonesia.

Unlike most franchises which were structured in two layers—one for centralized administration and food preparation, the other for the individual vendors—Ice Cendol Idol was unusual in being a three-layer business:

- **Layer 1:** Deddy and an assistant managed the branding and bulk food purchases. Deddy purchased processed, packaged, and customized ice cendol mix packages from a food manufacturer. He invested a significant amount of capital and purchase commitments (1 million orders) in order to obtain a low per unit cost from the manufacturer.

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20 Pronounced “Mah-day.”
21 Pronounced “chen-dol.”
Layer 2: Independent distributors purchased the mix packages in bulk from Deddy.
Layer 3: Vendors purchased the mix packages from the distributors and sold the final Ice Cendol product to customers. Vendors set their own prices.

The Ice Cendol Idol business had grown to hundreds of vendors within a year.

Options for KeBal

Option 1: The Three-Layer Model

The Mercy Corps KeBal team had a working hypothesis that, like Ice Cendol Idol, the best structure to get cooking centers up and running quickly—and on a growth trajectory—would be a three-layer organization with two levels of franchising. The top layer would be the headquarters, which would own the brand and be responsible for marketing, R&D, and quality control. Revenue would come from the franchise fees they would charge and royalties they would receive from cooking center owners. The middle layer would be occupied by independent cooking center owners who would open and run their own kitchens, hire cooks and prepare the food. A cooking center owner would have two sources of revenue: food sales to vendors and the franchise fees they would charge vendors. The third layer would be independent vendors who would purchase the food from cooking centers and sell it to customers. Their revenue stream would come from food sales. (See Exhibit 5 for a summary of responsibilities and Exhibit 6 for a list revenues and expenses for each level.)

The Mercy Corps team believed that the biggest advantage to the three-layer model was that cooking centers would likely get up and running faster by being independently owned. Cooking centers, according to their rationale, were going to have to be managed by someone, so didn’t it make the most sense to have those managers be fully invested in the business? Wouldn’t cooking center owners work harder and more efficiently than mere kitchen managers? Furthermore, having identified Ibu Ana as a potential asset for the business, the three-layer model seemed the best way to attract and retain her talent, commitment and resources.

However, the G-Lab team did identify challenges with the three-layer structure that gave the Mercy Corps Indonesia team some pause. The biggest hurdle involved setting the fee and royalty rates. The team recognized that the fees and rates needed to be high enough to keep headquarters and the cooking centers in business, but not so high that vendors and cooking center owners would be tempted to strike out on their own. This did not appear to be a significant problem from the vendors’ perspective because they were purchasing something from the cooking centers that they could not get on their own: large quantities of safely prepared and healthy food at a low cost, the KeBal-branded cart to sell from, and the training necessary to make the business a success. However, how the cooking center owners would react to the franchise fees was harder to guess. In addition to being nutritious, what differentiated the KeBal products from the competition was that they were free of preservatives and non-food-grade additives and were prepared under sanitary conditions. In order to
safeguard these differentiators, KeBal managers conducted frequent and rigorous quality control checks on their cooks and vendors. In a three-layer model, headquarters would take on quality control responsibilities. The big unknown was whether cooking centers would be willing to pay for quality control. Would they see it as a necessary value-added service to maintain the brand image? Or would they be tempted to quit the KeBal organization to escape both the fees and the demanding quality monitoring?

In addition to quality control, headquarters would also be responsible for new product development, training, and marketing. One of the key marketing channels that had made the pilot successful was support from government officials and health centers, and the role of the headquarters would be to further develop and deepen these types of relationships as the business grew. Even if they saw the quality control as a burden, would cooking centers see enough value in these other services to justify the amount they would be paying in fees?

**Option 2: Two-Layer Model**

The G-Lab team also considered whether a simpler two-layer structure would be better for the new organization. This structure would mirror most of the existing food franchise businesses in Jakarta, nearly all of which had just one level of franchising.

In a two-layer structure, headquarters, the top layer, would own the cooking centers (as opposed to franchising them to independent owners) and vendors would occupy the bottom layer. Functionally the business would run in a similar manner to the three-layer structure: vendors would buy food from cooking centers and sell it to customers. The primary difference would be that since headquarters would own the cooking centers, there would be no need to develop a franchise fee/royalty structure for cooking centers. The cooking centers’ gross profits would be the organization’s gross profits.

This two-layer structure appeared to have several advantages. First, it would be easier to monitor the cooking centers’ finances; gone would be concerns that cooking centers would underreport revenue to avoid fees. Second, there would be less risk of cooking centers spinning off on their own and becoming competitors. Third, management would have more direct control over cooking and would perhaps be able to make changes to menus, techniques, or processes more easily. In researching U.S. franchise structures before traveling to Jakarta, the G-Lab team had learned that many franchise businesses put significant value on having at least a few outlets owned by the central headquarters. It gives management its own window on market dynamics and a laboratory to test and learn from new approaches.\(^2^2\)

However, the two-layer structure presented a number of challenges. Headquarters would need to raise more money initially, probably two times what the three-layer model would require, in order to fund

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start-up costs for both headquarters and new kitchens. Growth would likely be slower since headquarters would need to raise all the capital to open kitchens themselves rather than using capital supplied by entrepreneurs who wanted to own cooking centers. Then there was the issue of finding talent that could manage both a headquarters office and a cooking center, and yet was willing to accept a low starting salary. The three-layer model addressed this talent issue because cooking center investors would be focused on their role and would ultimately see the upside from their hard work and investment in the form of potentially unlimited profits. The two-layer model did not provide the same potential reward for kitchen managers. And last but not least, it wasn’t clear what the two-layer model would mean for Ibu Ana.

**Conclusion**

As the Jakarta traffic began to slowly start up again, Usye asked Dini how she would set up KeBal so that it would be in a position to move forward, providing more children with nutritious food and more Jakartans with good business opportunities. Without a solid plan for the next phase, all of the work they had put in over the last year would be for nothing when November rolled around. As a community health professional and a mother, Usye just couldn’t bear to think about all the babies and toddlers who would go back to eating unhealthy and potentially unsafe foods if KeBal were to fail. Mothers who were regular customers had started telling her and Dini that their children seemed more alert and were not getting sick as often. Plus, Usye knew that many other teams within Mercy Corps were watching this project with great interest. Everyone wanted to find ways to build social enterprise businesses that gave people opportunities while benefiting communities. Had they considered all of the important issues? What was the best model for KeBal, given all of the nuances of the situation?

**Study Questions**

1. Why is the three-layer model not prevalent among comparison businesses?
2. Is it possible for each layer of the three-layer model to feel they are getting something of value from the layer above?
3. What is the best business model to foster quick growth?
4. What factors, if any, should Mercy Corps evaluate as it considers applying for-profit franchise models to the KeBal organization?
Exhibit 1  KeBal Food Cart

Source: Casewriters.

Exhibit 2  Average Daily Revenue, by Vendor by Month (IDR millions)

Exchange rate: 9,350 IDR = 1 USD.

Note: RW10+Gunanto is the cook-vendor partnership, where the cook sells food to the vendor (Gunanto).

Source: Casewriters.
Exhibit 3  
*Average Daily Profit, by Vendor by Month (IDR millions)*

![Bar graph showing average daily profit by vendor and month.]

- **June**
- **July**
- **August**
- **September**

*Exchange rate: 9,350 IDR = 1 USD.*

*Source: Casewriters.*

Exhibit 4  
*KeBal Vendor RW #2 Monthly Income Statement*

<table>
<thead>
<tr>
<th>In IDR</th>
<th>June 2009</th>
<th>July 2009</th>
<th>August 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,627,000</td>
<td>2,984,000</td>
<td>2,956,000</td>
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<tr>
<td>COGS</td>
<td>1,548,250</td>
<td>1,587,300</td>
<td>1,674,880</td>
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<tr>
<td>Gross profit</td>
<td>1,078,750</td>
<td>1,396,700</td>
<td>1,281,120</td>
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<tr>
<td>Gross margin</td>
<td>41%</td>
<td>47%</td>
<td>43%</td>
</tr>
</tbody>
</table>

*Exchange rate: 9,350 IDR = 1 USD.*

*Source: Casewriters.*
In the two-layer structure, the headquarters would also assume the responsibilities in the second tier.

*Source: Casewriters.*
### Exhibit 6 Three-Layer Organizational Structure: Basic P&L

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Costs</td>
</tr>
<tr>
<td>- Cooking Center one-time start-up fees</td>
<td>- Salaries for management team</td>
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<tr>
<td>- Cooking Center royalties</td>
<td>- Marketing and recruiting costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cooking Centers</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Costs</td>
</tr>
<tr>
<td>- Vendor one-time start-up fees</td>
<td>- Kitchen renovation and equipment</td>
</tr>
<tr>
<td>- Vendor food payments</td>
<td>- Food raw ingredients</td>
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<tr>
<td>- Vendor quarterly cart lease payments</td>
<td>- Carts</td>
</tr>
<tr>
<td></td>
<td>- Cook salaries</td>
</tr>
<tr>
<td></td>
<td>- Royalties to headquarters</td>
</tr>
<tr>
<td></td>
<td>- One-time start-up fee</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vendors</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Costs</td>
</tr>
<tr>
<td>- Food sales to customers</td>
<td>- Food purchases from Cooking Center</td>
</tr>
</tbody>
</table>

Source: Casewriters.