

Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries

Case Study: Earth and People, China

The Japan Research Institute

Office of the Multilateral
Investment Fund

TECHNICAL
NOTE N°
IDB-TN-1224

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Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library
Nihon Sōgō Kenkyūjo.

Study of social entrepreneurship and innovation ecosystems in South East and East Asian countries: case study: Earth and People, China / The Japan Research Institute. p. cm. — (IDB Technical Note ; 1224)

1. Social entrepreneurship-China. 2. Technological innovations-Social aspects-China. I. Inter-American Development Bank. Office of the Multilateral Investment Fund. II. Title. III. Series.
IDB-TN-1224

JEL Codes: A130

Keywords: Social enterprise, Social entrepreneurship, Social innovation, Social business, Social impact, Impact investment, Social entrepreneur

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CASE STUDY

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Contents

- 1. Introduction 1
- 2. Local Social Issue and the Challenge 2
- 3. Solution and Social Impact 4
- 4. The Social Entrepreneurs 6
- 5. Business Model 7
- 6. Social and Financial Performances 13
- 7. Business Development and Ecosystem Evolution 15
- 8. Scalability and Replicability 24
- 9. Final Reflections 26

Acknowledgements

The authors **Fumi Sugeno** and **Akihisa Yahata** at The Japan Research Institute, Ltd. would like to acknowledge the following individuals for their contribution to this study, through participating in personal interviews and making comments on draft versions of this report. (in an alphabetical order)

- Fan Li, Co-Founder of the Global Links Initiative
- Tomohiro Hamakawa, Co-founder & Managing Director of Earth Company
- Junko Saito, Independent Journalist
- Yi Zhao, Founder & CEO of Earth & People

1. Introduction

Name: Earth & People	
Description	Earth & People produces and sells organic tea by establishing a traceability system, branding the producers and creating a community of its advocates via SNS. It belongs to the new generation of social enterprises in China.
Founded	November 2011
Legal format	Limited company
Num. employees/volunteers	About 40 full time employees
Geographical reach	Across the country
Certifications/ awards	Zhao was selected as one of the Hot People of 2014 by Nandu Weekly Magazine and was accepted to Hupan University, an exclusive leadership course established by Alibaba's Founder and other top business leaders in China in 2014.
Social innovation variables	
1. Innovation type	A pioneer in establishing a traceability system that is reliable and transparent to the customers and branding individual farmers.
2.Social impact	The company has delivered pesticide-free tea to 150,000 customers and provided income generation opportunities to 15 partner-farmers as of August 2016.
3. Financial sustainability	The company achieved an annual revenue level of USD 3-4.5 million ¹ in 2015 with profits in the range of USD 450,000-750,000.
4. Key Partners and Support ecosystem players	Earth & People was influenced by Daichi wo Mamorukai, a Japanese pioneer of organic agribusiness. It has received support from ecosystem players from the business sector such as a private investor and Hupan University.
5. Scalability and Replicability	Earth & People has progressed to the next level of expansion. According to the founder, it has shared its experiences and know-how with other companies that are dealing with organic products beyond tea.
References	

¹ Unless otherwise stated, the exchange rate of RMB 1=USD 0.15 is applied throughout this report

2. Local Social Issue and the Challenge

Food safety – a serious social issue in China

The key social challenge that Zhao Yi, the founder of Earth & People, set out to tackle was agricultural production and food safety, especially tea, in China.

China's rapid development and increasing population have put tremendous strains on the national food supply. China only possesses 7-9 % of the world's arable land², but more than 20% of the world's population. Furthermore, the arable land mass has been decreasing for the past 50 years, partially because of soil erosion and land conversion caused by urbanization and industrialization. Nevertheless, China has managed to increase per-person production by improving agriculture inputs (eg, agrochemicals), successful breeding programs of high-yield varieties and heterotic grains (eg, hybrid rice). China faces the challenge of sustaining high productivity while limiting environmental degradation from the overuse of agrochemicals.³

In the past two decades, the Chinese population shifted its focus from food supply to food safety with the rise in living standards. This is demonstrated by China's Engel's coefficient, which measures the proportion of income spent on food: the figure has improved from 57.5% (urban) and 67.7% (rural) in 1978 to 36.3% (urban) and 40.4% (rural) in 2011.⁴ Beyond fulfilling basic survival needs, food became a commercial commodity for profit making, and thus leading to illegal and unsafe practices, such as the overuse and misuse of certain agrochemicals, in pursuit of increased margins by food producers and manufacturers. China has now become the largest producer and exporter of pesticides in the world. According to a 2011 survey, food safety was ranked first in the top five safety issues that the Chinese people were concerned, surpassing public safety, traffic safety, health safety and environmental safety.⁵

Since the mid 2000s, a series of food scandals triggered public concerns over food safety issues in China. For example, in 2006, Greenpeace tested vegetables in two Hong Kong grocery

² <http://data.worldbank.org/indicator/AG.LND.ARBL.ZS> [Accessed 10 August 2016]

³ [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(13\)60776-X/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(13)60776-X/abstract) [Accessed 10 August 2016]

⁴ http://www.china.org.cn/opinion/2014-08/15/content_33250619.htm [Accessed 10 August 2016]

⁵ [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(13\)60776-X/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(13)60776-X/abstract) [Accessed 10 August 2016]

stores and discovered that 70% tested positive for illegal pesticides, majority of which originated from mainland China.⁶ The 2008 Chinese milk scandal received the most attention among the food safety incidents. Milk and infant formula had being adulterated with melamine, an ingredient used in pesticides. The Chinese government reported an estimated 300,000 victims including six infants dying from kidney damage and 54,000 babies hospitalized.⁷ In 2014, the Chinese affiliate of U.S. meat supplier OSI Group was accused of using expired meat.⁸ This incident caught international media attention since OSI caters to major fast-food chains such as McDonald's and KFC operating on the mainland. Through these scandals, food producers, manufacturers and the whole industry jeopardized the public's trust in food safety.

Tea is no exception to the food safety issue. China is the largest tea producer in the world generating about one million tons of tea for both domestic and foreign markets.⁹ Tea drinking is one of China's most cherished customs. Chinese people drink tea on a daily basis by soaking tea leaves into hot water. Consequently, agrochemicals used on tea leaves have invisible yet direct impact on consumers. In April 2012, Greenpeace issued an influential research paper that revealed massive use of chemical pesticides that seriously affect the safety of tea in China. Greenpeace randomly selected 18 mid-price products of 9 major tea companies to test the pesticide level. 14 samples contained pesticides that according to the EU's classification may impair fertility, cause harm to an unborn child, or cause heritable genetic damage.¹⁰

The government's response – food safety legislation and its limits

In response to the rising food safety incidents, the Chinese government established many standards for the food industry and adopted the Food Safety Law in 2009. Yet although food safety legislation is far reaching in China, the implementation of food safety laws proves difficult. One key challenge is that the regulatory control of food safety is a shared responsibility among national, provincial, and local governments. It is difficult to coordinate different regulatory authorities to uphold high safety standards across the vast diversity of

⁶ <http://www.greenpeace.org/eastasia/press/releases/food-agriculture/2006/20060417-pesticide-vegetables/> [Accessed 12 August 2016]

⁷ <http://www.foodqualityandsafety.com/article/food-safety-in-asia/2/> [Accessed 10 August 2016]

⁸ <https://www.ft.com/content/c84e2dfa-10ac-11e4-b116-00144feabdc0> [Accessed 10 August 2016]

⁹ <https://www.somo.nl/wp-content/uploads/2009/01/From-Tea-Garden-To-Cup.pdf> [Accessed 9 August 2016]

¹⁰ <http://www.greenpeace.org/eastasia/publications/reports/food-agriculture/2012/pesticides-chinese-tea-report/> [Accessed 12 August 2016]

food products in China.¹¹

The emergence of organic agribusiness

As a series of food safety scandals occurred, demand for organic food started increasing especially among China's young urbanites. According to BIOFACH, the world's largest organic trade fair, the consumption of organic food in China accounted for 1.01 % of total food consumption in 2012, up from 0.36% in 2007. As a comparison, the penetration rate is approximately 4% in the United States and continues to grow¹².

In response to such rising demand, various types of organic food businesses are emerging in China: specialized stores, online shopping sites, community supported agriculture (CSA), etc. Typically, they sell various fresh produce from contracted farms and imported organic goods.

There are also a few organic tea companies. While most of these companies are small scale, Geng Xiang Tea is the pioneer of the organic tea business in China and has reached a certain level of scale. Geng Xiang Tea, established in 1998, has about 300 franchise stores and sells green tea produced in its farms of 66.7 million square meters. Its annual revenue has reached the level of USD 60 million¹³. Geng Xiang Tea's first successful business focused on manufacturing tea tins as a suitable package for sending tea as gifts. Then, it started to produce organic Jasmine tea. Finding high-quality Jasmine is challenging although it occupies 97% of the Beijing's tea market. Foreseeing a business opportunity, Geng Xiang Tea started producing organic Jasmine tea. Although a pioneer of organic tea business in China, Geng Xiang Tea did not start its business with a goal of tackling the food safety issue. Its business model is quite conventional and not designed to create a social movement for food safety.

3. Solution and Social Impact

Earth & People is a for-profit company that produces and sells organic Chinese tea by creating a movement among consumers to promote food safety and sustainable agriculture.

¹¹ [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(13\)60776-X/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(13)60776-X/abstract) [Accessed 10 August 2016]

¹² <http://www.biofachchina.com/en/home.php> [Accessed 10 August 2016]

¹³ http://www.gx-tea.com/cn_brand/gengxiangjianjie/ [Accessed 10 August 2016]

Innovations in organic tea business

Earth & People belongs to the new generation of social enterprises in China. Zhao, the founder, does not want to be called a social entrepreneur. He emphasizes the importance of building a robust business in order to be able to make social changes through his business. The beauty of Earth & People's business is that it has developed an innovative model that works to both earn revenue and promote social change.

Firstly, Earth & People builds brands of its partner-producers by calling them "Agricultural Artists". The company puts the producers' names and their faces on the packaging, posts short documentary films about each producer on its website. In this way, Earth & People encourages its partner-farmers to be accountable for the quality of their production and at the same time manages to increase product value.

Secondly, Earth & People differentiates itself from other organic tea companies by not only reaching a larger business scale but also implementing a strict monitoring system and publishing all the results online. Earth & People monitors the usage of pesticides and other chemicals by its partner-farmers through three channels: regular risk assessment by its staff; random inspection by its customers; and third-party tests on pesticide residues. Such transparency helps Earth & People to gain customer trust, something that other food companies lost amidst food scandal reports.

Thirdly, Earth & People utilizes WeChat, China's largest social network site (SNS) not just to sell its products but more so to create a community of people who share the value of promoting sustainable agriculture. Currently, Earth & People sends messages and slogans, such as "consumption = your vote for the future", to its 300,000 WeChat followers. Consumers become Earth & People's advocates, volunteers, business partners and franchisee candidates.

Social impact

As of August 2016, Earth & People has provided 150,000 customers with safe tea and 15 partner-producers with income generating opportunities. Although difficult to measure the impact, Earth & People aims to improve tea safety, enhance consumer awareness on food safety and sustainable farming, and improve the self-esteem of farmers. Earth & People's long-term vision is to make agriculture sustainable.

4. The Social Entrepreneurs

Figure 1 Zhao Yi, Founder and CEO of Earth & People



(Photo by huxiu.com)

Born in 1983, Zhao belongs to the Millennial Generation of Chinese entrepreneurs with new values and priorities. He grew up in a rural village in Zhejiang province, known for fostering successful entrepreneurs, such as Ma Yun, Founder of Alibaba Group.

Zhao has always been a contrarian in his life. Though he achieved high scores on the National College Entrance Examination that enabled him to enter Zhejiang University, one of the country's top universities, he chose to enter China Agriculture University. According to Zhao, his mother advised him to go to a university without too many students. Also, he liked the school motto of the China Agricultural University: "liberate farmers from their difficulties" – emphasizing the importance of not just feeling sorry for farmers, but taking proactive actions to solve their problems.

While attending China Agricultural University, he visited a number of rural villages and farmers across the country. In 2004, Zhao had a life-changing experience. When he visited a village in Inner Mongolia, he came across a handbook edited by a local vocational school teacher that was very popular among local farmers. It described how to fertilize cows in a simple language in just about ten pages. This made him realize that most books written by his professors were too difficult to understand even for university students like him let alone farmers. After returning to Beijing, he and his classmates wrote six practical handbooks for farmers, such as migration to cities, health and sanitation in rural life, etc. He took the drafts to

the university's publisher, but the editor did not even read them. Deeply disappointed, Zhao wrote a letter to Wen Jiabao, then-Premier of State Council. To Zhao's surprise, he received a letter back from Wen within a few days. In his letter, Wen called Zhao and his fellows as true role models of agricultural university students because they not only attempted to utilize their knowledge to help farmers but also took proactive actions. Zhao instantly became a star in his university campus and in many Chinese media. Xinhua Bookstore, China's largest bookstore chain, decided to publish the handbooks and sold a total of 40,000 copies.

Another turning point for Zhao came shortly after he was selected as the Student of the Year in 2014 by his university. Zhao visited an old lady living in a mountainous area in Shanxi province who had been selected as a representative for the National People's Congress and received many awards from Mao Zedong and other Communist Party leaders over the decades. She made a small museum in her hometown to share her achievements with visitors. After listening to the old lady recount stories of her recognitions, Zhao realized one thing as he came out of the museum - despite her great achievements, her home village was still very poor. It was at that time where Zhao swore to himself that he would not let external recognition affect the way he leads his life.

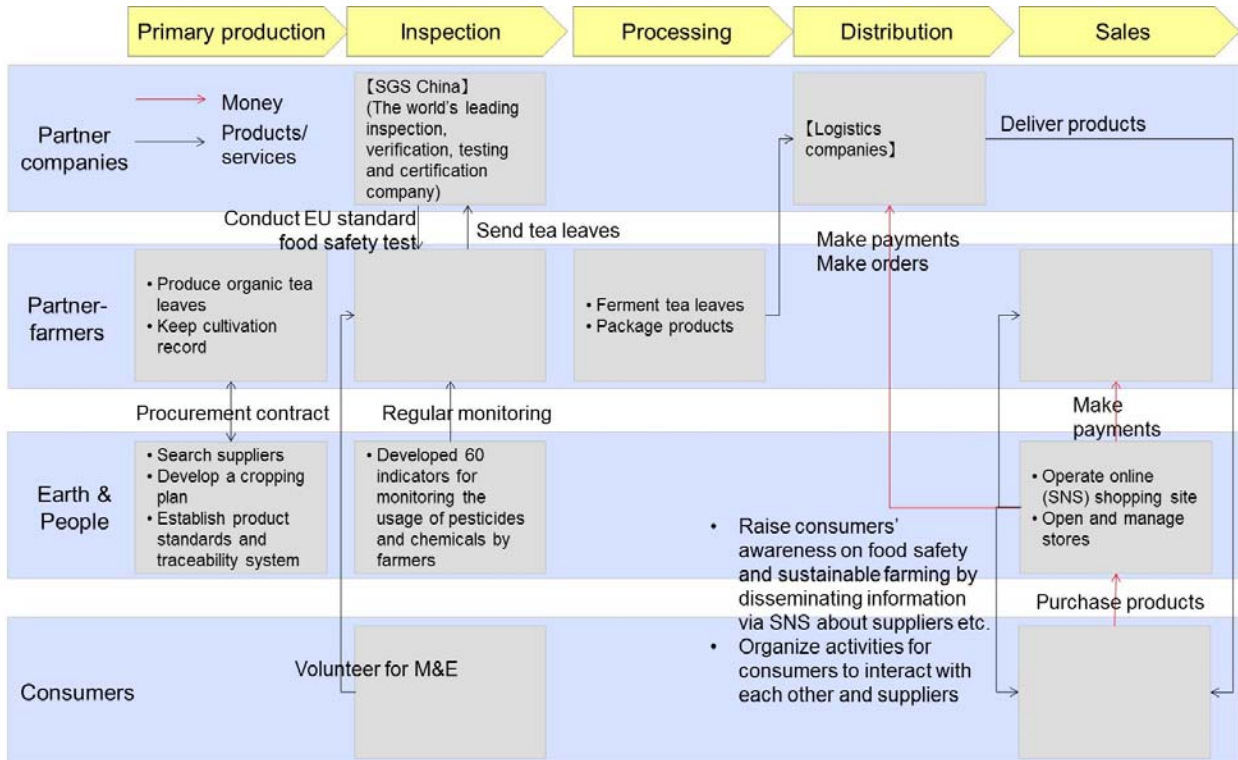
In 2005, Zhao made a decision that surprised everyone around him – he dropped out from the University to become an entrepreneur. Seeing the need to change agriculture through business, he initiated a series of agribusinesses before launching Earth & People in 2011.

5. Business Model

The model of Earth & People's pesticide-free and tracable tea business is described as below.

5.1 The Model's Main Characteristics

Figure 2 Earth & People's Business Model



(a) "Agricultural Artists" – branding the farmers

It has always been a challenge for Earth & People to find reliable partner-farmers who are willing to genuinely commit themselves to organic tea farming. At the beginning, Earth & People lacked a strategy for searching partner-farmers and randomly visited tea farmers. Until 2014, Zhao Yi and his staff visited more than 1,000 tea farmers across 13 provinces through this random method. From April 2015, however, the company started the so-called "8,296 Plan" to take a more strategic approach to the partner-producer selection process. Instead of randomly picking farmers from the 80 million tea farmers in China, the company started to focus only on the 8,296 tea farmers who had already obtained the "QS mark", the Chinese quality and safety mark for food, beverages and other products. In 2015, Earth & People managed to visit about QS-marked 3,500 farmers, which resulted in increasing the number of partner-suppliers from 6 to 10.

Earth & People only partners with individual farmers, not with agricultural cooperatives.

Agricultural cooperatives in China are quasi-governmental organizations and tend to have large memberships with relatively loose quality control system. Earth & People partners with farmers with access to more than about 53,000 square meter land. For instance, one partner-producer employs about 300 workers working on a 1.7 million square meter farm.

Earth & People signs contracts with each partner-supplier and commits to purchasing the whole yield. After signing a contract, Earth & People provides partner-farmers with its own technical guidebook for organic tea production. The guidebook includes practical information, such as how to remove weed and insects without using chemicals. Earth & People asks the farmers to keep cultivation records. If the farmer is new to organic farming, it takes about one year on average from signing a contract to selling tea products.

A key characteristic that makes Earth & People unique from other organic food sellers in China is that it actively helps farmers to build their own individual brands. In China, farmers suffer from low social status and low bargaining power; their names generally do not appear on the packaging of their products. Earth & People refers to its partner-producers as “Agricultural Artists” to show respect towards their skills for producing high-quality tea. The company also places producers’ names, such as “Uncle Chen’s Oolong Tea”, and illustrations of their faces on the packaging. On its online shopping website, customers can watch short documentary films about each producer, featuring behind-the-scene stories and breath-taking sceneries of tea farms. Such a marketing tactic enables Earth & People to achieve two objectives: on one hand, the production process is made more transparent thus increasing the value of products; on the other hand the company encourages farmers to have pride in and feel accountable of the quality of their own products.

Figure 3 The package of “Oolong Tea - Wuyi Rock Tea by Uncle Chen”



(photo by JRI)

(b) Transparent and accountable traceability system

Earth & People differentiates itself from others by implementing a strict monitoring system with the following characteristics.

Regular monitoring by Earth & People staff:

Earth & People has developed a checklist with over 60 items for regular on-site monitoring to check whether the farmer is using pesticide or other chemicals. For instance, the staff always check water reservoirs because farmers would use water when cleaning up pesticide containers.

Random monitoring by customers:

Earth & People acknowledges the risk of its monitoring staff building a special relationship with the farmers. Therefore, it developed another monitoring system through the use of the so-called “Virgo monitoring team”. In China, people belonging to the Virgo zodiac sign are said to be skeptic. When Earth & People called for Virgo customers to join as part-time monitoring staff, hundreds of applications poured in, among whom four individuals were selected. These part-time monitors are paid USD 1,500 for a year and visit the partner-farmers randomly to inspect the farms based on a checklist developed by Earth & People.

Sample tests by SGS, a global testing company:

Earth & People partners with SGS, the world’s leading inspection, verification, testing and certification company, to test for 218 different pesticides and heavy metals in the tea leaves. The test is based on the EU standards, which are much more strict than the Chinese standards. Earth & People only uses and sells the leaves that pass this rigorous test. If certain batches of

tea leaves fail to pass the test, the company cancels the contract with the specific farmer.

(c) “Consumption = your vote for the future”

Zhao developed a slogan “consumption = your vote for the future” to create a movement among Earth & People’s customers and followers on social media.

WeChat, China’s largest social network site (SNS), is an important tool for Earth & People not just to sell its products but also to create a community of people who share the values of sustainable agriculture. Over the years, Earth & People has built its base of 300,000 followers, to whom messages are sent regarding sustainable farming, information on farmers, etc. Zhao also communicates with his customers individually via WeChat on a daily basis. The company organizes off-line events, such as concerts and site visits, for customers and producers to meet each other. For instance, Earth & People managed to mobilize more than 40 customer volunteers to organize a concert in 2014 that attracted 1,000 participants.

Once Earth & People hit a certain threshold of farmers, selling their products suddenly became a bigger challenge than securing partner-farmers. To this end, Earth & People is currently expanding its retail network by opening physical stores. In order to survive and thrive in the age of online shopping, Zhao believes physical stores must provide users unique experiences rather than just displaying products. Zhao also thinks that stores located in high-end shopping malls and department stores are critical to improve branding. This is important because only 0.1% of the entire 200,000 – 300,000 tea sellers in China are located in shopping malls. To enjoy first mover advantage, Earth & People’s strategy involves opening up stores in the top tier (top 5% in sales) of the 4,000 shopping malls and 2,800 department stores in China. In 2016, Earth & People opened its first direct store in a high-end shopping mall in Beijing, which is the 14th busiest mall in the country in terms of sales. Apart from directly managed stores, Earth & People has developed a franchise package and received 400-500 applications, mostly from its customers. It plans to open 50 franchise stores by the end of 2016.

5.2 Fee Structure

As of August 2016, the prices of Earth & People products vary widely from about USD 6 to USD 6,750. The most expensive products include a bag of tea weighing about 66,000g tea leaves and a twenty-year storage service in the Earth & People’s tea storage. Most products

are sold at a price range of USD 30-75.

Figure 4 Samples of products and prices



(Source: Earth & People website)

According to Zhao, tea is a unique product because there is no benchmark for pricing. Different buyers purchase at totally different prices for the same tea leaves. In addition, typical costs of producing organic tea are 2-3 times higher compared to regular tea. Nevertheless, Earth & People attempts to keep the prices down as much as possible.

5.3 Target Beneficiaries

Earth & People target two sets of beneficiary groups.

(a) Customers:

The main target group is 30-45 year-old middle income families with little children. There are about 100 million middle-income people in China, comprised of 40% male and 60% female. Young customers in their 20s tend to purchase Earth & People products for gifts.

(b) Producers:

Producers are the ultimate target beneficiaries in a way since Earth & People aims to change unsustainable farming practices by utilizing the power of consumers. As mentioned above, Earth & People partners with medium to large-scale farmers who have more than about 53,000 square meters. The size of a tea farm varies greatly in China, but each tea growing

household occupies 667 to 1334 square meters on average.

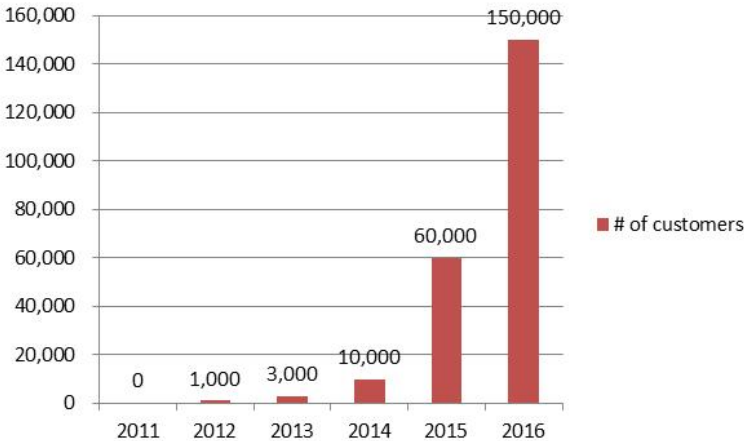
6. Social and Financial Performances

6.1 Social Impact Performance

6.1.1 Social impact achieved

(a) Direct beneficiaries

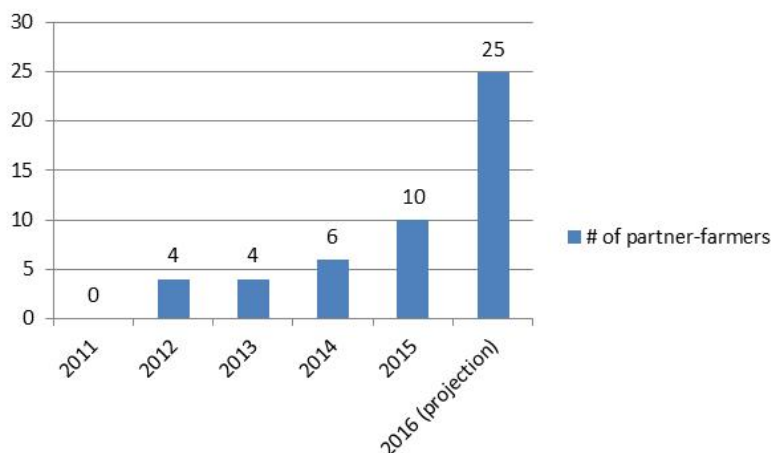
Figure 5 Trend in the number of customers (2011-2016)



(Source: Earth & People)

As of August 2016, Earth & People estimates reaching about 150,000 customers through its web store and a direct stores that opened in April 2016. Since selling its first product in April 2012, the number of customers has been increasing exponentially in a very short period. Earth & People has been able to achieve such dramatic increase by using WeChat, China’s largest SNS, as its primary marketing channel. The company has succeeded in building a community of fans who support Earth & People’s challenge to make farming practices in China more sustainable. These fans influence their peers in their social networks by becoming a follower of Earth & People. The exceptional increase in 2015 and 2016 reflects the increase in partner-producers in those years (shown below) as well as an opening of the first store in 2016.

Figure 6 Trends in the number of partner-farmers (2011-2016)



(Source: Earth & People)

As of August 2016, Earth & People works with 15 partner-farmers, with an aim to increase the number to 25 by the end of 2016. Since Earth & People began taking a systematic approach for searching its partner-farmers in 2015, the number of partner-farmers also started to take off.

(b) Mid to long-term impacts

While Earth & People makes contributions to social issues - such as improved tea safety, enhanced consumer awareness on food safety and sustainable farming, improved self-esteem of farmers - the company's attributable impact is difficult to measure. Also, it is still early days to assess whether the company has had an impact on making China's farming sustainable or not.

6.1.2 Social impact measurement

Earth & People measures food safety based on the checklist with over sixty items and third-party tests with 218 items of pesticides and other chemicals. Earth & People does not collect data to measure the impact on other issues.

6.2 Financial Performance

6.2.1 Trends in revenue and expenses

As a private company, Earth & People does not disclose its financial data to the public. According to Zhao, the company achieved an annual revenue level of USD 3-4.5 million in 2015,

with profits in the range of USD 450,000-750,000. The annual growth rate from 2015 to 2016 was about 100%.

6.2.2 Proportion of income from sales

Earth & People generates income from selling its products via SNS shop and a physical store. Since the physical store opened only in April 2016, most income is derived from online sales.

7. Business Development and Ecosystem Evolution

Table 1 A summary of Earth & People’s business development milestones

Stage	Month/Year	Description
Start-up	2005	Zhao met Li Fan, Co-Founder of the Global Links Initiative, an NGO that facilitates exchanges among social entrepreneurs in China and Japan. Li introduced Zhao to Kazuyoshi Fujita, Founder of Daichi wo Mamorukai, a pioneer in home deliveries of organic agricultural food in Japan.
	2005	Zhao left China Agricultural University to become an entrepreneur of an organic agribusiness.
	2005-10/2011	Zhao worked for an organic tea company Geng Xiang Tea and initiated multiple businesses, including organic grain company.
	2008	Zhao met Fujita who came to Beijing to give some lectures.
	2008	Zhao visited Daichi wo Mamorukai in Japan.
Early	11/2011	Registered Earth & People as a limited company.
	12/2011	Signed a contract with the first partner-farmer.
	4/2012	Started selling the first batch of products.
	4/2012	Zhao renews his commitment to food safety when Greenpeace issued a research paper on pesticide residues in tea products in China.
	6/2012	Received the first investment from Boquan He.
	7/2014	Organized a concert in Beijing, attended by 1,000 people
	9/2014	Noah Private Wealth Management began to use Earth & People’s products as gifts for their clients.
	9/2014	Zhao formed a rock band "Farmer 4" with three other young agribusiness entrepreneurs as a part of marketing.
	12/2014	Zhao got accepted to Hupang University, a prestigious business support network
	12/2014	Zhao appeared in a TV program on Hunan Weishi channel.
12/2014	Reached a breakeven point	
Growth	1/2015	Farmer 4 was selected as Hot People of 2014 by Nandu Weekly Magazine selected
	4/2015	Zhao started attending executive MBA course in Hupang University
	4/2015	Launched the “8296 Plan” focusing on visiting QA-marked farmers
	4/2016	Opened its first direct store in a high-end shopping mall in Beijing.
	7/2016	Started a partnership with Danone for implementing joint PR activities.

7.1 Start-up Stage (From 2005 to October 2011)

(a) Milestones

In this stage, Zhao started to set his goal on initiating his organic agribusiness and went on to acquire relevant experiences and knowledge.

While Zhao wanted to start his own organic agribusiness, he did not know how. It was then that he became acquainted with Li Fan, Co-Founder of the Global Links Initiative, a nonprofit that facilitates cross-border exchanges among social entrepreneurs mainly in China and Japan. Li introduced Zhao to Kazuyoshi Fujita, Founder of Daichi wo Mamorukai, a pioneer in home deliveries of organic agricultural food in Japan. Very much influenced by Fujita and Daichi, Zhao decided to leave University to concentrate on doing organic agribusiness.

Since then, Zhao has been a serial entrepreneur and launched a number of businesses including an organic grain business and a gift product venture. He also worked for Geng Xiang Tea, China's pioneer of organic tea company in this period, to learn about the organic tea business. He acquired relevant business experiences and some personal savings which later became useful when he initiated Earth & People.

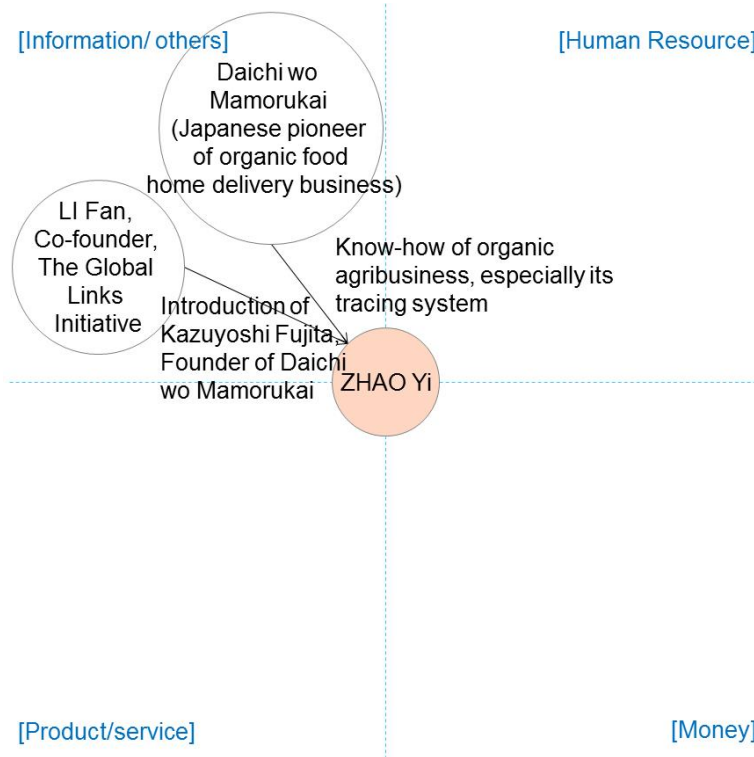
Around 2008, Zhao visited Daichi in Japan to learn about its business model. This trip had a strong impact on Zhao and his future business model.

I was moved by two things in Japan. Firstly, when I went to a supermarket, I found a farmer's name, picture and email address all placed on a cabbage that he made. I even got a reply from the producer when I wrote him an email. The producer wrote that he strives to make good and safe cabbages and gives his own family to eat the same. Secondly, when I visited the partner-producers of Daichi, I realized something very different from farmers in China. These producers presented their vegetables as their own pieces of art. They were full of self-confidence and pride. I decided to introduce this method to China in order to help Chinese farmers build their own brand and be recognized by the consumers.

(Source: An interview with Zhao Yi by the JRI, 29 February 2016)

(b) Key Supporters

Figure 7 Earth & People's key supporter mapping in its Start-up stage (2005 to October 2011)¹⁴



Li and Daichi played important roles in supporting Zhao to develop Earth & People's business model.

Zhao still to this day thanks Li for helping him open the door to organic agribusiness by introducing him to Fujita, Co-founder of Daichi, and organizing the study trip to Japan.

Zhao respects Fujita as his role model. Daichi was generous about sharing its 30-year experiences. Zhao visited Daichi several times to adopt Daichi's tracing system, including keeping producers' profiles and cultivation records, conducting regular monitoring and third-party tests, and providing consumers with access to information regarding the origin of

¹⁴ How to look at this key supporter map:

- The name inside the circle represents the key supporters.
- Depending on the kind of support they provide (HR, Product/ services, money, information), the circles are located in respective zones.
- The brief descriptions of the support are written on the arrows.
- The size of the circle expresses the level of impact (high, medium, low).

the products and test results.

In this period, Zhao did not receive much support in the form of human resources, money and product/services. He saved some money from the profits he made in a number of businesses that he initiated to be used as the initial capital for setting up Earth & People.

7.2 Early Stage (November 2011- December 2014)

(a) Milestones

The early stage is from the establishment of Earth & People in November 2011 to the business reaching a breakeven point at the end of 2014.

Shortly after establishing the company, Earth & People signed a contract with its first partner-farmer, who was already making organic tea, and started selling the first batch of tea products in April 2012.

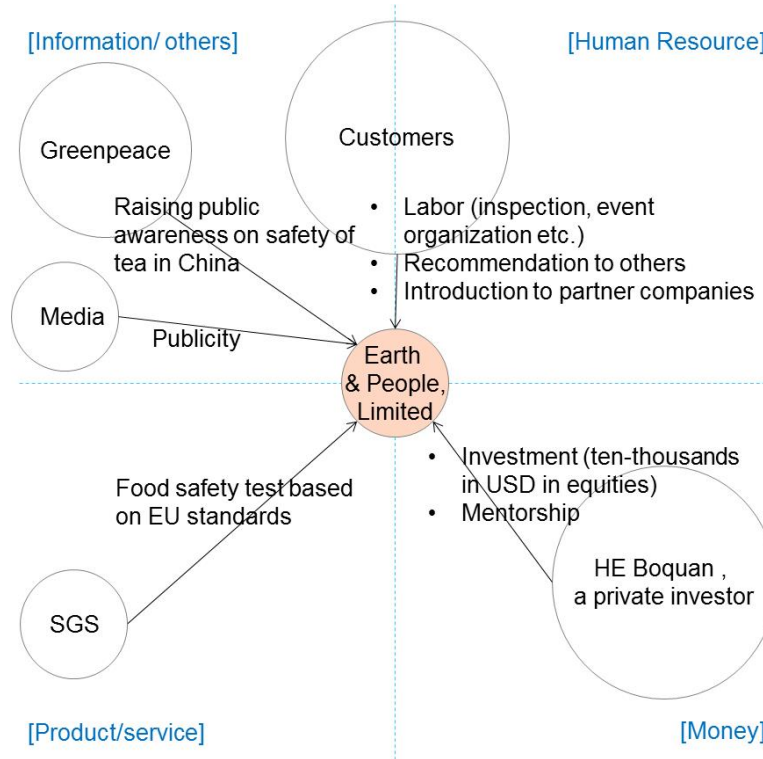
Also in April 2012, Greenpeace issued an influential research paper that revealed the widespread use of pesticides that seriously affect the safety of tea in the Chinese market. Given the rising public interests in food safety, a number of Chinese media reported the results of the Greenpeace investigation. Zhao considers this incident to be one of the milestones since the Greenpeace paper made him solidify his commitment to improve the safety of tea.

Another milestone involved him receiving an investment from He Boquan. A former entrepreneur and private investor, He made his fortune by selling his beverage business, a well-known Chinese beverage brand, Le Bai Shi, in 2011. After coming back from Harvard, He invested in multiple start-ups, some of which have made their way to the NASDAQ. Zhao first approached He through a friend because He met all of Zhao's criteria for his ideal investor: i) has abundant financial power, ii) is not too famous or ostentatious, iii) does not have too many investees, iv) is a successful entrepreneur himself and v) does not have a history of having troubles with his investees. From He's perspective, it was a quick decision; He committed to invest in Zhao after a ten-minute interview. When Zhao asked He the reason for this investment in Earth & People, He answered that "if an agricultural university alumnus like you is not going to do this business, who will?" Although the amount of investment was not big (five digit amount in USD, according to Zhao), Zhao appreciates the non-financial support

including He's advice that's shared in their bi-monthly meetings.

(b) Key Supporters

**Figure 8 Earth&People's key supporter mapping in its early stage
(November 2011- December 2014)**



In the early stage, the number and variety of key supporters increased.

Zhao considers his customers to be the most important key supporters by far. Earth & People has developed a unique relationship with its customers, which goes beyond a simple sales transaction. As its slogan “consumption = your vote for the future” describes well, Earth & People’s customers are advocates of the company’s commitment to sustainable agriculture. Thus, customers provide Earth & People with: i) free promotion service by following Earth & People and writing positive reviews on WeChat, ii) introduction to business partners; and iii) free or paid work, such as inspection of farmers and operation of events for customers. Earth & People has built relationships with a number of corporations, such as Noah Wealth Management through an introduction made by customers.

Several reasons lie at the core of Earth & People's rapid development of its community of customers who are also Earth & People's advocates and partners.

Firstly, Earth & People uses the SNS platform, WeChat, and communicates with followers through stories. The company develops concise but eloquent and fun slogans, such as "Consumption = your vote for the future" to foster shared values among their customers and WeChat followers. Also, the company posts short documentaries of each producer with moving stories and beautiful sceneries to enable customers to relate themselves with the producers.

Secondly, the company also organizes playful off-line events to engage their customers. The concerts, in which Zhao sang with his band, attracted 1,000 individuals. They also organize trips to visit the partner-farmers.

Thirdly, Zhao, with his eloquence and charisma, has attracted Chinese media's attention since the establishment of Earth & People. Although Zhao says that he does not take his media exposure too seriously, he admits that it has helped to raise public recognition of his company.

Other than customers, there were no other individuals or organizations that supported Earth & People to strengthen its human resources. This does not mean that Earth & People did not face the challenge of recruiting high-quality employees.

It is very difficult to recruit good staff. We have many volunteers, but the volunteers tend to have relatively short interest spans. Therefore, volunteers are suitable for one-time projects, such as customers' events, but not necessarily suitable for daily operations. We have already developed strategies for selecting partner-farmers and selling our products. Nevertheless, we still do not have the solution to address the challenge of recruiting high-level staff. Until today, many of our staff are graduates of agricultural universities and also are our customers.

(Source: An interview with Zhao Yi by the JRI, 29 February 2016)

In terms of financial resources, Zhao first used his savings from his previous businesses to raise USD 75,000 as initial capital. Later, he received an investment (five digit amount in USD)

from a private investor, He Boquan. Zhao consciously kept the number of investors minimal to maintain his control over the business.

7.3 Growth Stage (January 2015 - Present)

(a) Milestones

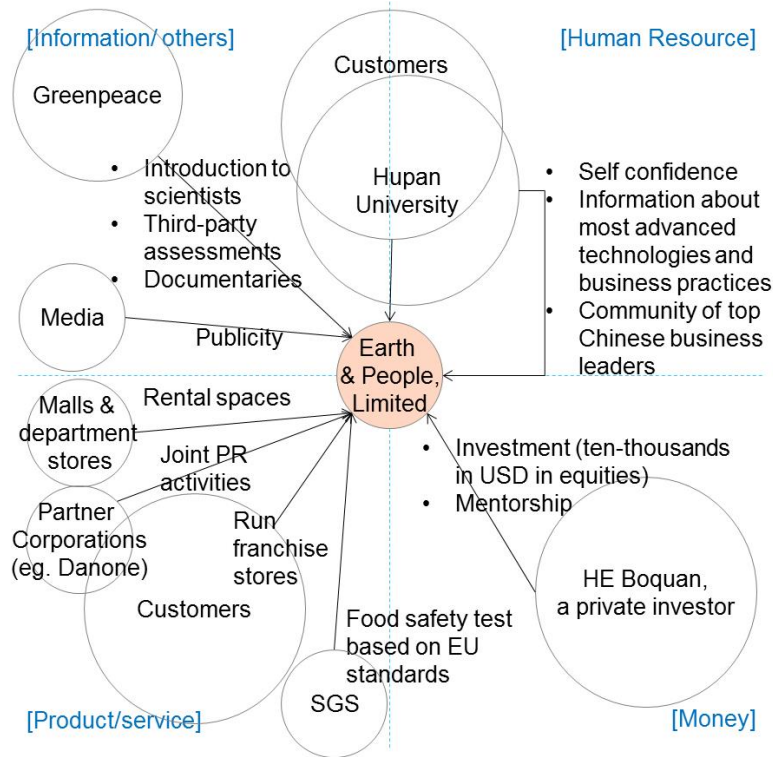
Earth & People entered its growth stage in 2015 after reaching a breakeven point at the end of 2014. In this stage, Earth & People started to expand its business mainly by increasing the number of producers and physical retail stores.

In April 2015, Earth & People initiated the “8,296 Plan” to take a systematic approach for selecting partner-farmers, as explained above.

Another important milestone in this stage involved the opening of the first physical store in April 2016. With the success of 8,296 Plan, Earth & People’s primary focus shifted from securing partner-farmers to expanding its retail network. Against their plan to open 50 franchise stores, the company has received 400-500 applications, mostly from their existing customers.

(b) Key Supporters

**Figure 9 Earth & People’s key supporter mapping in its early stage
(January 2015 - Present)**



In this stage, Earth & People managed to acquire new key supporters for its further growth.

Hupan University is one of the most influential supporters for Zhao today. Hupan (“lakeside” in Chinese) University was established by Ma Yun, Founder of Alibaba Group, in 2014 with a mission to discover and foster young talent with authentic entrepreneurship. Every year, it selects only 35 promising entrepreneurs through an intensive selection process. Students gather in the campus located in Hangzhou province, Ma’s hometown famous for its West Lake, for 3-4 days every 2 months over a period of 3 years to participate in business management and leadership classes taught by top Chinese business leaders, such as Ma himself. The training emphasizes learning from failures rather than successes.

Zhao was selected to be part of Hupan University in April 2015. At Hupan University, students are taught that authentic entrepreneurship is about firmly maintaining moral bottom lines

and contributing to improve the society. In an interview, Ma asked Zhao, “How is the world different because of you?” These lessons at Hupan University seem to have left a profound psychological imprint on Zhao. When asked how these values differ from “social entrepreneurship”, Zhao answered:

I strongly agree with the values of Hupan University. By changing the way people consume, I want to change agriculture and promote social changes with new business ideas. At the same time, I think no one in my class wants to be labeled as a “social entrepreneur.” People think that a social entrepreneur should contribute to society and should not make money. Also, I do not want to make money by asking for people’s sympathy. An enterprise first needs to have the ability to survive in order to make impact. I want to be called an entrepreneur who makes social changes.

Zhao points out that Hupan University imparted him two intangible assets: i) self-confidence and ii) knowledge about the frontier of technologies and business practices. For instance, learning about big data and meeting Pepper, a personal robot developed by Softbank, at Hupan University gave Zhao the idea to develop Earth & People’s original personal robot for making tea. This business idea will be described more in the next section.

Zhao also refers to Greenpeace as Earth & People’s important supporter. Greenpeace provides Earth & People with access to its global network of experts. For example, through Greenpeace, Earth & People contacted a German scientist to ask for his expertise in a certain pesticide. Moreover, Greenpeace is conducting a third-party assessment and filming a documentary of Earth & People. Such work will help Earth & People raise public recognition and trust.

From this stage, Earth & People started to develop strategic partnerships with corporations instead of just selling its products to the public. For instance, Earth & People entered into a partnership with Danone to implement joint promotional activities that distribute free samples of tea made from Danone’s mineral water and Earth & People’s tea leaves.

Gaps still exist between the entrepreneur’s needs and support from ecosystem players in the areas of human and financial resources. Zhao originally planned to raise additional capital for expanding Earth & People’s retail stores. However, given the slowdown of the venture

investment activities in China, it is not easy for Zhao to find a potential investor as of mid-2016. Zhao plans to focus on expanding its retail network through franchises, in which case the franchise owners cover the initial costs for setting up stores.

8. Scalability and Replicability

8.1 Scalability

Earth & People has entered a new strategy phase to scale its business to the next level. Zhao's long-term goal is to achieve global expansion of Earth & People based on his belief that "you can only make real changes by achieving scale like Starbucks." In order to further scale its business, Earth & People needs to meet the following conditions.

(a) Expansion of the retail network

Earth & People currently focuses on expanding its retail network by opening new physical stores. It has two types of stores: direct stores in high-end shopping malls and department stores primarily for branding purposes; and franchise stores mainly for retail purposes. According to Zhao, Earth & People has received 400 to 500 applications for its franchisees as of August 2016, many of which were from its customers, and plans to open 50 new franchise stores by the end of 2016. The key success factors for franchising will be:

- **selecting enthusiastic franchisees** who share the vision and values of Earth & People
- **developing a detailed and practical guideline for franchisees** to maintain customer trust towards Earth & People
- **providing franchisees with regular training and follow-up.**

(b) Product and service differentiation

Today, the organic food home delivery sector in China has become crowded with many small players. Zhao estimates that there are hundreds of copycats of his company. Rather than perceiving this to be a negative thing, Zhao considers this to be Earth & People's contribution in promoting food safety and sustainable agriculture in China. However, for Earth & People to surpass its followers, the company needs to differentiate itself from others by maintaining the highest level of customer trust. This is only possible by continuously improving its tracking system of the production process.

Another strategy involves collecting and analyzing big data to provide customers with user experiences tailor made for an individual based on various collected data. Earth & People is currently developing its own tea-making robot for household use for less than USD 150. With algorithms calculating water temperature and the length of time to soak tea leaves in hot water, the tea robot can make tea that best suits each customer's unique preferences. At the same time, it can collect data, such as the kind of tea taken, the time and frequency of drinking tea, etc., in order to continuously improve the customer preference algorithm. The robot offers additional features such as communicating with customers about promotional activities.

(c) Expanding supply from its partner farmers

As Earth & People expands its retail network, it needs to simultaneously secure sufficient supply. The company has developed a partner-farmer selection methodology and a dedicated team for the process. By the end of 2016, Earth & People plans to visit a total of 3,500 farmers of out of the 8,296 QA-marked tea farmers in order to increase the number of partner-farmers from 15 to 28. It plans to visit the remaining 4,796 farmers in a couple of years for further expansion.

(d) Investment in other innovative agricultural companies

Zhao recognizes that Earth & People, through its organic tea business, can solve only a small part of food safety and sustainable farming issues. In order to achieve a greater impact on the sector, Zhao and some individual investors are preparing to establish a USD 15 million fund to invest in innovative agricultural companies both inside and outside China.

8.2 Replicability

Rolling out a similar business in other developing countries would require three elements.

(a) Identifying and educating partner-farmers

Only a few players operate in the Chinese organic tea market. It took Earth & People about 3.5 years to develop its methodology of identifying and educating potential partner-farmers. It was a breakthrough for Earth & People when it narrowed down the candidate pool from 80 million tea farmers to 8,296 producers qualified for the QS mark. It will be difficult to replicate this approach in a country where there is no qualification system for agricultural products.

Furthermore, Zhao and his team utilized their educational background in agriculture to develop a technical handbook that teaches farmers how to grow tea without using pesticides or chemical fertilizers. Therefore, technical expertise also serves as an ingredient for replication.

(b) Availability of a sound logistics infrastructure

Earth & People relies on a few logistics companies to deliver its products to customers' homes. One of the key success factors of Earth & People was focusing on tea instead of dealing with fresh produce, which requires a cold chain distribution network. Since cold chain is still underdeveloped in China, organic food businesses that deal with fresh produce are typically limited in geography; they tend to crowd around the major cities of Beijing and Shanghai. Thus, sound logistics infrastructure and services that connect producers and consumers are necessary for this kind of business model.

(c) Consumer awareness

Earth & People's business was built on the rising public interest in food safety in China. Earth & People also communicates with its customers via SNS to further raise consumer awareness. It will be difficult to replicate in a country where there is no basis of consumer awareness for food safety and sustainable agriculture.

9. Final Reflections

9.1 Key Milestones

Below are the key milestones of Earth & People.

- Visited Daichi wo Mamorukai, a Japanese pioneer of organic food home delivery business (2008):
The essential elements of Earth & People's business model, such as branding individual producers and establishing transparent traceability system were inspired by Daichi wo Mamorukai in Japan.
- Received an investment from a private investor (2012) and started attending Hupan University (2015):
These milestones represent the ecosystem of the new social enterprises in China. Earth & People utilizes the new ecosystem of venture capital, such as private investors and an

exclusive leadership course established by top business leaders in China, rather than the older ecosystem of nonprofit organizations, such as foundations and nonprofit intermediaries. The fact that he managed to obtain support from the ecosystem players in the business sector demonstrates that the Chinese economy is going through a paradigm shift from pursuing growth at-all-cost to a more sustainable growth that adds value to the society and environment.

- Started its 8,296 plan, a new strategy for identifying partner-farmers (2015):
Instead of randomly searching partners from the 80 million tea farmers in China, it took a more systematic approach by focusing on only the 8,296 farmers who are already qualified for the QS mark.
- Opened its first physical retail shop (2016):
In this milestone, Earth & People accomplished to expand its retail network outside of the e-commerce sector.

9.2 Challenges for Growth

For further growth, Earth & People faces challenges in securing high-quality staff and additional investments.

Earth & People currently has about 40 employees, who are mainly from agricultural universities. Most of them were Earth & People's customers before joining the firm and thus true advocates of its vision. However, it has struggled to secure enough qualified staff for its rapid expansion.

Another challenge at the moment involves securing capital to open direct stores. The fact that Earth & People utilizes the ecosystem of venture capital means that it is also susceptible to market trends of Chinese venture investment at large. Given the bearish outlook of the Chinese start-up investment landscape at the time of writing, Earth & People faces difficulty in securing additional capital.

9.3 Contribution to Social Innovation

Earth & People has made contributions to promote food safety and sustainable agriculture in China through a novel business model.

Firstly, Earth & People is a pioneer of developing a thorough and transparent traceability system in China. It monitors and evaluates the safety of tea through three channels: regular monitoring by Earth & People staff; random inspection by its customers; and sample tests based on EU standards by a third-party testing company. Customers can see the results of each product via SNS. The traceability system has been effective not only for securing product safety but also for obtaining customer trust that other food companies lost due to series of food scandals.

Secondly, by branding individual partner-producers, Earth & People has helped farmers to elevate their social status and sense of accountability. This approach, which Zhao adopted from Japan, has been effective in controlling the quality and safety of agricultural products.

Finally, Earth & People has created a social movement by building a community of customers who share the value of promoting food safety and sustainable agriculture utilizing online and offline communication, such as catchy propaganda (e.g. “consumption, your vote for the future”) and moving documentaries about producers on SNS, concerts and site visits. With the power of SNS, Earth & People was able to quickly gain 300,000 WeChat followers. Furthermore, customers became enthusiastic volunteers, business partners and potential franchise owners. The case of Earth & People demonstrates a new approach in creating a movement towards social innovation.