

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

Case Study: Rags2Riches (R2R),  
Philippines

The Japan Research Institute

Office of the Multilateral  
Investment Fund

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- Tomohiro Hamakawa, Co-Founder of Earth Company
- Vesi Kertikova, Investment Manager, Southeast Asia, LGT Impact Ventures
- Yoshi Tabuchi, Managing Director of Social Investment Partners

# 1. Introduction

Name: Rags2Riches (R2R)	
Description	R2R sources accessories, such as handbags and other goods, from local artisans in poor urban communities outside Manila by collaborating with famous designers to develop stylish, high-end items for both the Philippine and overseas markets.
Founded	2007 (Manila, Philippines)
Legal format	Private Limited Company
Num. employees/volunteers	About 30 full-time staff
Geographical reach	Production sites: 24 poor communities outside Manila Sales channels: Manila and other geographies in the Philippines, as well as London, New York, Singapore etc.
Certifications/ awards	R2R's co-founder Fernandez-Ruiz selected as "30 under 30" by Forbes (2014) and Young Global Leader by the World Economic Forum (2012)
Social innovation variables	
1. Innovation type	R2R created a precedence of the concept of a triple bottom line – achieving financial, social, and environmental returns – in the Philippines.
2. Social impact	Local artisans managed to increase their income levels from USD 20 cents to USD 10 per day and improve financial resilience through savings and microinsurance.
3. Financial sustainability	Over a five-year period from 2007 to 2012, R2R achieved phenomenal growth surpassing 100% growth year on year.
4. Key Partners and Support ecosystem players	R2R's business model was developed through multi-sector collaborations including the church, academia, and designers.
5. Scalability and Replicability	Scalable if linkage to the global market and investments can be secured. Replicable if there is a substantial mid-to-high income consumer base, in addition to the three pillars: high-quality production by local women, stylish design by renowned designers, and strong market access
References	<a href="https://rags2riches.ph/">https://rags2riches.ph/</a>



## 2. Local Social Issue and the Challenge

According to the World Bank, one out of four people in the Philippines live below the national poverty line (2012) who typically reside in informal urban settlements, rural indigenous communities, and rural farming communities.

Payatas is one of the poorest informal urban settlements in the country, located in Quezon City outside of Manila. It has the country's largest sanitary landfill, occupying about 20 hectares of land. As of 2007, the population of Payatas was estimated at more than 200,000 people, of which 160,000 or 80 percent were informal settlers who worked as scavengers, hawkers, vendors, or manual laborers; approximately 10,000 people depended completely on scavenging for their daily survival.<sup>1</sup> In this context, children serve as important workforce as scavengers for their families. These scavengers provide a healthy supply of cheap recyclable materials such as paper, glass, plastic, and metals, thereby contributing to the recycling business ecosystem.

To earn extra money for their families, local stay-at-home mothers started to weave foot rugs from scrap cloth originally from dumpsites and later from garment factories. Soon, middlemen came in to control the sourcing of scrap materials and their sales in local markets. Without effective ways to compete with the middlemen for direct market access and a lack of skills such as product development and financial management, the local women were able to earn less than US 20 cents a day, hardly enough to feed their family. Payatas is just one of the many informal urban settlements outside of Manila where such poverty trap and marginalization exist.

## 3. Solution and Social Impact

Rags2Riches (R2R) directly addresses these urban poverty challenges by sourcing accessories, such as handbags and other goods, from suppliers in Payatas and other poor communities in Metro Manila. R2R collaborates with renowned designers and relies on in-house designers to

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<sup>1</sup><https://bschool.nus.edu.sg/Portals/0/images/ACSEP/Publications/Case%20Collection%20on%20Philippines%20-%2020140821.pdf>

develop stylish products and sells them at profitable prices online and in retail stores in high-end shopping malls.

R2R has enabled at least 150 currently active local artisans to earn USD 4.5 to 15 per day, which is much higher than the poverty levels they experienced when selling rugs to middlemen.

## 4. The Social Entrepreneur

**Figure 1 Therese “Reese” Fernandez-Ruiz, Co-Founder**



(source: <http://sir.tv/>)

Therese “Reese” Fernandez-Ruiz is the Co-Founder of Rags2Riches. Fernandez-Ruiz is one of the most renowned social entrepreneurs in the Philippines and has been selected as “30 under 30” by Forbes (2014), Young Global Leader by the World Economic Forum (2012), Entrepreneur of the Year at the World Entrepreneurship Forum (2011), and Rolex Young Laureates (2010).

Reese developed her strong sense of social responsibility since an early age when she travelled to poor communities throughout the country with her missionary mother. In an interview with the Asian Journal, Reese explains her motivation to give back to society:

*One of the reasons why I felt a great responsibility to be part of society and really contribute is because I [have been] so blessed and have been given so much. Not because I feel that I am better than most people, but because I have the opportunities to get there. And a lot of the people who deserve it don't get there because they don't have the same opportunities.*



Reese developed the business concept of Rags2Riches when she was a business management student at Ateneo de Manila University. Reese and her fellow classmates from a class on business innovation led by Mark Ruiz, the founder of Hapinoy (another successful social enterprise in the Philippines) and her now husband, visited Payatas. Located in Quezon City, Payatas is considered to be one of the poorest urban communities in the country with a large dumpsite where an estimated 1,000 trucks arrive at the site every day, each carrying two to three tons of waste.<sup>2</sup> At Payatas, they met entrepreneurial women who wove foot rugs from scrap cloth. However, these local artisans could earn less than USD 20 cents a day since they were forced to buy scrap cloth from middlemen and sell foot rugs in the local markets again through middlemen.

Reese and other like-minded individuals decided to help these local women to develop a business by connecting them directly to the market and creating value for their products. This is how Reese came to co-found Rags2Riches, Inc. (R2R) in 2007 soon after graduating from university.

**Table 1 Co-Founders and current board members of Rags2Riches**

Name	Background at the time founding Rags2Riches
Brother Xavier Alpasa S.J.	Executive Director of Simbahang Lingkog ng Bayan (the socio-political arm of the Jesuits)
Angeline Benavides-Bulan	Executive in a multi-national Financial Institution, a member of Life Directions (a volunteer group of young professionals)
Memey Mendoza	Marketing Manager in a top Telecommunications company, a member of Life Directions, a former Marketing Manager in Unilever
Maan Lim	Entrepreneur
Mark Ruiz	Co-founder and President of MicroVentures Inc (a social enterprise that runs Hapinoy program, which supports sari sari store microentrepreneurs by providing access to microfinance, financial training and new product lines), a teacher of Business Innovation Class at Ateneo de Manila University, a member of Life Directions, a former Senior Customer Marketing Manager at Unilever
Timothy Agulto	Executive Director of Hapinoy program
Bam Aquino	Co-founder of Hapinoy, current Senator and a cousin of the former

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<sup>2</sup>

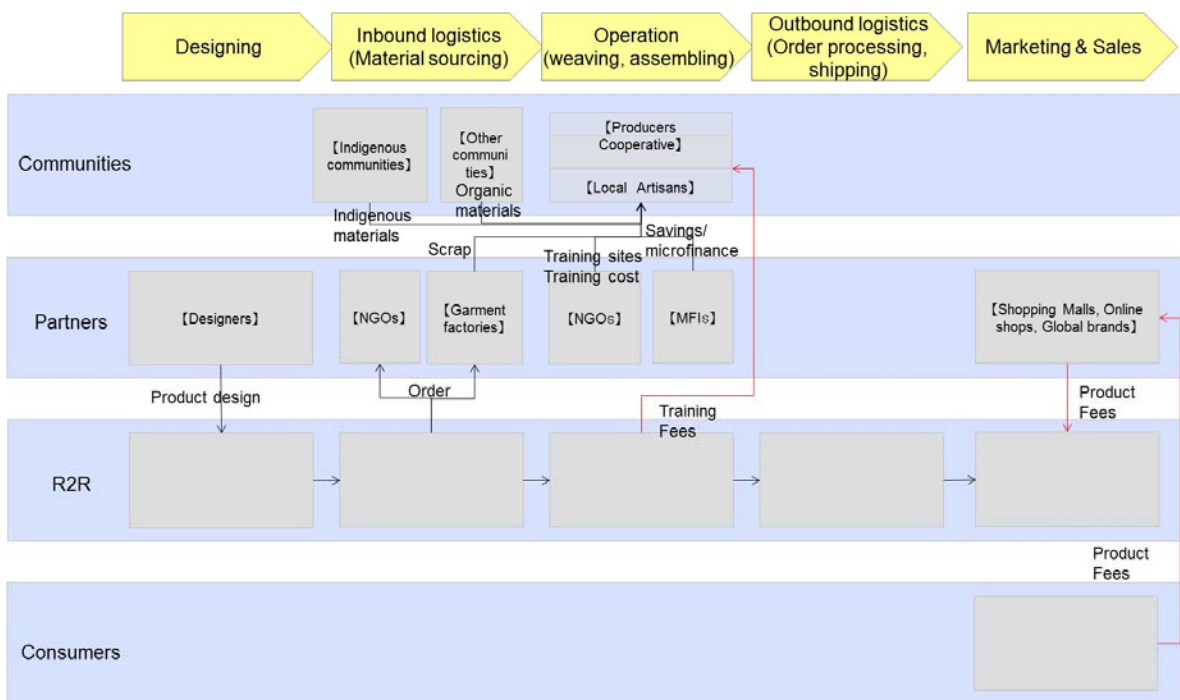
<http://asianjournal.com/aj-magazines/rags2riches-the-philippine-based-social-enterprise-transforms-scrap-into-designer-accessories/>[Accessed 28 April 2016]

	Philippine president, a college classmate of Mark Ruiz
Timi Gomez	Manager at Unilever Philippines, then girlfriend (current wife) of Bam Aquino

## 5. Business Model

### 5.1 The Model's Main Characteristics

**Figure 2 The Business Model of Rags2Riches**



#### (a) Communities as production units and business owners

R2R aims to transform disadvantaged communities into self-sustaining entities that supply their products to other companies. In order to achieve such a goal, R2R empowers local stay-at-home mothers to become professional artisans by providing trainings, career opportunities, and access to microfinance services.

R2R established a training platform called the Artisan Academy that teaches artisans not only technical skills such as crochet and embellishments, but also business and life skills such as financial management and self-esteem. It is for all R2R partners with local foundations and church-based organizations to identify and engage communities, find training sites, and finance training costs.

After completing the training program, artisans join the production units in their communities. Depending on their other responsibilities including household chores and childcare, women-artisans can choose from three commitment levels: two hours, four hours, and six hours per day. Apart from the commitment level, artisans are classified into three skill tiers: 1. rug makers; 2. rug and bag makers; and 3. high-end bag makers and product developers. R2R also employs full-time artisans at R2R assembly workshops that compile parts and products from communities. R2R's management staff oversees the whole value chain by sourcing scrap materials directly from garment manufacturers, organic materials from other social enterprises and indigenous materials from organizations that work with indigenous communities. The staff also manages community production units and assembly workshops, in addition to controlling quality by rejecting products that do not pass the required standards.

R2R also partners with the Center for Agriculture and Rural Development (CARD), the largest private microfinance agency in the Philippines, to provide artisans with savings and micro-insurance as their safety nets through its Quality of Life Program (QLP). R2R recruits QLP coaches from community members, who provide at most 6 artisans with financial advises on a regular basis, while CARD manages the microfinance services. All artisans who are in partnership with R2R can participate in QLP. R2R pay local artisans fair wages and savings and incentives. Fair wages are computed by multiplying the average length of time to create each product and the daily wage. Then, local artisans have a percentage of their fair wages automatically directed to a savings plan, which they can choose programs such as education plans, insurances and investments. Through savings, artisans can become better equipped to cope with anticipated and unanticipated needs for money. Similarly, micro-insurance enables artisans to reduce their vulnerability to financial shocks in case of death or illness in the family. On top of this, local artisans also receive monetary incentives for quality and on-time deliveries to encourage high-quality on-time production.

Finally, since R2R's ultimate goal lies in empowering local communities; its long-term vision is to become a holding company that supervises multiple cooperatives owned by local artisans. The cooperatives would have full ownership of the production while R2R remains responsible for product development, marketing, and sales. Currently, there is one Rags2Riches Producers Cooperative in Payatas established. The cooperative co-owns R2R and has its community members represented in the board. The cooperative officers run the daily operation of the cooperative, including managing the salary levels of members depending on their contributions. Each local artisan chooses between joining the cooperative and becoming a community supplier. For local artisans, joining a cooperative means obtaining more ownership but also taking more responsibilities.

#### **(b) Design integration**

The value of R2R products is not only derived from the artisan stories behind the products, but also from the partnerships with successful Filipino designers, such as Rajo Laurel and Amina Aranaz-Alunan, who transform scrap, organic and indigenous raw materials into stylish home and fashion accessories. As a result, the R2R designer line RIIR has become its representative brand and well known in the country. After realizing the importance of great design by working with Rajo Laurel, R2R started offering the partner designers royalties in order to create win-win situation for all stakeholders, including the partner designers. In an interview with the Japan Research Institute, Mark Ruiz, a board member of R2R, emphasized that the company's priorities are great design, followed by great marketing.

#### **(c) Market access**

With a brand positioned as stylish, sustainable and ethical, R2R has enabled local artisans' products to access high-end retail markets in the formal economy. As of March 2016, R2R manages four stores in high-end shopping malls and department stores in Manila and is expecting to open up two more stores. The social enterprise also launched its online shop to reach more overseas customers in 2015.

## 5.2 Fee Structure

As of May 2016, prices of R2R products range from about USD 18 (PHP: Philippines Peso 900) to USD 200 (PHP 10,000).<sup>3</sup>

**Figure 3 Samples of R2R products**



Given R2R's pursuit to economically empower women, the social enterprise offers fair remuneration to its artisans. R2R conducts time and motion study to determine necessary time required to make each product. Then, R2R makes sure that if an artisan work 8 hours per day, she will be able to make above the minimum wage. As of 2011, artisans made at least about USD 8 (PHP 410) to USD 10 (PHP 500) per day while the minimum wage was USD 8 (PHP 410). Based on R2R's past experiences, artisans become more efficient by 30% in a matter of 3 months.<sup>5</sup> Depending on the time and skills required for each product, R2R pays rug makers 30 to 50% and bag makers 20 to 50% of the retail price.

## 5.3 Target Beneficiaries

There are mainly 2 groups of target beneficiaries: less-advantaged urban communities, especially stay-at-home mothers, around metro Manila; communities from mountainous and indigenous areas across the country. R2R identifies such communities and recruit artisans by

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<sup>3</sup> Unless otherwise stated, the exchange rate of PHP 1=USD 0.02 is applied throughout this report.

<sup>4</sup> <https://rags2riches.ph/> [Accessed 31 May 2016 ]

<sup>5</sup> [issuu.com/reesefernandez/docs/2012\\_aboutrags2riches](http://issuu.com/reesefernandez/docs/2012_aboutrags2riches) [Accessed 30 April 2016]

collaborating with NGOs and Foundations that have been implementing on-the-ground programs in such communities.

## 6. Social and Financial Performances

### 6.1 Social Impact Performance

#### 6.1.1 Social Impact Achieved

##### (a) Direct beneficiaries

R2R has trained more than 1,000 artisans since 2010, of which about 150 remain active today. Through R2R's Quality of Life program, 571 individuals have opened savings accounts that would improve their financial resilience.

**Table 2 Trends of numbers of artisans trained, active artisans and artisans with savings account<sup>6</sup>**

	2010	2011	2012	2013	2014	2015 estimated	Total to date
# of artisans trained per year	450	250	175	94	80	0	1,049
# of active artisans in particular year	450	209	129	155	164	150	150
# of individuals who opened savings account through the Quality of Life program	0	0	65	140	183	183	571

##### (b) Increased incomes by artisans

Artisans earn between USD 4.50 to 15 per day depending on volume and skills. These figures dwarf the 20 cents per day that they used to make when they sourced materials from and sold final products to middlemen.<sup>7</sup>

<sup>6</sup> <http://www.lgtvp.com/HOPS/Organisation/Rags2Riches.aspx> [Accessed 28 April 2016]

<sup>7</sup> <https://www.changemakers.com/sustliving2014/entries/rags2riches-inc> [Accessed 28 April 2016]

### 6.1.2 Social Impact Measurement

As a social enterprise with a mission towards community impact, R2R considers profit as only one metric to measure its success; R2R conducts social impact measurements both internally and externally by third parties. In an interview with the Asia Journal, Reese emphasized how much she values social impact measurement:

*We think that profit is a great end in mind— it's very necessary—but it's not the only thing for business. If you really want to see the impact and the value you created, you shouldn't just look at profits because it's [one] measure but it's not THE measure. There's also your human impact, how many people you've empowered, how deeply you've empowered them and how sustainable is that model. [The Asia Journal, 2015]<sup>8</sup>*

For instance, R2R monitors the following data in order to measure the social impact created by its Artisan Academy program.

- Number of Artisans with stable, consistent, fair livelihood
- Effectiveness of the modules of R2R in improving the lives and livelihood of Artisans – measured according to evaluation of artisans

For its Quality of Life Program, it measures the following.

- Number of Artisans enrolled in the savings program of R2R - with their own bank accounts and passbooks
- Grameen Progress of Out of Poverty Index measurement
- Artisans planning for the future – acquiring insurance and investments, purchasing own legal homes, sending children to University

Finally, it monitors how R2R is providing full-time employment opportunities mainly through its in-house workshop, in which local artisans take up the final production process.

- Number of Artisans fully employed in R2R, tenure, career progression, career goals<sup>9</sup>

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<sup>8</sup><http://asianjournal.com/aj-magazines/rags2riches-the-philippine-based-social-enterprise-transforms-scrap-int-o-designer-accessories/> [Accessed 28 April 2016]

<sup>9</sup> [www.changemakers.com/node/211969](http://www.changemakers.com/node/211969) [Accessed 28 April 2016]

R2R uses its impact measurement results mainly for internal purposes and not for public consumption.

## 6.2 Financial Performance

### 6.2.1 Revenue and Expenses

R2R does not publicize the details of its financial performance.

According to Forbes, which acknowledged R2R as the “first fashion and design house empowering community artisans in the Philippines”, it has “experienced a consistent 100 percent annual growth rate for [its] first five years in existence (2007-2012).”<sup>10</sup>

In terms of sales volume, R2R sold between 50 and 500 items per month in 2013 depending on the fashion season. The most popular products as of 2013 were Buslo tote (USD 58) and three clutches – Stella (USD 30), Maia (USD 42) and Kulon (USD 24).<sup>11</sup> Assuming that R2R sold a monthly average of 275 items at the average price of USD 40 in 2013, the annual revenue would be about USD 132,000. This may be a conservative estimate because in 2010, R2R set its 2013 revenue target as USD 350,000.<sup>12</sup> If Rags2Riches continued to grow at the rate of 100 percent per year, the 2016 annual revenue would be USD 1,056,000 – 2,800,000.

As a for-profit social enterprise, R2R distributes its profits to: reinvestment in its business expansion; fund social programs for partner communities; and pay dividends to local artisans who chose to join Rags2Riches Producers Cooperative. Rags2Riches Producers Cooperative is a shareholder of Rags2Riches, Inc. However, as of 2011, R2R had not paid any dividend to its shareholders because it had been prioritizing its business expansion.

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<sup>10</sup><http://asianjournal.com/aj-magazines/rags2riches-the-philippine-based-social-enterprise-transforms-scrap-in-to-designer-accessories/> [Accessed 28 April 2016]

<sup>11</sup> [www.blog.rolexawards.com/2013/07/rags2riches-goes-online/](http://www.blog.rolexawards.com/2013/07/rags2riches-goes-online/) [Accessed 28 April 2016]

<sup>12</sup> Rags2Riches (2010). “Annual Report 2010”. Available at: [https://issuu.com/reesefernandez/docs/rags2riches\\_annualreport2010](https://issuu.com/reesefernandez/docs/rags2riches_annualreport2010) [Accessed 28 April 2016]



## 6.2.2 Proportion of Income from Sales

R2R has received grants, such as Starbucks Grants (USD 24,000) and Eileen Fisher NY Women-Owned Business Grant (USD 24,000). However, its core income derives from sales of products.

## 7. Business Development and Ecosystem Evolution

**Table 3 A summary of Rags2Riches' business development milestones**

Stage	Year	Business Development Milestones
Start-up	2007	<b>A group of students from Ateneo's business Innovations class visits rug-weavers in Payatas</b>
	2007	Individual supporters and the Management Committee put their own capital of USD 2,000 (PHP 100,000) to set up a workplace for the rug-weavers in Payatas
	2007	The group sold the new rugs in bazaars at Ateneo University and Mount Carmel Church, helping the Payatas women earn USD 480 (PHP 24,000)
	2007	The group appeared in Shop Talk, a TV show in the Philippines
	2007	<b>RIIR's first collection designed by Rajo Laurel, a famous Filipino designer, was launched at a fashion show at the Edsa Shangri-La Hotel in Manila</b>
Early	2008	<b>Rags2Riches, Inc. registered as a for-profit corporation</b>
	2008	Winner of the Social Enterprise Award at the University of San Francisco Business Plan Competition
	2008	Received a £10,000 grant from The Body Shop Foundation
	2008	Mark Ruiz, Founding Partner and Board Member, recognized as one of the Top 10 Young Leaders of the Philippines by the Asia Society
	2008	Reese Fernandez-Ruiz, Co-founder and President, chosen as one of the 20 outstanding social entrepreneurs of the world for the 2008 YouthActionNet
	2008	Won the Business In Development [BID] Challenge Philippines, with a grant of USD 2,000 (PHP 100, 000) and was chosen to represent the Philippines in the BID Global Competition held at Amsterdam, Netherlands
	2009	<b>Won 1st prize in the BID Challenge International competition with a grant of €20,000</b>
	2009	<b>Launched the second collection of the designer line RIIR by Amina Aranaz-Alunan, the creative director and designer of the handbag store Aranaz</b>
	2009	Won the Starbucks Grant, worth USD 24,000, to be used for modules and educational materials for the Rags2Riches communities: REAP (Rags2Riches Enterprise Activation Program).
	2009	Received investment from LGT Venture Philanthropy
	2009	Set up Rags2Riches Producers Cooperative, a women's cooperative in Payatas
	2009	Announced the company's eco-ethical lifestyle manifesto and celebrated the second year its RIIR Designer Line
	2010	Fernandez-Ruiz received the Outstanding Women in Nation Service Award for empowering more than 500 women from marginalised communities in the Philippines

	2010	Fernandez-Ruiz selected as one of Five Young Laureates for 2010 by the Rolex Awards for Enterprise
	2010	Introduced a new project, the Eco-life Laboratory that would house the research and development for more sustainable materials
	2011	Transferred the daily management and labor cost management to the women's cooperative
	2011	Introduced a cloud-based business solution systems to improve its back-end operation by partnering with Netsuite, a global provider of IT solutions
Growth	<b>2013</b>	<b>Launched its own online store</b>
	<b>2013</b>	<b>Started selling to the international market by partnering with Anthropologie, a British fashion brand</b>
	2013	Reese Fernandez-Ruiz selected as a 2013 Global Good Fund Fellow
	<b>2013</b>	<b>Opened its first retail store at Glorietta, a shopping mall</b>
	2014	Fernandez-Ruiz chosen as one of Forbe magazine's 30 social entrepreneurs below 30
	2015	Selected as a Eileen Fisher NY Women-Owned Business Guarantee (USD 24,000)
	2016	Opened its fifth retail store at Up Town Center, a shopping mall in Manila

The journey of Rags2Riches can be categorized into three stages: start-up, early and growth<sup>13</sup>.

## 7.1 Start-up stage (2007)

### (a) Milestones

The start-up stage of R2R spans the period before the founders registered Rags2Riches, Inc. as a for-profit corporation. In this stage, the founders developed and piloted R2R's business model of combining stylish design by famous Filipino designers and production by local artisans in poor urban communities.

It all started when Brother Xavier Alpasa of a Jesuit socio-political group called Simbahang Lingkod ng Bayan brought young professionals from a group called Life's Directions to Payatas to discuss ways to help the local women. Almost at the same time, Mark Ruiz, a successful social entrepreneur and a member of Life's Directions, took his students, including Reese

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<sup>13</sup> **Start-up stage:** a preparation period for setting up a business. The entrepreneur team develops a business idea and a business model. In some cases, the team may have product/service prototypes that are not fully developed or tested. **Early stage:** A period from business initiation until business scale-up. The entrepreneur team may first deliver its products/services in a test market to examine its business model. Also, the team may file patents or obtain licenses, if necessary. Once the business model is consolidated, business operations commence. However, the business remains quite small due to a lack of capacity and resources. It may reach a breakeven point at the end of this period. **Growth stage:** A period after scaling up the business. The business moved beyond the breakeven point and increases its sales, number of beneficiaries and market share. The team revises the business model in order to sustain and/or expand the business, if necessary. In some cases, the team starts to investigate new products/services.

Fernandez, from a business innovation class at Anteneo de Manila University to Payatas to explore ways to improve the rug weavers' business. In Payatas, they discovered a scandal that the rug weavers earned only about USD 20 cents for weaving 8 to 10 rugs per day while traders took margins ten times higher than that by selling the rugs in local markets. They analyzed that in order to overcome poverty, the Payatas women needed to: i) improve the quality of rugs; and ii) have direct access to the market.

These two separate groups – one led by Brother Javi and another led by Mark Ruiz – came together and started to help the Payatas rug weavers initially as a social project of Simbahang Lingkod ng Bayan. This social project would later become Rags2Riches. The members of the management group, along with other individual supporters, put together USD 2,000 to build a clean and safe workplace for rug weavers. The R2R founders redesigned the rug from multiple colors to monochromatic to cater to the taste of the high-end market. They tested the new product in bazaars at Anteneo University and Mount Carmel Church and sold out in a couple of hours. They then went on to sell in other bazaars.

The most important milestone in this phase includes R2R's launching of a collection of accessories designed by an award-winning designer, Rajo Laurel, in a fashion show at the Esda Shangri-la Hotel in Manila. The founders wished to engage professional designers, especially Rajo Laurel, to improve the design, quality, and value of their products. The founders were pleasantly surprised when Rajo agreed to meet for dinner and made 11 prototypes overnight after their dinner meeting on a pro-bono basis. Rajo's products sold so well during the Christmas season that the R2R's assets quadrupled in a period of four months.

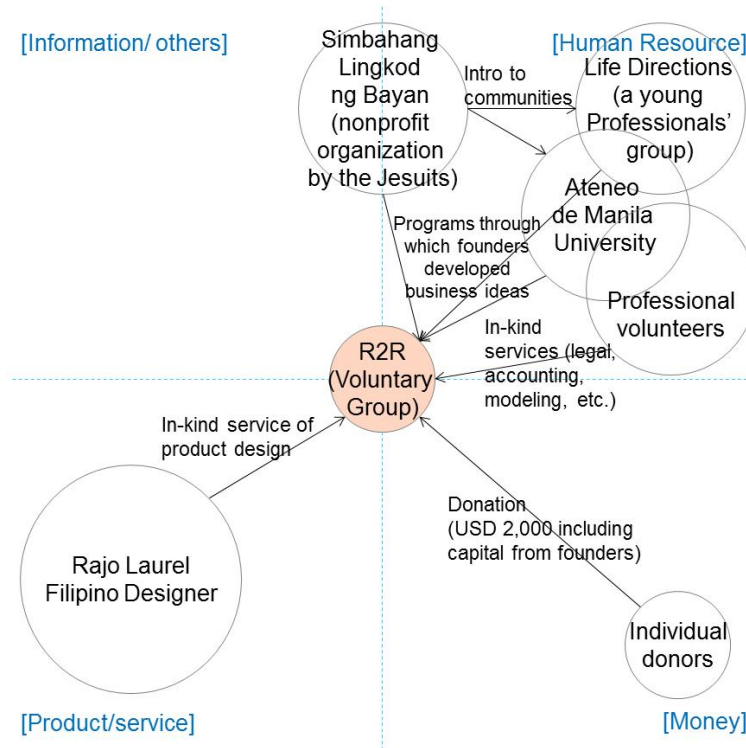
**Figure 4 Catalogue of RIIR's first collection by Rajo Laurel**



(Source: <https://bschool.nus.edu.sg/>)

**(b) Key supporters**

**Figure 5 Rags2riches’s key supporter mapping in its Start-up stage (before 2007)<sup>14</sup>**



In this start-up stage, R2R received support mainly in the form of human resources from three groups.

The first group included various organizations that took an interest in the Payatas cause and helped founders to connect with each other and with the Payatas communities. These organizations were: 1. Simbahang Lingkod ng Bayan (SLB), a nonprofit church-based organization by the Jesuits; 2. Life’s Directions, a volunteer group of young professionals; and 3. a business innovation class at Ateneo de Manila University. Established in 1986, SLB has

<sup>14</sup> 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).

been building strong relationships with local communities through various community work, such as organizing the choir, giving communion to the sick and elderly as well as helping women to generate income by weaving rugs from scrap cloths from dumpsites. Brother Javi, the Director of SLB, facilitated introductions among the Patayas women, young professionals from Life's Directions, and students from the Ateneo business innovation class. The latter two groups were instrumental in organizing like-minded people eager to solve social issues through sustainable business solutions.

The second key supporter, and perhaps the most critical one in this stage, was Rajo Laurel, a successful Filipino designer. He transformed not only Payatas women's foot rugs into high-value products, but also R2R into a high-end brand through the launching of its designer line RIIR, which has a loyal customer base among celebrities and others. Collaboration with Laurel opened doors to launch collections with other established designers. Above all, Laurel's design and continuous advice helped R2R build its brand identity: eco-ethical but sophisticated and stylish.

The third group of key supporters included professional volunteers. Since Rags2Riches was still an informal business, it relied on in-kind services by business professionals, including accountants, counselors and finance executives. These professionals contributed to setting up the business operations of the future enterprise. Also, professionals in the fashion industry offered in-kind services for the fashion show at the Esda Shangri-La Hotel: Robby Carmona, a fashion director, organized the show; Meling Vergara, a hair-stylist for a high-end salon, took charge of the hair and makeup of the models; models including actress Krista Ranillo walked the catwalk. These professionals helped boost R2R's public image and access the high-end retail market.[NUS Business School]

## **7.2 Early stage (2008-2012)**

### **(a) Milestones**

The early stage of R2R spans from its registration as a for-profit corporation in 2008 until it opened its own retail stores in 2013. In this stage, R2R consolidated its business model before further expansion in the subsequent stage. Important milestones include: registration as a for-profit corporation (2008); establishment of the Payatas women cooperative (2009);

increasing the number of partner communities (2009 onward); launching the second designer collection (2009); and announcing the new eco-ethical manifesto (2011).

The first milestone came in the form of registering as a for-profit corporation in 2008. Having succeeded in launching new products, the founders decided to make R2R into a formal business with aims to provide product development, marketing, sales, and social services to the Payatas community.

In 2008, R2R started to hold conversations with the Payatas women to persuade them to set up a cooperative. But this caused division among the women. Many women found it hard to select cooperative's representatives from their peers and to take full responsibility of their business. It was only after R2R encouraged the women to attend a cooperative development training program that they realized the value of R2R's proposition. As a result, the Rags2Riches Producers Cooperative was established in November 2009. By February 2011, the cooperative officers were capacitated enough to be able to run the daily operation of the cooperative, including managing the salary levels of members depending on their contributions.

Also in this phase, R2R expanded its production capacity by training more communities which resulted in the number of partner communities increasing to 24 by the end of this phase.

At the same time, R2R expanded its item offering in the designer line, RIIR, and enhanced its brand recognition. In March 2009, R2R launched the second collection with Amina Aranaz-Alunan, a creative director and designer of the handbag store Aranaz. Aranaz-Alunan went on to design three other collections for RIIR in 2009 and 2010.

In addition, the R2R management team crystalized and strengthened its brand identity by developing an eco-ethical manifesto in 2011. In addition to the two pillars of the R2R brand – community empowerment and fashion – the manifesto emphasized the environment as its third pillar to highlight the fact that R2R products are made from upcycling scrap cloth, thus contributing to reducing waste. [NUS Business School]

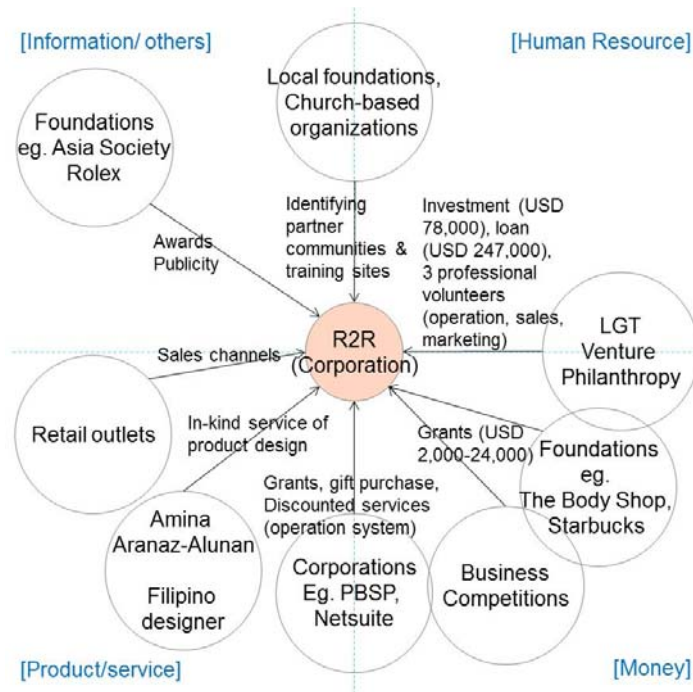
**Figure 6 Select items from the Spring/Summer 2010 Collection  
by Amina Aranaz-Alunan**



[Source:  
<https://bschool.nus.edu.sg/Portals/0/images/ACSEP/Publications/Case%20Collection%20on%20Philippines%20-%2020140821.pdf>]

**(b) Key supporters**

**Figure 7 Rags2riches's key supporter mapping in its early stage (2008-2012)**



In this stage, R2R obtained substantial external support to develop its business including public recognitions, financial support, and product design. R2R managed to reduce its dependency on professional volunteers by building its own full-time management team.

R2R and its founders entered a winning streak of awards from various foundations and media in this period. For instance, the Asia Society awarded Mark Ruiz, Vice Chairman of the Board, as one of the Top 10 Young Leaders of the Philippines (2008); Rolex Awards for Enterprise awarded Reese Fernandez-Ruiz, President, as one of the Five Young Laureates (2010).

In order to finance business development activities, R2R also commenced its fundraising efforts in this period. It first started receiving grants from business competitions and foundations: Business In Development (BID) Challenge Philippines in 2008 (USD 2,000); the Body Shop Foundation Grant in 2008 (USD 15,000); BID Challenge International in 2009 (USD 22,850); and Starbucks Grant in 2009 (USD 24,000).

After winning prizes in business competitions, impact investors like LGT Venture Philanthropy (LGTVP) started to approach R2R. Since 2009, LGTVP has mainly provided the following: i) an equity investment of USD 78,000 and a loan of USD 47,000 to finance the expansion of R2R; ii) LGT VP client's loan of USD 200,000 to support the establishment of an in-house workshop, working capital and the hiring of new team members; and iii) three professional volunteers to work full-time for 11 months in Manila in the functions of operations, sales & marketing, and finance.<sup>15</sup>

R2R also began exploring strategic partnerships with a number of corporations, including Philippine Business for Social Progress (PBSP), Smart Talk N' Text, Cream Silk, Sarabia Optical, Megaworld, the Power Plant Mall, Business World, Bonifacio Development Corp., Ayala Group, and the School of Fashion and the Arts. For example, PBSP, a nonprofit consortium of corporations that advocates for corporate social responsibility (CSR) and corporate citizenship, provided the Payatas women with training in cooperative development through a grant from its member company Smart Communications Inc. Netsuite, a cloud-based business solution provider, offered its system to R2R for its back-end operation at a heavily discounted

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<sup>15</sup> [www.lgtvp.com/HOPS/Organisation/Rags2Riches.aspx](http://www.lgtvp.com/HOPS/Organisation/Rags2Riches.aspx)[Accessed 26 April 2016]



price. R2R launched its Positive Influence Meter campaign to help corporations show the social and environmental impact that they achieve by partnering with R2R. For instance, if a company orders 1,000 pieces from R2R, an estimate of the amount of scrap materials recycled, number of women empowered, and number of communities supported would be provided for PR purposes.

R2R launched its second partnership with a renowned handbag designer Amina Aranaz-Alunan. Aranaz-Alunan was a perfect match for R2R since she has her own handbag brand that uses indigenous eco-friendly materials. In this occasion, R2R evolved its partnership with designers to the next level from the previous arrangement in which the designer, Laurel, offered R2R his name and design for free. In the new partnership arrangement, however, R2R offers profit sharing or royalties to designers. The intention behind this transition was to build a more sustainable mechanism that benefits both designers and communities.

In this stage, Rags2Riches developed its sales channels through partnerships with several retail outlets, such as House of Laurel, The Ramp, Aranaz Firma, The Give Store, Beachmums, and the gifts stores at Shangri-La hotels (Makati Shangri-La, Edsa Shangri-La, Shangri-La Mactan and Shangri-La Boracay), as well as online stores (www.ava.ph, www.zalora.ph, and www.munishop.multiply.com). Such partnerships allowed R2R to expand its marketing channels without the capital or operational expenditures of running one's own stores.

## **7.3 Growth stage (2013 to present)**

### **(a) Milestones**

This stage is marked by R2R's further expansion through the establishment of its own online and retail stores and linkages with the international market.

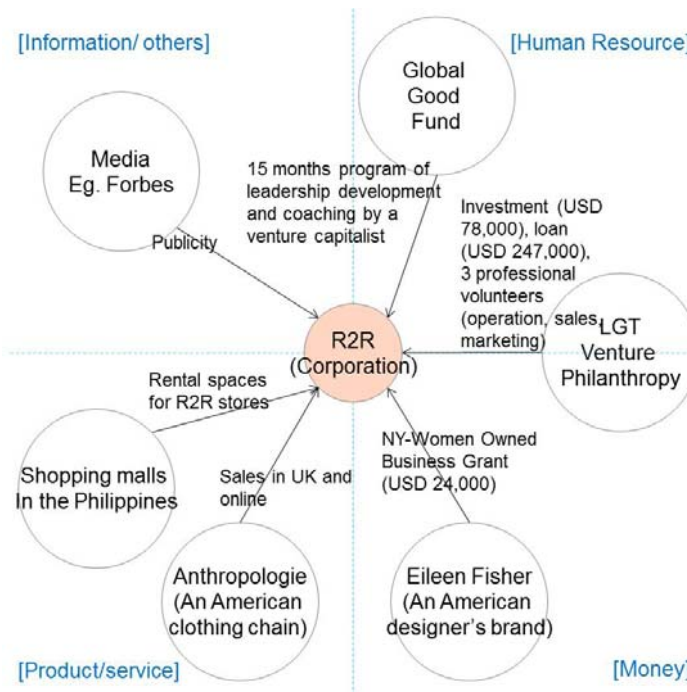
In 2013, the social enterprise launched its own online store and then opened its first retail store in the Glorietta shopping mall in Manila. Until then, R2R's products could be seen at stores in high-end hotels and shopping malls including the Edsa Shangri-la, Intercontinental Manila Hotel and the Cultural Center of the Philippines, but R2R did not have its own stores.

Since 2013, R2R has been opening retail stores at a fast pace, reaching five outlets in high-end shopping malls by May 2016.

Also in 2013, R2R officially entered the overseas market by first partnering with the European arm of the brand Anthropologie. Today, R2R products are sold in major international cities, including London, New York City, and Singapore.

**(b) Key supporters**

**Figure 8 Rags2riches’s key supporter mapping in its growth stage (2013 to present)**



As described above, the growth stage has seen the development of partnerships with shopping malls in the Philippines and with popular brands like Anthropologie to enter the international market.

With growth, however, come new challenges. For example, the biggest challenge R2R faces today involves obtaining external funds larger than before to finance depreciation of the stores,

working capital for production, and capital expenditure of the stores. In an interview, Mark Ruiz, Board Member, explained the new set of challenges his company faces:

*“Now R2R is at the expansion stage. Finding a good global market linkage is difficult. Also, the more our business grows, I feel the pain of worrying about (financials and raising enough )capital.”*

## 8. Scalability and Replicability

### (a) Scalability

R2R’s business model has been proven to be successful in the Philippines by the fact that it managed to open five stores in less than three years. To achieve further expansion, the social enterprise needs to meet the following conditions:

- **Enhancing its presence in the global market:** The next step for R2R is to expand its presence in the global market. For this, R2R needs to engage with consumers at major department stores in the United States and Europe where the demand for eco-ethical fashion is relatively higher. One way to do so involves building partnerships with established global brands like Anthropologie. Another way might be to partner with a globally-renowned designer to launch a new collection, just like how Laurel helped R2R to open the door to the high-end market in the Philippines.
- **Securing investments for expansion:** R2R requires additional capital to fund the expansion of its production and sales capacity, particularly in the number of partner communities, workshops, trained artisans, and production managers who control the overall quality. The company also needs capital to cover rental costs for its retail stores.

### (b) Replicability

R2R’s business model is highly replicable in other countries. However, certain criteria need to be met in order to be achieve effective replication

- **Potential appetite for eco-ethical fashion among the high-income domestic consumers:** R2R first targeted the growing middle-to-high income consumers in the

domestic market before entering the international market. Cultivating demand for eco-ethical fashion requires a substantial size of middle-to-high income consumer segments.

- **The three key elements of the R2R business model:** As described in the “Business Model” section, there are three ingredients for R2R’s business model to be successful: high-quality production capacity by local artisans; sophisticated design by established designers; and access to high-end market. Whether an organization can replicate these three ingredients depends on its ability to build trusting partnerships with local community organizations and successful designers.

## 9. Final Reflections

### (a) Defining R2R as a high-end brand

In hindsight, R2R’s partnership with the award-winning designer, Rajo Laurel, essentially defined the social enterprise’s future and shaped its business model that leverages collaboration with star designers. Such collaboration contributes to R2R’s high-end brand image. Another key milestone involving brand positioning is R2R’s strategic decision to open its own retail stores in Manila shopping malls in 2013. In the context of Manila’s mall-oriented consumerism, building a brand presence in these commercial complexes is significant.

### (b) Challenges in securing sizeable investments for growth

As described in the Scalability and Replicability section, the main challenges for R2R for further growth are: enhancing its presence in the global market and securing investments for expansion. R2R has received many small grants from foundations and corporations but has not secured large investments to properly finance its expansion. This is partially due to the lack of impact investors in the Philippines that invest not only for financial returns but also for social and environmental impact. One possible solution is to engage with impact investors in Singapore that are growing in number and keen to invest in the Southeast Asia region.

### **(c) Creating a social innovation precedence in the country**

In the local context of the Philippines, R2R contributed to serving as a case of social innovation by demonstrating an innovative way to empower women in poor urban communities and run a financially sustainable business. As Fernandez-Ruiz told the Asian Journal, “The legacy of R2R should be to show that it is possible to have a sustainable business that can be good for the world at the same time.” [The Asia Journal, 2015]<sup>16</sup>

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<sup>16</sup><http://asianjournal.com/aj-magazines/rags2riches-the-philippine-based-social-enterprise-transforms-scrap-in-to-designer-accessories/>[Accessed 26 April 2016]