



TOOLKIT

SOCIAL ENTERPRISES

Community
Economic
Development
Toolkit



Disclaimer

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SECTION 1

What is Social Enterprise?

a. Introduction and Definitions

The speed of change in our world continues to accelerate. A growing number of not-for-profit organizations are seeking opportunities to start or expand ventures that fulfill their mission and provide earned revenue. A social enterprise is an organization or venture that accomplishes these dual objectives. By selling mission-related products or services, social enterprises apply market-based strategies to build a more just, sustainable world¹. The earned revenue strategies used by social enterprises help them to pursue a double or triple bottom line; double bottom line meaning the simultaneous creation of both a financial and social return on investment or in the case of triple bottom line financial, social and environmental returns².

"Social enterprise" can be looked upon as a subset of "social entrepreneurship". Social entrepreneurship is the art of leveraging resources to take advantage of marketplace opportunities to achieve sustainable social change³. Social entrepreneurship broadly encompasses such diverse players as socially responsible investors, for-benefit ventures, corporate social responsibility efforts, social innovators and others. These types of entities are not considered social enterprises unless they directly address social needs through their products or services or the numbers of disadvantaged people they employ⁴.

According to Bill Drayton, founder of Ashoka, social entrepreneurs create businesses which are distinguished by the fact that *the value created accrues primarily to society as a whole, rather than private individuals*. Social entrepreneurs create pattern-breaking change in inequitable systems, whether through social enterprises or other means⁵.

Academics are working to provide ever more clear and concise definitions of the terminology surrounding social entrepreneurship and to identify the boundaries within which social entrepreneurs operate. Some have advocated restricting the term to founders of organizations that primarily rely on earned income – meaning income earned directly from paying consumers. Others have extended this to include contracted work for public authorities, while still others include grants and donations⁶. Although the debate is

¹ "What is social enterprise?" Social Enterprise Alliance.

² "ASE Definitions." [Academies-se.org](http://www.academies-se.org). Academies for Social Entrepreneurship. 15 Mar. 2012 <<http://www.academies-se.org/ASE.definitions.php>>.

³ "ASE Definitions." [Academies-se.org](http://www.academies-se.org).

⁴ "What is a Social Entrepreneur?" [Ashoka](http://www.ashoka.org). 15 Mar. 2012 <http://www.ashoka.org/social_entrepreneur>.

⁵ "What is a Social Entrepreneur?" [Ashoka](http://www.ashoka.org).

⁶ "Social entrepreneurship." [Wikipedia](http://en.wikipedia.org). 14 Mar. 2012. Wikimedia Foundation. 15 Mar. 2012 <http://en.wikipedia.org/wiki/Social_entrepreneurship>.

ongoing, we are satisfied that the definitions we offer here will provide a clear framework for discussion and training.

The social enterprise movement includes both for-profits whose primary purposes are social and not-for-profits that use business models to pursue their mission. In either case, social mission is primary and fundamental; the organizational form depends on what will best advance the social mission⁷.

It is important to understand what distinguishes a social enterprise in the for-profit sector. For example, a for-profit company whose primary purpose is to create value for ownership but is also committed to adopting a wide range of socially and environmentally responsible practices in its operations is considered a socially responsible business but not a social enterprise. This is because their social mission is not primary. However, a for-profit company whose primary purpose is to directly address social needs through their products and services or through the disadvantaged people they employ is considered a social enterprise.

In the not-for-profit sector, terms such as a not-for-profit enterprise, social purpose venture, community wealth venture and affirmative business, all speak to the practice of not-for-profit organizations operating social enterprise ventures. In general, these efforts could be thought of as spanning a continuum ranging from fee-for-service activities, to business partnerships, to revenue generating ventures employing a particular client population. In the not-for-profit arena, earned-income from social enterprise usually helps to diversify a not-for-profit's revenue streams by adding to existing philanthropic and government support⁸.

For Community Development Organizations (CDC's) specifically, social enterprise offers many other benefits. A social enterprise can create a business or service that is much needed in a distressed community. The process of starting and running a social enterprise can also result in an expanded network of valuable local professionals ((i.e. chamber, local businesses, suppliers, public private sector investors and lenders). Additionally, running a social enterprise brings a "business discipline" to community organizations that otherwise may not have been established.

Our purpose in this guidebook is to focus on the development process for earned-income ventures that generate revenue for organizations that are designated tax-exempt or are affiliated with tax-exempt organizations. There are special challenges that accompany setting up a social enterprise within the traditional not-for-profit environment and we look forward to addressing those challenges in this guide.

⁷ "What is social enterprise?" Social Enterprise Alliance.

⁸ "ASE Definitions." Academies-se.org.

b. History and Origins

The terms social entrepreneur and social entrepreneurship were first introduced to the literature on social change in the 1960s and 70s. Although the terms surrounding social enterprise are relatively new, there are many examples of social entrepreneurs throughout history⁹. A list of a few historically noteworthy people whose work exemplifies classic 'social entrepreneurship' might include the following: In the U.S., Susan B. Anthony who fought for Women's Rights, including the right to control property. Vinoba Bhave of India was the founder and leader of the Land Gift Movement and caused the redistribution of more than 7,000,000 acres of land to aid India's untouchables and landless. In Italy, Dr. Maria Montessori developed the Montessori approach to early childhood education. Florence Nightingale, in the U.K., was the founder of modern nursing and established the first school for nurses. In the U.S., Margaret Sanger founded the Planned Parenthood Federation of America and led the movement for family planning efforts around the world. John Muir, also from the U.S., was a naturalist and conservationist, he established the National Park System and helped found The Sierra Club. Finally, Jean Monnet, of France, was responsible for the reconstruction of the French economy following World War II, including the establishment of the European Coal and Steel Community (ECSC); which in conjunction with the European Common Market was a direct precursor of the European Union¹⁰.

c. Size of Industry

In the United States, the not-for-profit industry is booming. There are over 1.6 million not-for-profits; 700,000 of which are designated as 501(c)(3) organizations. And, according to a study by the Boys and Girls Club of America, every month the IRS charters about 3,000 new 501(c)(3) organizations¹¹. A large number of these existing not-for-profits have started, or have an interest in starting, a social enterprise. According to the IRS, program earned-income now represents the single largest source of income for not-for-profit corporations¹².

A recent survey found that 57% of not-for-profit respondents reported that they considered launching a social enterprise. When asked about their motivation for considering social enterprise, 47.5% said they are motivated both by the prospects of revenue generation and mission impact¹³. Not-for-profit organizations, non-governmental organizations, foundations, governments, and individuals are all currently

⁹ "Social entrepreneurship." Wikipedia.

¹⁰ "What is a Social Entrepreneur?" Ashoka.

¹¹ "Social Enterprise- A Portrait of the Field." Community Wealth Ventures, The Social Enterprise Alliance, The Center for the Advancement of Social Entrepreneurship (2009): 4.

¹² "Funding Them to Fish: The Case for Supporting the Earned Income Activities of Nonprofits." Social Enterprise Alliance: 1.

¹³ "Social Enterprise- A Portrait of the Field." Community Wealth Ventures, et al. 3.

involved in promoting, funding, and advising social entrepreneurs around the planet. Additionally a growing number of colleges and universities are establishing programs focused on educating and training social entrepreneurs¹⁴.

In summary, social entrepreneurship is a booming movement worldwide. The empirical data mentioned above affirms a trend noted by several researchers and not-for-profit leaders in recent years; there is a blurring of lines between not-for-profit and for-profit entities: Not-for-profits are using business logic in their strategies and earned-income pursuits while for-profits are increasingly concerned about social and environmental issues. The survey results mentioned above indicate that the recent trend has favored social enterprise as a route to organizational sustainability and growth¹⁵.

¹⁴ "Social entrepreneurship." Wikipedia.

¹⁵ "Social Enterprise- A Portrait of the Field." Community Wealth Ventures, et al. 2.

SECTION 2

How Community Development Organizations (CDC's) Use the Program:

a. Program Aspects: How Social Enterprise Can Benefit Your CDC

Many CDC's already earn income from managing property or selling educational or consulting services. This guidebook, therefore, can be used as a reference to expand options or to coach other not-for-profits that you work with in starting a social enterprise. In seeking entrepreneurial opportunities, we recommend looking for those that generate optimal financial and mission related returns. These entrepreneurial opportunities can help your organization grow by connecting you to new constituents or customers. They can prompt you to develop new ways to leverage existing assets and/or produce new resources to support your mission. This, in turn, can allow for increased operational flexibility and decreased financial dependency on grants and donations.

It is important, however, to understand that developing a social enterprise is not a quick fix for financial crisis. You can expect to deal with most of the challenges any new business start-up faces. This includes the commitment to make an upfront investment of financial resources and time. Furthermore, in embarking on your social enterprise journey, be prepared for the likelihood that it could take several years to provide much financial return.

Also recognize that your organization should be in good shape before starting your social enterprise. In other words, your leadership and financial situation should be stable. Additionally, your staff and board should have a united, clear vision that embraces social enterprise as part of your future.

All of this in mind, once your social enterprise is established it can be a tremendously rewarding source of program expansion and unrestricted revenue.

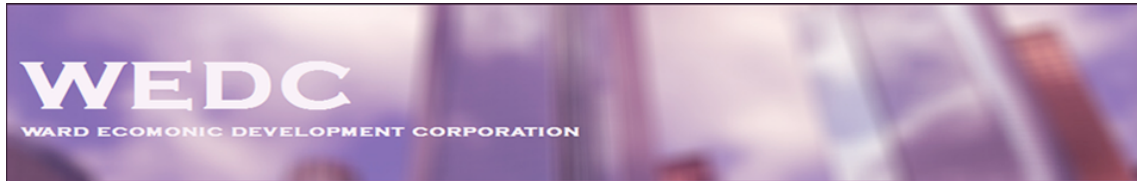
b. A Few Examples

Here are a few examples of local CDC's putting their social enterprise ideas into action:



Vermont Slauson Economic Development Corporation stimulates economic development in South Los Angeles through commercial projects, affordable housing initiatives and

business development. Their social enterprise, the VSEDC's Business Enterprise Center, offers monthly rental leases for individual office space units, includes smaller blocks of time and a variety of space options for local entrepreneurs.



Ward Economic Development Corporation operates several affordable housing facilities in Los Angeles and is now expanding to provide in-home-care for senior citizens as well. This venture will help elderly and disabled people remain independent on an affordable basis while offering care-providers a promising career path.



West Angeles Development Corporation addresses acute emergency needs, offers counseling programs and provides low and mixed-income housing. WACDC's financial management service helps low and moderate-income clients with poor credit improve their credit score by offering credit counseling, budget planning, and credit advocacy. These services are offered on a sliding scale relative to the individual's income.

SECTION 3

Step-by-Step Guide On How to Get Started

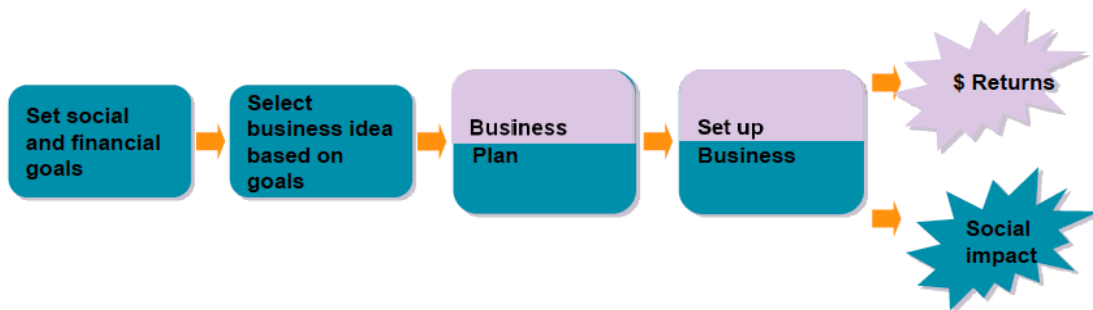
a. Introduction

The steps to starting a social enterprise are similar to most small business start-ups. As a result, most of the tools for traditional business planning apply. However, because your social enterprise will be functioning with a double bottom line, the goals and desired outcomes are often not as straightforward as they are with a traditional for-profit business (see figure 3.1). It is therefore important to clarify and establish mission vs. profit goals in advance to more effectively make your social enterprise a success.

The desired outcome of for-profit business is already known: to make a profit



The desired outcomes of a social enterprise are not obvious and so the goals need to be established first



(Figure 3.1)¹⁶

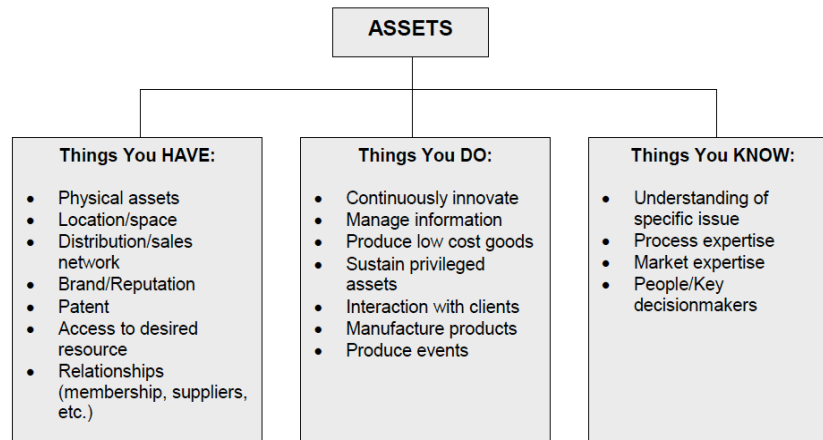
The leadership of your organization should discuss and align on this question early in the planning process. These goals will heavily shape the selection and design of your venture.

b. What Are Your Existing Assets? How Can You Leverage Them?

One way to clarify what your mission vs. profit goals are is to first evaluate what you have that you could build a business around. Take time with your staff, board and

¹⁶ Kim, Esther, and Samra Haider. "Business Planning Guide REDF Social Enterprise Start-Up Tool Kit." REDF: 2.

other stakeholders to thoroughly inventory all your assets. This will allow you to fully capitalize on your organizations current strengths. Community Wealth Ventures provides an excellent chart featuring the three areas you can look to for existing assets; things you have, things you do, things you know (See figure 3.2).



(Figure 3.2) ¹⁷

Once you have isolated your existing assets, ask yourself/your organization the following key questions:

- How sustainable is this asset?
- What makes this asset stand out when compared to similar assets offered by other organizations?
- Will this asset produce quantifiable value? Who would be interested and how much would they be willing to pay?

c. Decide On a Revenue Opportunity: Business Venture or Business Partnership?

Evaluating your existing assets will assist you in determining what type of revenue opportunity to pursue. In other words, do you establish a business venture strategy and directly sell a product/service or do you establish a business partnership strategy and set up a strategic alliance with another business?

Should you choose to pursue a business venture, your venture can arise from any defined market need; for example entry-level job training, food service, catering, or consulting. Many organizations find that their existing presence in the marketplace facilitates the goods/service route.

¹⁷ "Mapping Your Assets and Identifying Opportunities." Community Wealth Ventures, Inc. 14.

The other option is a business partnership strategy. This can include cause-related marketing programs, marketing campaigns, licensing agreements, or other sponsorship or joint venture activities between corporations and not-for-profit organizations. In order to successfully initiate a corporate partnership is crucial to have a clear understanding of how your organization could assist in furthering the strategic business goals of your corporate partner.

d. What is Your Definition of Success?

Your definition of success goes hand in hand with your mission vs. profit goals. Use the following questions as road-markers to help you chart the progress of your journey:

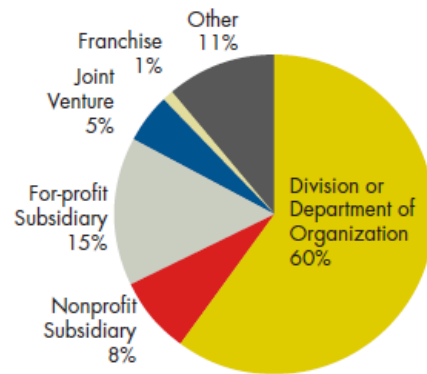
- Is our enterprise solving a social problem while also meeting a genuine need in the market?
- Is our venture building on our organizations strengths & assets, our core competencies?
- Does our venture energize board members, senior managers, staff and stakeholders?
- Does our enterprise make enough money to achieve realistic financial goals?¹⁸

e. Decide On a Program Structure: For-Profit, Not-For-Profit, or Something in Between?

According to a collaborative study done by The Social Enterprise Alliance, Community Wealth Ventures and Duke University's Center for the Advancement of Social Entrepreneurship most not-for-profit organizations operate their social enterprise as a division of the parent organization (see Figure 3.3). While this is a popular option, it is not your only option. You can also look into doing a joint venture with another organization, creating a for-profit or not-for-profit subsidiary, starting or buying an existing franchise or small business, etc.

¹⁸ "Becoming A Social Entrepreneur." Academies for Social Entrepreneurship. 35.

BUSINESS STRUCTURE OF SOCIAL ENTERPRISES



Most organizations operate social enterprises as a division of the parent organization

(Figure 3.3)¹⁹

In his article, *For Love or Lucre*, Jim Fruchterman eloquently relates the advantages and disadvantages of the various organizational models that can be used to determine your program structure²⁰. Below we outline four different structures he discusses (For-profit, for-profit with a social overlay, hybrid, and not-for-profit with a mission related social enterprise):

- **For-Profit:**

Some of the advantages are that a for-profit has a well-known, understood structure and there are extensive informational resources on best practices for managing for-profits. It is also relatively easy to raise money as equity or debt. The for-profit structure is able to tap U.S. Small Business Administration grants, loans, and technical assistance. It is also easy to sell or shut down (as long as you pay your creditors). Finally, it is more easily converted to a not-for-profit as compared to converting a not-for-profit into a for-profit.

One disadvantage is that the social bottom line is not built into the structure and is therefore dependent on the leadership. The income and property are also subject to tax. Additionally there is a strong fiduciary duty as governance is primarily focused on serving the shareholders and finally a for-profit cannot accept foundation grants or charitable contributions.

- **For-Profit with a Social Overlay**

This type of venture can include cooperatives, employee-owned firms, benefit corporations, low-profit limited liability companies or L3Cs, socially controlled stock structures, non-stock companies, and the flexible purpose corporation.

¹⁹ "Social Enterprise- A Portrait of the Field." Community Wealth Ventures, et al. 3.

²⁰ Fruchterman, Jim. "For Love or Lucre." Stanford Social Innovation Review 2011: 46-47.

This structure shares many of the advantages as a standard for-profit but also ensures some level of commitment to the social objectives of the organization as a result of the governance structure. Another advantage is that there are additional options for raising capital; for example, foundations can invest through a Program-Related Investing (PRI).

Some of the disadvantages are that control can be more diffuse, the social overlay may not hold when confronted with adversity or legal challenges, investors may be motivated without existing strong social motivations, and exit options may be more constrained than with a standard for-profit.

- **Hybrid**

The hybrid structure allows organizations to take advantage of both the for-profit and not-for-profit structure; this is done by establishing a governance structure and contracts that bind the for-profit and not-for-profit together in a hybrid structure. Sometimes the for-profit creates the not-for-profit or vis versa.

This structure allows for the not-for-profit and the for-profit entities each retain the advantages that are unique to those legal structures. Creating a subsidiary can also protect the not-for-profit status of the parent by removing unrelated income if it becomes too large relative to the parent's size. Another advantage is that the subsidiary can shield the parent from liabilities arising from the subsidiary's activities. And finally, the for-profit subsidiary can be sold at the not-for-profit's discretion.

Some disadvantages are that once assets are in the not-for-profit they cannot be transferred back to the for-profit. Also, in order to shut down the not-for-profit affiliate requires its net assets to be transferred to another not-for-profit. Charitable restrictions also need to be respected and that benefits go from the for-profit to the not-for-profit (and not the reverse).

- **Not-for-profit with a Mission-Related Social Enterprise**

These are typically tax-exempt not-for-profits that have earned-income that is directly related to the social mission. The income earned from the enterprise is used by the organization to further its mission. In contrast to a for-profit, the income cannot be distributed to investors or shareholders.

One advantage to this format is that mission-related income is tax-exempt. This structure also allows for the organization to raise philanthropic money to bridge the gap between the costs of providing the product or service and the revenues.

A disadvantage is that because of the double bottom line there can sometimes be uncomfortable tradeoffs. Additionally, access to capital is generally limited to traditional not-for-profit resources, such as philanthropists and debt.

Whatever organizational form you end up choosing make sure it is based on what will best advance your social mission, allowing for your mission to be primary and fundamental.

f. What Staff Do You Need? What Role Does Your Board/Business Advisory Committee Play?

In addition to a committed board and senior staff, it is helpful to have a team of volunteers and/or staff to conduct the initial planning and research required to launch your venture. You may be tempted to do everything yourself to save money during the startup phase. While this is tempting, it could easily sabotage the business. Have a dedicated staff person, supported by the planning team, take on creating/executing the business plan. Studies on organizations with experience in social entrepreneurship indicate a direct correlation between a venture's leaders and its likelihood of success²¹.

Your board should play an integral role in the establishment of your social enterprise. In order for your board to view and evaluate your social enterprise as an investment, they need a clear, honest description of the organization's financial situation, the earned-income strategy, the challenges, and the competition.

We also recommend establishing a business advisory committee²². Your business advisory committee is an unbiased third party committee that can advise you on how to develop your venture. This committee can also offer advice/experience regarding marketing, strategic planning, business model/markets, organizational management, and human resource development. They can serve as a sounding board to challenge assumptions and offer advice as to the feasibility of an idea, if it needs more research, should have a different focus or market, or should be dropped. Business advisory members can also offer community connections with key individuals to help grow your venture.

It is very important that there be someone either on the board or in the business advisory committee to review business financial statements and help identify potential problem areas. Make sure that your financial systems will protect you from inefficiencies, as well as embezzlement. Otherwise, you risk joining the example of a CDC that developed a cash and carry business. They did not notice that the store manager was "carrying" goods out the door for his own markets. Since they had not had anyone with related experience reviewing their inventory procedures and business financial performance, they caught the problem after it was too late.

²¹ "Unlocking Profit Potential." [BoardSource](#). 38.

²² Cohen, Janet S. "The Role of Business Advisory Committee." 1.

SECTION 4

Planning and Financing Your Venture

a. How to Go About Doing Your Market Research

Now that your social enterprise is defined, the next step is to dive into market research. Market research is the process of gathering and analyzing consumer and economic data to help you understand which products and services your customers want, and how to differentiate your business from your competitors²³. Before launching your venture idea you want to have a good picture of who your potential customers are, who your competitors are, what the economic conditions of your marketplace are and what the size of your market place is. This will help you identify sales opportunities, develop a plan of action, spot current/upcoming problems in the market, and reduce risks. The market research you conduct will help you to make informed decisions about your business.

You will want to ask yourself some key questions regarding the state of the industry, competitors, and target market. A few example questions are listed below:

- Is this industry just starting out, mature, or declining?
- Is this industry facing challenges?
- In this industry, what is the average profit margin?
- Who will my key competitors be?
- What does my competitor's business model look like?
- How much do my competitors charge, and how profitable are they?
- What are the demographics of my target market?
- What is the income of my target market?
- What purchasing channels does my target market use (i.e. retail stores, online, etc)?

There are a few different methods you can use to collect this type of market research data. Primary research is where you go directly to the source to gather data or ask questions. Some primary research methods can include interviewing members of your target market in person or by phone, visiting competing stores or locations, using surveys online, in writing, or via social media tools, and directly observing your target market.

Secondary research, on the other hand, is data that has already been gathered and published by other researchers or sources. You can find this research by reading articles in trade journals, industry publications, or websites, by using Internet searches,

²³ "Understanding the Basics of Small Business Market Research." All Business. Dun & Bradstreet. 15 Mar. 2012 <<http://www.allbusiness.com/marketing/market-research/2587-1.html>>.

contacting industry associations, and/or visiting public agency or government websites and reading their reports.

b. Working With a Business Plan

One way to help organize your thoughts and goals for your social enterprise is to write up a business plan. The size and comprehensiveness of your business plan is less important than the clarity you will gain from going through the exercise of writing it up. In effect, your business plan will be your strategic road map to guide the direction of your social enterprise opportunity.

When creating the business plan, it is helpful to include a best-case, a worst-case, and an expected-case scenario, especially when it comes to financial forecasting. As reality often deviates from the conceptual plan, it is helpful to be prepared to deal with any scenario. In particular, it is especially helpful to plan your projected revenue conservatively and in turn plan your projected expenses aggressively.

There are many resources to help you organize your business plan. Below we have included a small checklist as advised by MyOwnBusiness.org, an on-line resource for small businesses²⁴. The checklist is as follows:

1. Write out your basic business concept.
2. Gather all the data you can on the feasibility and specifics of your business.
3. Focus and refine your concept.
4. Outline the specifics using a "what, where, why, how" approach.
5. Put your plan into a compelling format

Additionally, below we include some suggested topics you can use to tailor your plan:

- **A Mission Statement:** This is a concise outline of your purpose and goal
- **The People:** Prepare a resume of yourself and each of your key people.
- **Your Business Profile:** Describe exactly how you plan to go about your intended business. Focus your description on your intended target market.
- **Economic Assessment:** Provide an assessment of what competition you anticipate.
- **Cash Flow Assessment:** Include a one-year cash flow projection that will incorporate all your capital requirements²⁵.

²⁴ "Starting A Business Plan." How to Start a Business, Write a Business Plan & Finance a Business. My Own Business. 15 Mar. 2012
<http://www.myownbusiness.org/plan_checklist.html>.

²⁵ "Starting A Business Plan." My Own Business.

Developing the business plan is another step in your journey. The most important part is executing the plan's objectives.

c. Evaluating Potential Risks

In preparing your business plan and preparing to launch your venture is also important that you anticipate any major business and social risks. In so doing, you can also prepare a plan on how to mitigate those risks. There are many types of challenges you may need to prepare yourself for: market risk, competitive risk, product risk, capital risk, mission vs. profit risk, etc. That said the three most common start-up challenges are as follows:

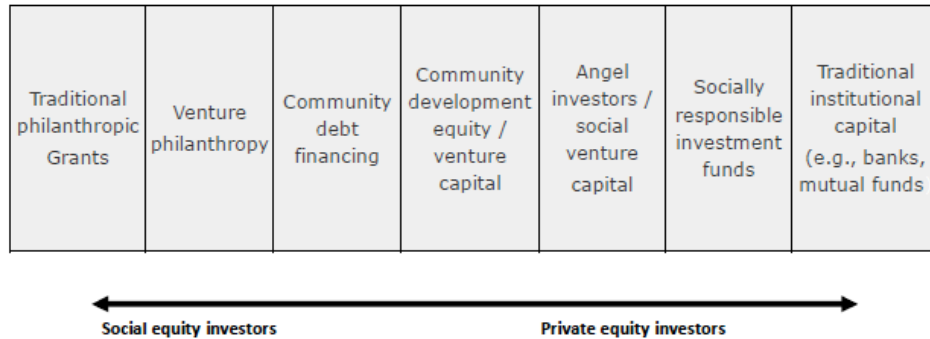
- Lack of time and expertise
- Insufficient market research
- Deficient operations and financial planning

As you focus on mitigating these risks your social venture will be more likely to succeed.

d. How to Finance Your Venture

In starting up your SE you are likely to need seed funding to pay for initial staffing, marketing, equipment purchases or working capital. Some organizations can self-fund these start up expenses. Otherwise you will need to obtain capital by other means. The sources of funding available to you are contingent upon the program structure you selected; i.e. for-profit, not-for-profit or something in between. We refer to the beautifully illustrated 'Spectrum of Investors' as explained by Jed Emerson (see Figure 4.1 with descriptions below):

Spectrum of Investors



Source: Jed Emerson, based on the work of Shari Berenbach and Timothy Freundlich, 2000.

(Figure 4.1)²⁶

- **Traditional philanthropic grants** are funds that seek to maximize social return. These funds are not necessarily viewed as a type of financial investment but look to assess relative social impact.
- **Venture philanthropy** uses the idea of applying venture capital strategies, skills, and resources to charitable giving. The difference between traditional philanthropic grants and venture philanthropy is that the charitable funds distributed are viewed as a form of financial investment. A few examples of venture philanthropy organizations are Social Venture Partners, Ashoka, RSF Finance, and REDF.
- **Community Debt Financing Institutions (CDFI's)** use investor capital to finance or guarantee loans to individuals and organizations that have historically been denied access to capital by traditional financial institutions. These public service financing institutions are an option for businesses serving community needs. CDFI's have generally been more open to social enterprise by virtue of the fact that SE's are consistent with their commitment to community development.
- **Community Development Equity/Venture Capital** refers to community development venture capital funds that are used to target the expansion of business within the inner city or in rural areas that are unnoticed by mainstream investors. Community venture capitalists manage these funds by providing entrepreneurs with

²⁶ Emerson, Jed. "The Nature of Returns: A Social Capital Markets Inquiry into Elements of Investment and The Blended Value Proposition." *Social Enterprise Series* No. 17 (2000): 16-19. Print.

much needed equity to build their businesses; equity that cannot be accessed by the mainstream market for a variety of social and economic reasons.

- **Angel Investors** are usually former entrepreneurs or professionals who provide starting or growth capital for promising ventures. They will also often help with advice and contacts. Key elements of what they offer typically include a combination of cash and expertise, including long-term funding relationships, development of business plans, performance monitoring, and an exit strategy.
- **Socially Responsible Investment Funds** are investment funds which seek to consider both financial return and social good while seeking a market rate financial return.
- **Traditional Institutional Capital** refers to traditional loans, line of credit, or corporate bonds that seek to maximize financial returns.

In exploring your funding options, evaluate which option matches up most appropriately with your organization given your mission vs. profit strategy and your organizational structure.

e. Evaluating Your Break-Even Point

It is important to define if your social enterprise will be designed to generate surplus or to break even so that the need for fund raising is reduced rather than eliminated. Job training programs tend to require some subsidy because of the additional costs for training and support of those who are disadvantaged. It is important that you ask yourself the questions in the figure below (Figure 3.2):



(Figure 3.2)²⁷

²⁷ Kim, Esther, and Samra Haider. 11.

Furthermore, you can ask yourself some of the following questions to evaluate your potential break-even point:

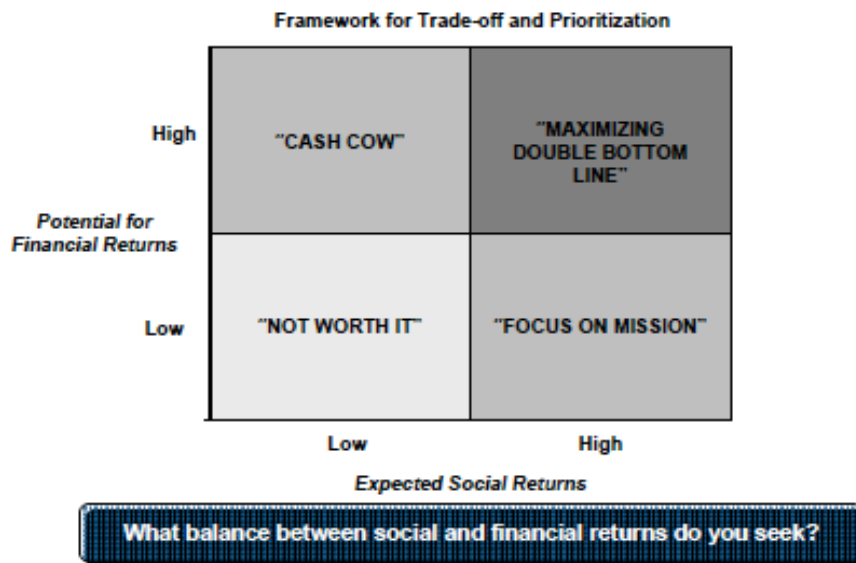
- What are the anticipated start-up costs?
- What is our projected profitability?
- What percent of profits cycle back into expenses?
- Can the enterprise operate at this level?

To answer these questions you can use your market research to build a financial model of what your expenses, profits, and operational costs might be. You can use this information to try and determine your base financial projections. In following these steps you should be able to determine a high-level financial model with included sensitivities.

f. Balancing Profit and Purpose

Now that your social enterprise is taking shape, you might find it challenging to internalize the idea that mission and profit motivations can coexist. Remind yourself that when well executed, a profitable venture actually means your organization has an improved capacity to fulfill its mission for years to come as it becomes more self-reliant. In other words, when well executed, there is no conflict in seeking to both further your mission and profits.

At this point in the set-up process you want to confirm that the revenue opportunity and the program structure you have selected will work to maximize the double bottom line objective and result in both high financial and social returns. Consider evaluating your priorities using the framework provided in Figure 3.4.



(Figure 3.4)²⁸

Pricing is a key issue that will help you to balance the mission vs. profit challenge. In setting your prices ask yourself what is your final goal? In answering this question you will be better able to evaluate if you want to set your prices to only cover some of the costs of your social enterprise, help you to break-even with your social enterprise, or generate profits from your social enterprise. While profitability is obviously encouraged, it is important to be realistic about your enterprise's financial prospects. Again, it comes back to determining how you want to balance your mission vs. profit goals and where that puts you on the chart featured in Figure 3.4.

²⁸ Li Shen, Jennifer. "More than a Number: Pricing as a Reflection of Social Enterprise Strategy." (2006): 13.

SECTION 5

Examples of Social Enterprises in Action



The not-for-profit BikeStation reached a crossroads in late 2007. Founded in Long Beach, Calif., in 1996 to design, build, and manage bike transit centers, the 10-employee organization couldn't handle all the calls coming in on its \$300,000 budget. CEO Andréa White-Kjoss used the business planning process to create a plan for opening new bike stations in 5-10 cities. She also worked to recruit “angel” investors to help fund it as a for-profit wholly owned subsidiary. Shares of Mobis Transportation Alternatives, the for-profit venture, are owned by BikeStation and by those who invested \$750,000 in seed capital. They are expanding beyond their traditional customers—cities and transit agencies—to market to universities, corporate campuses, and other developments.



Bienvendios, an L.A. based not-for-profit organization, works to deliver a comprehensive array of services that empower children and their families, are culturally responsive, and are effective models of prevention and intervention. Expanding on a government-funded program for low-income families, they started The Supervised Visitation Program. This social enterprise venture offers the supervised visit services to those who can afford to pay. Within 3 months of start up, the program was working with more than 60 families, with additional sites and expanded visitation planned. Not only is the program furthering the agency's social mission, it is projecting revenues in excess of \$200,000. Having recognized the potential for earned income, Bienvenidos is now exploring additional earned-income opportunities.



Whitney Weston and Pierson Blaetz, of **Greenway Arts Alliance**, founded their social enterprise, the Melrose Trading Post twelve years ago. The Melrose Trading Post, a flea market, is the most successful ongoing fundraiser in the history of LA Unified School District. It has raised over five million dollars for student activities, student resources, capital improvements, and salaries. The resources these dollars provided catalyzed a dramatic improvement in student achievement....



The Illumination Foundation is a grassroots organization that provides integrated services to the homeless. The Foundation was struggling to secure grants and hit on the idea of creating a social enterprise, the Recuperative Care Program. The Recuperative Care program contracts with hospitals to who need to discharge its homeless patients to appropriate facilities. The Foundation takes care of the homeless patients and helps find them long term housing. The hospitals pay the Illumination Foundation a fee to assist the homeless through this process. The Illumination Foundation in-turn recycles the profits to be able to offer more services for their clients.

Since January 2010, the Orange County Recuperative Care Program served 425 clients. In 2011, the program successfully connected 70% of Orange County clients with housing. Since October 2010, the LA Recuperative Care Program served 337 clients. Additionally, the Recuperative Care Program reduced the cost of serving the homeless by \$2.5 million for LA and Orange County hospitals in only nine months.

“Even as a nonprofit, people have a misconception that nonprofits shouldn’t be making money... that is not true and we need to operate like a for-profit in order to be sustainable” said Paul Cho, Co-founder.



The SMART Foundation works to extend cultural, artistic and educational opportunities through school music programs. They are committed to their vision of "music education for all children," and are committed to raising funds that provide grants for local school music programs. To support their mission, the SMART Foundation started the Instrument Rental Partnership Program and rents musical instruments to generate funds for music education programs. Founder Chris Clark used the entrepreneurial process to develop a business plan and sort through the best options for financing. As a result they obtained a \$100,000 bank loan from First Bank and negotiated with an instrument manufacturer to get additional financing and/or credit on their instruments purchases. Instrument Rental Partnership Program has been implemented and is growing and providing unrestricted earned-income to further the mission of The SMART Foundation.

YWCA San Gabriel Valley
eliminating racism
empowering women



The YWCA of San Gabriel Valley works to provide women, girls, seniors and their families with the information they need to manage the critical issues in their lives. They currently run a Meals-on-Wheels program that delivers meals to senior citizens. To expand their profit making capabilities, they are in the process of launching an upgraded gourmet home food delivery system. This project will expand on the existing Meals-on-Wheels program but will allow them to create a more expansive menu, increase the price of each order and reach a larger and more affluent audience. The profits from the gourmet food delivery service will go back into the organization allowing them to further advance their mission.



Council on Aging Orange County offers a wide range of information and services to advocate for the rights and dignity of older and disabled adults. Historically reliant on government contracts, the Council concluded that it was time they identified mission-related programs that could generate earned-income. As highly regarded industry experts, they hit on the ideas of developing a resource guide and launching a training institute that would serve the continuing education needs of those who staff elder care facilities. The Institute has blossomed and they are now identifying other “market opportunities”. Says CEO Cheryl Meronk, “the revenue we are generating is helping to fill the gap created by losses in government funding.”



Generation Water is a not-for-profit social enterprise that was launched by The Infrastructure Academy to employ students in water conservation, energy efficiency, and other sustainability projects. Their mission is to build a pipeline of diverse, well-qualified young people for the career opportunities of the green economy. They achieve their mission by providing young people with training and on the job work experience by completing sustainability projects that reduce water and/or energy consumption while minimizing negative environmental impacts.

Since 2009, they have conducted over 240 school water audits and irrigation surveys, located and inventoried over 350 irrigation controllers and 5,300 valves,

cataloged over 25,000 sprinklers including 10,000 that are malfunctioning or broken and employed and trained over 60 young people.



The Recycle Force is a not-for-profit organization that was initiated as a prisoner re-entry program using recycling work to provide life and working skills to help decrease recidivism rates. Recycle Force is now considered one of the most successful re-entry programs in the country and is becoming one of the most successful not-for-profit electronic waste recycling businesses in the country.

Recycle Force targets individuals reentering from prison to some of the poorest neighborhoods. These recruits fill nearly every position working to recycle electronic waste. Participants learn life and working skills enabling them to become successful members of society. With the work team and specialized machines, Recycle Force is able to process over 600,000 lbs of electronic waste per month.

SECTION 6

Tips

1. The three biggest start-up challenges are
 - Lack of time and expertise
 - Insufficient market research
 - Deficient operations and financial planning
2. Follow the rules of good business planning, do your market research and make sure that there are customers.
3. Hope for the best and plan for the worst. You can expect to spend more time and money that it looks like you will need.
4. Sales are not assured just because people love your cause, your venture must meet a market need
5. Collaborating with other organizations will help you. Strongly consider partnering with others rather than doing it by yourself.
6. Establish a dedicated staff person to work on the project. Ensure that this staff person either has a business background or has advisors (in the board or on the business advisory committee) that can assist in operating the business side of the enterprise.
7. Your social enterprise should be run like a business, not like a program. This means that the customer is king, even though you may also be committed to clients.

SECTION 7

Resources

The following organizational websites all have great resources for those at work on developing social enterprises:

www.academies-se.org

The Academies for Social Entrepreneurship (ASE) promotes the development of social enterprises. While our work is mainly directed to not-for-profit organizations, our programs are designed to serve a broad range of social entrepreneurs. ASE's core program is Social Enterprise Academies, which provide training, mentoring and the opportunity to compete in a business plan competition. In the past three years ASE has produced fourteen Social Enterprise Academies, expanded capacity for over one hundred and fifty social entrepreneurs, and as a result produced millions of dollars in new investment and earned income streams.

www.ashoka.org

Ashoka is a venture philanthropy organization, founded by Bill Drayton in 1980, that works to facilitate the innovative solutions that social entrepreneurs are using to help improve the lives of millions of people. Beginning with the first Ashoka Fellows elected in India in 1981, Ashoka has since grown to an association of over 2,000 Fellows in over 60 countries on the world's five main continents.

Through a global network of Fellows, business entrepreneurs, policy makers, investors, academics, and journalists, Ashoka works collectively to ensure that social entrepreneurs and their innovations continue to inspire a new generation of local changemakers to create positive social change. They can be found working in Latin America, Africa, Asia, and Central Europe, Western Europe, East Asia, and the Middle East.

www.communitywealth.com

Community Wealth Ventures (CWV) is a management consulting firm that emboldens and equips leadership teams to innovate, grow and sustain organizations that

build a better world. They offer strategy and implementation services to not-for-profit organizations and philanthropic foundations. Using a variety of strategies, with core expertise in social franchising and social enterprise, they teach clients how to unite trends in the external environment with internal capacity to meet mission and revenue objectives. Their deep understanding of the not-for-profit and for-profit sectors, coupled with their focus in applying market-based thinking across these sectors, helps their clients develop the appropriate strategy to maximize their revenue generation and community impact.

www.myownbusiness.org

My Own Business, Inc. (MOBI) works to support the social and economic contributions of small businesses by nurturing entrepreneurship and helping individuals build their own business. The MOBI on-line resources help owners of small and medium-sized businesses identify, understand and overcome the challenges they will face on a daily basis. By making this wealth of knowledge available to everyone, they work to create a business environment in which new ventures flourish and communities are strengthened.

www.redf.org

REDF (also known as The Roberts Enterprise Development Fund) is a San Francisco-based venture philanthropy organization that creates jobs and employment opportunities for people facing the greatest barriers to work. Founded in 1997 by George R. Roberts, REDF provides equity-like grants and business assistance to a portfolio of not-for-profit social enterprises in California. To date, the 50 social enterprises that REDF has supported have employed 6,500 people and earned revenues of more than \$115 million. Three-fourths (77%) of social enterprise employees interviewed two years later were still working. Average employee wages had increased by nearly one-third (31%) and monthly incomes had almost doubled (90%).

REDF has also contributed to the growth of the social enterprise field with globally distributed social enterprise tools, publications, and research, including pioneering Social Return on Investment metrics and analysis.

www.se-alliance.org

Social Enterprise Alliance (SEA) works to further social enterprise in the United States. Their aim is for social enterprise to reach its full potential as a force for positive social change, in service to the common good. To make this goal reality, they work to provide social enterprises with the tools and resources they need to succeed, and to help build an optimal environment in which they can thrive.

They use four strategies to carry out their work: spread knowledge and build capacity, build social enterprise communities and networks, tell the stories and aggregate

the impact of social enterprise, and advocate and promote supportive public policy. They have a 14-year history of field leadership, a national network of over 900 members, and a local footprint through their chapters.