

OCD | Special Report

Business Opportunities For Nonprofits: A Primer On Social Enterprise Ventures

Starting a business to help support their mission is no longer an idea nonprofits can dismiss out of hand as an unacceptable departure from convention. Although the marriage of a nonprofit and an income-generating business is not new, the practice is receiving broader consideration as more nonprofits seek ways to cope with the tightening of traditional revenue streams and greater competition for funds.

Social enterprise, social entrepreneurship, and community wealth are a few of the more common terms used to describe the concept of nonprofits advancing their missions through business ventures, such as selling products and services and entering into corporate partnerships.

Successful social enterprise ventures deliver benefits ranging from unrestricted funds to heightened public awareness of the nonprofit's core mission. These ventures are not free of risk, however. Some ventures fail and nonprofits lose money, for example, and some may consume more time and money than is justified by the amount of income they bring in.

Experts agree that social enterprise is not for every organization. Knowing whether such a venture is a good fit with the organization is one of the most important determinations nonprofit officials will make. Before investing time and money, they are urged to thoroughly assess potential business opportunities, as well as the organization's capacity for launching and sustaining an entrepreneurial venture.

This report, based on local and national studies and the work of experts in the emerging field, is intended as a primer on social enterprise for nonprofits exploring the idea of starting a business to help support of their missions.

Social Enterprise

A social enterprise is a business started by a nonprofit that

generates unrestricted revenue and enhances the organization's mission.

Unlike a for-profit venture in the business sector, the return on the financial investment is not the sole measure of success. A social enterprise is often measured by a "double bottom line" – by the revenues it generates for the nonprofit and by other outcomes that advance a nonprofit's mission, such as raising awareness of the organization's work in the community or providing a new service to traditional clients.

Assets And Markets

Nonprofits must be able to identify their assets, the value of those assets, and whether a viable market exists for the assets.

Marketable assets are identified by carefully examining what a nonprofit does and what it has. Assets most often tapped by nonprofits for building a business around include:

- Services that the nonprofit specializes in providing.
- The expertise, skills, and people within the organization.
- Products related to the nonprofit organization or to its mission.
- Facilities, real estate, equipment, and other tangible assets owned by the nonprofit.
- Name recognition, logos, or standing in the community that might be valuable in promoting a product or service for the nonprofit or for a business partner.

In western Pennsylvania, services are the assets most often marketed by nonprofits. A survey of 25 regional social

enterprise ventures reports that 72% are engaged in providing services, such as literacy training, curriculum development, and renting office or meeting space. About 22% of the nonprofits operate retail ventures.¹

Similar trends are reported in a study of social enterprises nationwide: 74% of nonprofits running businesses operate service-related ventures and 47% operate product-related enterprises.²

High-profile examples of social enterprises include the Children's Television Workshop, which licenses its "Sesame Street" characters for books, toys, and other products. The Girl Scouts, in partnership with a bakery, uses its name recognition, reputation, and wide volunteer network to sell more than \$200 million in cookies each year to support the organization.

In Pittsburgh, the Manchester Craftsmen's Guild and Bidwell Training Center have started a number of successful ventures related to its missions, including one that grows and sells orchids while introducing inner-city youth and under-employed adults to careers in horticulture and the principles of running a business.

Benefits

Social enterprises, when successful, provide nonprofits with significant benefits, which include:

- **New revenue.** A successful social enterprise venture earns new revenue that nonprofits can spend on achieving their central mission.
- **More unrestricted funds.** These ventures typically earn money that nonprofits can spend to advance their mission as they see fit. Unrestricted funds provide greater flexibility and help nonprofits weather possible shortfalls in funding from traditional sources.
- **Greater diversity of funding sources.** A nonprofit dependent on a few funding sources is in a precarious position. Money earned from a social enterprise gives a nonprofit an independent source of revenue that helps the organization become more self-sufficient.
- **Better business-like practices.** A successful business venture may strengthen financial discipline, decision-making, and other critical practices within a nonprofit organization.
- **Increased public visibility.** In some cases, a social enterprise venture may raise public awareness of a nonprofit's core mission.

Such benefits are among the top indicators of social enterprise success as reported by nonprofits engaged in social enterprise ventures, grantmakers, and investors in western Pennsylvania.³ The survey found, for example:

- More diverse sources of income, less dependence on funders, and a positive change in the new fund balances/net financial position are considered the most important financial indicators of success.
- Efficient, business-like practices within the organization and more clients/customers being served are the most important non-financial indicators of success.

Financial return is the chief reason most nonprofits across the U.S. say they started a social enterprise venture – but it is not the only motivation.⁴ Some 39% of nonprofits say their businesses also provide jobs, training, and therapeutic opportunities for their constituents; 34% say the ventures improve community relations; and 23% say the businesses help revitalize their neighborhoods and communities.

Risks

As attractive as the benefits are, social enterprise is not without risks. These risks include:⁵

A social enterprise venture could fail.

- The venture could lose money.
- A revenue-generating social enterprise venture may lead to a decrease in funding from more traditional revenue streams.
- The venture could divert attention away from the central mission of the organization.
- The venture could consume more management and staff time than is justified by the return it earns.
- The venture may overly tax a nonprofit by demanding new skills among management and staff and by increasing the complexity of the organization.
- The nonprofit's staff and board may feel "sold out" if they view the venture as a distraction to the organization's central mission.

Characteristics of Successful Ventures

Every entrepreneurial venture carries a degree of risk. However, several steps can be taken to reduce the risk to non-



profit organizations starting a business.

Among the most important is thorough assessment and planning. This critical step involves carefully thinking through the business venture from concept to implementation and beyond.

“The majority of failures for new venture start-ups occur because the leaders of those start-up don’t plan it all out,” says Timothy Zak, President of the nonprofit Pittsburgh Social Enterprise Accelerator, which was founded in 2002 to assist southwestern Pennsylvania nonprofit organizations develop social enterprise ventures.

Another key consideration is whether the nonprofit has the organizational capacity to run a business: Does the nonprofit have a strong, capable leadership team? Is the board proactive and committed to the organization’s mission? Are the nonprofit’s core processes – from operating programs to paying the bills – robust, consistent, and effectively measured? Is the organization able to identify new processes that are required and improve the ones already in place?

Nonprofits, however, do not need to have all of the resources necessary to run a business in-house. For example, it is not necessary to have an in-house attorney or even one on the board. What is necessary is the ability to recognize that an attorney is needed, identify a firm or an individual attorney with the skills to help, and to manage that relationship effectively.

“Every nonprofit would benefit by going through an assessment of whether they have social enterprise opportunities,” Zak says. “You will be much clearer about what the assets of the organization are, about what the capacity of the organization is, and what the market is for any of the services the organization provides.

“You are forced, by going through that process of evaluation, to adopt more business-like principles—approaches that the corporate sector does in finance and marketing. Going through the process of discovery is going to make the organization fundamentally stronger whether it actually launches a formal social enterprise or not.”

Olszak Management Consulting Services, Inc., in a report commissioned by The Forbes Funds, identified several promising social enterprise practices:

Pre-planning

Thorough pre-planning includes a systematic assessment of management practices, resources, and the commitment to address the risks and demands that come with a business venture. Specific activities include:

- Secure staff/board support for starting a business venture.

- Review the mission of the organization to provide clear direction.
- Thoroughly assess and develop organizational capacity to undertake a business venture.
- Make sure the CEO or a key staff member is able to devote a significant amount of time to the start-up.
- Anticipate changes and challenges, including possible changes in organization, management, resources, culture, funding, and community response.
- Draft a well-defined strategic plan and financial plan.

Venture Planning

During this stage, the planning effort is organized, a “venture audit” is done, ideas are generated, opportunities are assessed, and a venture is eventually selected. Specific activities include:

- Seek technical and business expertise, legal and tax advice, and mentors from the business community with general and specific management expertise.
- Involve the entire management team and all appropriate staff in planning and development.
- Identify a social enterprise leadership team.
- Generate enterprise ideas that match resources with market demand.
- Establish and apply a set of criteria to identify promising social enterprise ideas.

Feasibility Study & Market Analysis

Success is more likely when the nonprofit thoroughly investigates and quantifies the market opportunity for the planned business venture’s products and services. Specific actions include:

- Research other ventures providing a similar product or service.
- Determine your organization’s competitive advantages and disadvantages.
- Focus research on potential customers who would likely represent the majority of sales.
- Research customer needs/wants through direct interaction and focus groups.

- Carefully evaluate the findings against the stated goals of the venture.
- Conduct a preliminary feasibility study and rely only on factual information to form decisions.

Venture Design

A comprehensive plan should be drafted for meeting the financial, human resource, development, marketing, and operational requirements of the business venture. Steps include:

- Determine the resources necessary to start the business – financial, management, consultants, research and development, and equipment – when and for how long these resources will be needed, and how to acquire them.
- Determine what is required to operate the venture, including start-up and on-going marketing, operations, production/service delivery, and pricing.
- Define the capabilities required for success, including administrative capabilities.
- Design an operating structure that takes advantage of organizational strengths.
- Identify shortcomings in resources and set targets for resolving them.
- Identify milestones for testing crucial assumptions.
- Develop a contingency plan for unexpected outcomes.

Financial Analysis

Reasonable assumptions should be developed about the projected financial position of the proposed business and its impact on the organization. Steps include:

- Identify and quantify sources of financial support for the business venture that will be available during a certain period of time, usually three to five years.
- Develop a pro forma budget and determine cash flow needs.
- Conduct a break-even analysis.

- Develop pricing strategies.
- Use common financial ratios and gauge the viability of the venture.
- Set a minimum profit margin or return on investment.

Business Plan

A business plan documents critical issues such as the design of the venture, management, market potential, resource demands, and potential for success. Nonprofits serious about starting a business should:

- Complete a comprehensive business plan.

Assessment

Once a social enterprise venture is up and running, regular reviews help to gauge progress and assess the validity of earlier assumptions about the business. Steps include:

- Regularly review the venture's planned versus actual performance, including financial, management, marketing, and operational plans and adjust assumptions based on new conditions.

Resources

Several organizations offer resources nonprofits may find helpful in understanding, planning for, and launching a social enterprise venture. These resources include:

- **Pittsburgh Social Enterprise Accelerator** (www.pghaccelerator.org): The Pittsburgh Social Enterprise Accelerator was created to help nonprofits in the region develop social enterprise ventures. The staff works with a limited number of ventures, offering one-on-one coaching and other services. Activities also include a business plan competition.
- **The Forbes Funds** (www.forbesfunds.org): The Forbes Funds seek to advance capacity-building among nonprofit organizations in the region through three interrelated funds: The Copeland Fund for Nonprofit Management, The Tropman Fund for Nonprofit Research, and The Wishart Fund for Nonprofit Leadership.
- **Community Wealth Ventures, Inc.** (www.communitywealth.com): This for-profit subsidiary of Share Our Strength, an anti-hunger and anti-poverty

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organization, was founded as a consulting firm to help nonprofits increase revenue through business ventures and corporate sponsorships and become less dependant on outside support.

- **University of Pittsburgh Small Business Development Center** (www.sbdc.pitt.edu): The center's experienced consultants, supported by undergraduate and graduate students, offer consulting services, education, and training programs to regional entrepreneurs. It is a member of the Pennsylvania Small Business Development Centers and the Association of Small Business Development Centers.
- **Pennsylvania Small Business Development Centers** (www.pasbdc.org): This public-private program is a network of 16 college and university centers that works with entrepreneurs and small businesses to help them to compete and grow.

References

The Forbes Funds. (2004). Assessing social return on investment for social enterprises in the Pittsburgh region. *Tropman Reports*, 3 (1), www.forbesfund.org.

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Community Wealth Ventures, Inc. *Children's Trust Fund Conference, Social Entrepreneurship and Creating Dynamic Communities Workshop, April 23, 2002*, www.communitywealth.com.

This Special Report, written by Jeffery Fraser, is largely based on the above-referenced sources. It is not intended to be an original work but a summary for the convenience of our readers. References noted in the text follow:

¹ The Forbes Funds. (2002). Profit making in nonprofits: An assessment of entrepreneurial ventures in nonprofit organizations. *Tropman Reports*, 1 (5), www.forbesfund.org.

² Massarsky, C.W., & Beinhacker, S.L. (2003). *Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector*. Yale School of Management – The Goldman Sachs Foundation Partnership on Nonprofit Ventures, www.ventures.yale.edu.

³ The Forbes Funds. (2004). Assessing social return on investment for social enterprises in the Pittsburgh region. *Tropman Reports*, 3 (1), www.forbesfund.org.

⁴ Massarsky, & Beinhacker, op. cit.

⁵ Community Wealth Ventures, Inc. *Children's Trust Fund Conference: Social Entrepreneurship and Creating Dynamic Communities Workshop*. April 23, 2002, www.communitywealth.com.

⁶ The Forbes Funds (2002), op. cit. ■

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