



Social Enterprise: An Alternative Funding Strategy

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As part of Pacific Continental Bank’s commitment to helping local businesses and organizations, the bank produces a series of biannual white papers for nonprofit organizations. These papers are intended to provide general best practices and ideas for readers to consider on timely industry-related topics. The information may not always represent the practices of Pacific Continental Bank. For a full list of white papers in the nonprofit series, visit therightbank/resources/business-resource-center.

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Social Enterprise: An Alternative Funding Strategy

For today's nonprofits, funding is an ongoing challenge. Most pursue a mix of traditional sources, such as individual donations, grants, fundraising events and corporate sponsorships. A social enterprise is a supplemental funding strategy in which nonprofits sell products or services to generate earned income, which is then used to support their mission. The concept of a social enterprise has been around for many years, but faces a persistent myth that selling goods and services can cause an organization to lose its nonprofit status. Fortunately, if the nonprofit uses the revenues to support its original mission, it can be considered a legitimate funding strategy. Determining if a social enterprise is the right decision will involve assessing advantages and disadvantages, conducting due diligence and financial analysis, reviewing mission alignment and completing a strategic planning process.

Weighing the Pros and Cons

Creating earned income can diversify funding sources to enhance financial stability, helping to extend the reach of critical programs and services. The organization is allowed to use the revenue to support its original mission, however it sees fit. It can also help provide increased visibility, marketing opportunities and on-the-job training. One of the most important benefits is also the most straightforward: the ability to advance the organization's mission and goals.

A social enterprise carries risks as well. Financial investment and manpower are required, the management of the enterprise can be complex, and like any business start-up, a social enterprise may not be profitable in the early years. Sometimes the entrepreneurial approach a social enterprise requires can challenge or stretch leadership, risking a loss of focus on the mission. And, there is always a risk of financial failure.

Take Time for Due Diligence

Is a Social Enterprise the Right Fit?

When an evaluation of pros and cons supports further exploration of a social enterprise, the organization's leadership should then address a number of important questions.

- **Will the social enterprise help achieve the organization's mission?** Alignment with the organization's mission is perhaps the most important factor to address. A close fit increases the odds of a successful enterprise which adds to the revenue stream required to deliver on that mission.

Alignment with the organization's mission is perhaps the most important factor to address.

- **Does the organization need to diversify its funding sources?** Diversification can mitigate risk. The nonprofit should look to the future when considering earned income from a social enterprise and assess the long-term growth potential of both current funding sources and new opportunities.
- **Is the organization financially and operationally stable?** Launching a social enterprise is a long-term commitment, which takes investment and labor; the venture may not yield a profit right away. A nonprofit with a history of strong finances and efficient operations will be better positioned for a successful social enterprise venture.
- **How willing is the organization to take on risk?** A social enterprise requires an entrepreneurial mindset and the understanding that there's no guarantee of

success. It's important to make strategic steps to ensure the organization can survive even if the venture does not.

Once an organization completes due diligence and concludes that establishing a social enterprise will support and advance its mission, the planning phase begins.

Important Considerations: Mission, Culture, Competition

Mission is Critical

As previously mentioned, a social enterprise must be carefully aligned with the organization's mission. That way, stakeholders can see and believe the connection between the organization and the social enterprise. Internal staff and volunteers will naturally advocate for the enterprise when it is mission-linked, while donors and sponsors will be more apt to support the social enterprise when the connection to the organization is intuitive.

A nonprofit will be best served by developing a social enterprise with a culture complementary to its own.

ReStore, the social enterprise operated by Springfield/Eugene Habitat for Humanity, is an excellent example of a mission-linked social enterprise. ReStore sells donated building materials, furniture and home improvement items. According to Executive Director Don Griffin, the venture has been successful because customers relate to the idea of their purchases supporting Habitat for Humanity's mission of building homes for low-income families.

Cultural Impact

A social enterprise's impact on the organization's culture is another important consideration. Every culture is a mixture of people, values, traditions and place, and a new venture can affect all of these dimensions. For example, a nonprofit characterized by its rigorous, methodical approach should not seek to develop a social enterprise driven by high-speed service and quick decisions. While small differences in culture can be invigorating and lead to healthy growth, cultural change that is too sweeping or too fast for the team to embrace can have a significant and lasting impact. A nonprofit will be best served by developing a social enterprise with a culture complementary to its own.

Competitive Advantage

It's also important to keep in mind that simply connecting with the organization's mission is just one step in building a social enterprise. The venture must also be competitive in the marketplace in order to become profitable and generate income for the organization. FareStart in Seattle, Wash. is a culinary job training and placement program for homeless and disadvantaged individuals, with a restaurant and two cafes serving the public. Megan Karch, chief executive officer with FareStart, says her organization quickly learned that while their mission would draw people to the restaurant and cafes, they would only return if the food and service were the same top quality consumers can get elsewhere.

Successful Strategic Planning

When leadership has aligned the social enterprise with the mission, developed a game plan to manage the cultural impact and identified a competitive advantage, it's time to undertake

strategic planning to ensure success. This stage involves setting goals, selecting a business model, conducting research and appraising internal assets.

Goals that Guide

When setting goals for the social enterprise, the organization has a chance to objectively reconfirm that this is truly the best way to meet the organization's overall goals. It's imperative for organizational leadership to agree on the objectives and outcomes for the social enterprise. A universal goal is to generate revenue while remaining true to the nonprofit's mission. However, that revenue must not only sustain the social enterprise, it must also provide funding for the parent organization. Other goals that may surface include achieving greater visibility, increasing awareness of the nonprofit, attracting new donors, providing skills and training for staff or members of the community, or advancing opportunities to engage and involve others with the organization.

A Mission-Based Business Model

Goals set for the social enterprise will guide the selection of a business model, which should support the organization's mission. The organization may consider selling existing programs, services, special expertise, equipment or facilities through the new venture. For instance, fee-based services are a major source of funding for Luke-Dorf, a nonprofit community mental health agency in Portland, Ore. According to Roger Oney, controller of Luke-Dorf, the organization has long provided clinical services and residential housing services. Several years ago they established a pharmaceutical division and developed a pharmacy program that has generated additional revenue and aligned seamlessly with the Luke-Dorf mission. The fees Luke-Dorf receives enable the organization to continue serving clients.

An understanding of the available assets as well as the buyer or customer will help determine the best choice. Common business models include:

- Product sales
- Fee-based services
- Mix of products and services

A nonprofit must also determine if the social enterprise will be embedded within the organization, larger than the parent organization or a standalone enterprise. Contrary to popular belief, a venture established as a separate entity can be operated as a nonprofit or a for-profit business without risk to the organization's existing nonprofit status.

Research as a Strong Foundation

Once a business model has been chosen, conducting market research will help pinpoint appropriate, relevant products and/or services the enterprise might offer. Research enables the organization's leadership to come to agreement around important decisions guided by facts instead of perceptions or assumptions. To maximize efficiency and help manage costs, publicly available research can be used to compile pertinent data. For example, trade and professional associations often make their research findings available, and organizations like Pew Research Center, the Small Business Administration, the U.S. Census and many other government entities provide free access to data.

It's imperative for organizational leadership to agree on the objectives and outcomes for the social enterprise.

Research will help estimate market demand for the products or services the venture will sell in order to ensure profitability, while assessing the

competitive landscape provides an understanding of threats and a clear point of differentiation for the venture so that it stands out and attracts customers. Findings can also identify gaps the enterprise might be able to fill.

Research will also be invaluable in creating audience profiles. Profiles offer insights into the age, gender, income, education, marital status and other aspects of the social enterprise's target customers. Research can reveal behavior patterns, likes and dislikes, shopping preferences, communication channels and influencers. Well-developed audience profiles enable the organization to craft compelling messages directed to those most likely to be interested, and place those messages in the right channel to reach the desired audience.

Appraising Internal Assets

Evaluating all internal resources will reveal how the organization's current assets will support the social enterprise and where weaknesses may currently exist. An important step is confirming unanimous support of the organization's board and staff. Board members should have been involved in the initial decision to establish a social enterprise, but formally reaffirming their support is a final opportunity to build consensus and evangelism, as well as uncover ways to engage and address the concerns of anyone who has not yet bought-in to the program.

Assessing staff resources helps to inventory skills, experience and the capacity to operate the social enterprise.

People are every nonprofit's greatest internal asset. Assessing staff resources not only determines levels of acceptance and/or anxiety at the prospect of change, but also helps to inventory skills, experience and the capacity to operate the social enterprise. The

assessment should answer the following questions: Are there current employees who are interested in and qualified for jobs with the new venture? Will this take staff away from other services of the nonprofit? How many new employees will need to be hired? Is specialized training required? How will new staff be recruited and trained? As with the board, this provides an opportunity to build trust and excitement, while easing the team through the transition.

The internal analysis should also include buildings and facilities, equipment and supplies, machinery, vehicles and other physical resources. Since capital investment may be necessary, a realistic, comprehensive review process is important during both the planning stage and periodically in the months and years ahead.

Conclusion

Establishing a social enterprise can be a viable way for nonprofits to add earned income to their revenue stream. While it takes hard work, time, patience, an entrepreneurial attitude and a willingness to accept risk, a social enterprise may have the potential to unlock new funding and enable a nonprofit to grow in ways it otherwise could not have. A social enterprise requires thorough evaluation upfront and may not be the right fit for every nonprofit. But, an organization that effectively navigates the decision-making and planning process to develop a social enterprise fully aligned with its mission, will find itself with more robust and reliable funding opportunities as well as new avenues to achieving its objectives.

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About Pacific Continental Bank

For more than 40 years, Pacific Continental Bank has served the Pacific Northwest with a focus on building long-term business-banking relationships. And along the way, we have forged a strong reputation as a proven business resource and proud civic partner. Pacific Continental Bank's strength lies in our extensive expertise in banking community-based businesses, professional service providers and the nonprofit sector. This expertise means we can help clients tackle the financial issues specific to their enterprise. What's more, clients have access to local bankers who have the authority to make decisions for them on the spot.

Pacific Continental Bank maintains a strong connection to the communities where we operate. The bank empowers its employees to actively engage in fostering an environment where all community members can flourish. We endeavor to work with local nonprofit organizations and community-based businesses, ensuring more dollars stay close to home. The bank supports hundreds of nonprofit organizations in achieving their missions — both philanthropically and through direct participation.

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