

Social Enterprise Associates
Tip Sheet #12

This brief is for people in non-profits interested in new methods of generating revenue for organizations via earned income.

The introductory guide assists an organization, its leaders and staff to tackle social enterprise, forming a sequence of steps and an action plan.

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Non-Profit Earned Income Strategies – Where to Start?

Why & how to adopt new methods of generating revenues

Introduction

This brief is for people in non-profits interested in new methods of generating revenue for your organization. You might know a bit about Social Enterprise and Earned Income Strategies for non-profit organizations. Certainly, the prospects of sustainable funding making your organization less dependent on current donor and foundation funding are attractive. But, what do you do next?

This guide assists you and your organization to tackle ‘social enterprise’. It helps sequence necessary steps and to form an action plan. Social Enterprise is **NOT** feasible for all NGOs, so investigation and prudence are highly encouraged.

Incremental Steps

Social Enterprise Associates recommends the following as a manageable process to order decision-making. This undertaking can be intimidating and overwhelming. It doesn't have to be; the information below provides a viable approach to de-mystify what is often seen as a ‘black box’. Each step has associated deliverables, designed together to be incremental. Board involvement and approval is encouraged, as necessary.

Program decisions of this magnitude must fit into the organization's overarching needs and goals. The best strategic choice for your organization may be **NOT** to undertake a social enterprise activity. Many efforts fail: 80% of new businesses fail within their first five years. Data shows small organizations have been less successful than large organizations at revenue generating programs. The wisdom and responsibility of making an appropriate choice is up to you and your organization.

Non-Profit Earned Income Strategies, continued

- 1. Internal Organizational Assessment.** This first step is internal; it can be informal. Your organization assesses the risks, stresses, and challenges of social enterprise undertakings. It may not be ready. The process involves reviewing existing plans & priorities, as well as frank discussion among management, staff & the board. Methods can include 'Self-Tests', Program Evaluation, and/or a Performance Audit.

Key Questions:

- Does the organization have sufficient staff capacity?
- Does the organization have strong enough internal systems for a new effort?
- Does the organization have the sufficient knowledge and expertise in this area?
- Does the organization have sufficient cash flow to risk on new projects?

- 2. Feasibility Study.** The second step is formal. The feasibility study indicates if the specific project is worthwhile. The organization explores the idea further, fleshing it out with some specifics. It should include a cost/benefit analysis of the expenses and potential financial gain involving management team members knowledgeable about financial decision-making. Key attention should be paid to how this fits into the organization's strategic plan and mission.

Key Questions:

- What are the organization's goals for this undertaking in terms of money and mission?
- What are the costs and revenues associated with this new project?
- How operationally will the organization do this 'new thing'?
- What organizational changes and adjustments need to be made?

- 3. Market Analysis.** This next step is external to develop an understanding of the 'Market Landscape' and, also ideally, Customer Demand. It involves an investigation in the proposed market(s). Market size is determined, competitors are identified (direct and indirect), and customer interest is explored.

Key Questions:

- How big is this opportunity?
- Who else is doing this?
- Who are the customers and what are they doing now to satisfy this 'need'?
- Is there space for us?

- 4. Business Plan.** If the previous steps are 'Go', then the next step is to document a plan. A business (or strategic) plan is a formal document that includes elements like opportunity, product, market, customers, budget, timeline, and competition. Such plans should be 'living documents' to be updated regularly, providing a roadmap to move forward. The process of creating the plan is a valuable tool to establish a unified vision for all stakeholders in the organization. The plan's executive summary can be a marketing and investing document.

Key Questions:

- What is the purpose of this social enterprise?
- What is the value proposition?
- How will it make money?
- Who is the management team?

Non-Profit Earned Income Strategies, continued

5. **Financial Projections & Budgeting.** This element requires participation of the financial and accounting professionals in the organization to determine costs, revenues, and the interaction between them. This step can be incorporated into the Business Plan, but ideally is also produced as a stand-alone document. Variance and probability scenarios are important components. Focus on the first 12 months of operations starting with month 0 and consider the first three years.

Key Questions:

- **How much money is needed to start this up, in year 1, and by year 3?**
 - **What type of financing is appropriate: donations, equity, debt, partnerships, contracts?**
 - **What are the key sources of revenue and major costs?**
 - **When does this project break-even, if ever?**
 - **What happens if expenses are 50% higher and/or revenues 50% lower?**
6. **Fund-raising & Investment.** In most organizations, this step is well underway by the time the Business Plan is finished. The appropriate capital sources are identified and communication is established. Marketing materials, in addition to deliverables from the steps above, are produced as needed. Appropriate special events & PR will complement this step.

Key Questions:

- **Who are the targeted 'investors'?**
- **What is the value proposition for funders and investors?**
- **Why should they choose this project?**
- **How much funding 'in the bank' is needed to begin operations?**

Overall Tips & Tricks

- Be prepared to say 'NO'. Your organization must be able to turn away, even if invested time and money into this opportunity. Throwing 'good money after bad' is not a solution. Methods of self-monitoring include keeping the board involved, developing specific budgets for each step, and keeping a firm timeline on the process.
- Value existing expertise. Look within the organization and draw upon those at hand. Then, complement these skills with additional resources for the board, staff, and technical assistance transfer.
- See opportunities where others see problems & find assets of value within the organization.
- As with many services, you get what you pay for.
- Remember Murphy's Law. Plan accordingly to mitigate everything taking twice as long, costing 50% more, and generating half the revenue.
- Have fun and do great community work!

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Social Enterprise Associates, a registered "B" Corporation, fosters 'triple bottom line' solutions. This consulting firm applies business & market principles to social, environmental and community efforts to 'do well by doing good.' Specializations include raising capital, business plans, market research, product development & operational implementation. Efforts have led to clients raising more than \$100 million. Company was recognized in 2011 as 'One of the Best for the World' small businesses & 2012 NM Sustainable Business of the Year Honoree.

Reach **Managing Partner, Drew Tulchin**, at info@socialenterprise.NET & 202-256-2692.