HERE’S TO THE CRAZY ONES
THE MISFITS. THE REBELS. THE TROUBLE MAKERS
THE ROUND HEADS IN THE SQUARE HOLES
THE ONES WHO SEE THINGS DIFFERENTLY
THEM THEY’RE NOT FOND OF RULES & THEY HAVE NO RESPECT FOR THE STATUS QUO
YOU CAN QUOTE THEM, DISAGREE WITH THEM
GLORIFY OR VILIFY THEM
THE ONLY THING YOU CAN’T DO IS IGNORE THEM
BECAUSE THEY CHANGE THINGS
THEY PUSH THE HUMAN RACE FORWARD &
WHILE SOME MAY SEE THEM AS THE CRAZY ONES
WE SEE GENIUS
BECAUSE THE PEOPLE WHO ARE CRAZY ENOUGH TO THINK
THEY CAN CHANGE THE WORLD
ARE THE ONES WHO DO.” JACK KEROUAC
## What is Different About Social Enterprise?

### Social Enterprise is Not...
- Traditional fundraising
- Grant money
- Gifts/donations
- A “quick fix” out of a crisis
- For everyone

### Social Enterprise is...
- Generating sustainable new resources to support mission
- Engaging market forces to work for the nonprofit sector
- Devising new ways to leverage existing assets
- Allowing for greater flexibility by bringing in unrestricted revenue
- Decreasing dependence on the external funding community
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  - YMCA of San Gabriel Valley 29
This toolkit was adapted from the National Community Action Partnership Social Enterprises Toolkit. Other sources include the following:

- Community Wealth Ventures
- Neighborworks America
- Rolfe Larson and Andy Hornsnell
- Rolf Larson and Associates
- Green for All Non-profit Social Enterprise Models and Funding
- The Philadelphia Inquirer
SECTION 1
What is Social Enterprise?

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 world. 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 returns.

“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 change. 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 employ.

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 patternbreaking change in inequitable systems, whether through social enterprises or other means.

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 donations. Although the debate is 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 mission.

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

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1 “What is social enterprise?” Social Enterprise Alliance.
3 “ASE Definitions.” Academies-se.org.
5 “What is a Social Entrepreneur?” Ashoka.
7 “What is social enterprise?” Social Enterprise Alliance.
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 support.

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.**

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8 “ASE Definitions.” Academies-se.org.
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 history. 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 Union.

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) organizations. 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 corporations.

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 impact. Not-for-profit organizations, nongovernmental organizations, foundations, governments, and individuals are all currently 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 entrepreneurs.

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 growth.

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9 “Social entrepreneurship.” Wikipedia.
10 “What is a Social Entrepreneur?” Ashoka.
13 “Social Enterprise- A Portrait of the Field.” Community Wealth Ventures, et al. 3.
14 “Social entrepreneurship.” Wikipedia.
SECTION 2
How Community Development Organizations (CDC’s) Use the Program?

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 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.

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

Introduction

The steps to starting a social enterprise are similar to most small business startups. 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 outcome of a social enterprise are not obvious and so the goals need to be established first

Figure 3.1

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 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

Organizational Assets Come in Many Forms:

**People**
What people are particularly valuable to the organization?

**Audience/Special Relationships**
What are the key strengths of the organization’s audience? What other key relationships does it have?

**Programs/Proprietary Content/Events**
What are the key programs or content that the organization has at its disposal?

**Tangible Assets/Facilities**
What does the organization own or have the right to use? Real estate? Program related equipment? Collections, stock, materials?

**Skills/Expertise**
What kinds of skills and expertise does the organization’s staff have? What about the Advisory Board? Volunteers?

**Reputation**
What does the organization’s name mean in the community? To whom?

The worksheet on the following page will help you to chart your agency’s assets. 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?

**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.

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 it is crucial to have a clear understanding of how your organization could assist in furthering the strategic business goals of your corporate partner.
Charting Assets

People
What people are particularly valuable to the organization? (name recognition, skill sets, etc.)
1. 
2. 
3. 
4. 
5. 

Audience/Special Relationships
What are the key strengths of the organization’s audience? (e.g. size, demographics, psychographics, loyalty, etc.)
What other key relationships does it have?
1. 
2. 
3. 
4. 
5. 

Programs/proprietary content/events
What are the key programs or content that the organization has at its disposal?
1. 
2. 
3. 
4. 
5. 

Skills Expertise
What kind of skills and expertise does the organization’s staff have? What about the Advisory Board? Volunteers?
1. 
2. 
3. 
4. 
5. 

Tangible Assets/Facilities
What does the organization own or have the right to use? Real estate? Program related equipment? Collections, stock, materials?
1. 
2. 
3. 
4. 
5. 

Reputation
What does the organization’s name mean in the community? To whom?
1. 
2. 
3. 
4. 
5. 

Other
1. 
2. 

Other
Fast Track or Back Burner?  
Measuring the Feasibility of Your Venture Ideas

Most nonprofits exploring earned income find they have many venture ideas, but only enough time to pursue one at a time. As a result, that idea really needs to be a good one. Some managers jump right into the first idea that comes to them. A better strategy is to figure out first which ideas are worth pursuing.

Feasibility analysis involves evaluating the relative strength of numerous venture ideas, and then assessing whether your organization will be successful pursuing a specific idea. One approach to doing this is to apply a set of standard feasibility criteria (see sidebar) as you walk through the following feasibility steps:

1. **Judgment** involves quickly scanning your list of venture ideas, mentally applying the four criteria -seen in the box at the right (not the questions), and removing those ventures that are obviously not worth exploring. Typically, this requires just a few hours of work, and results in a list of a dozen or so ideas.

2. In **Feasibility Screening**, the surviving ideas are rated against the nine questions that probe deeper into the four criteria (now see questions in sidebar). Normally, this takes less than a day’s worth of staff time, and leads to the identification of two or three promising ideas. The worksheet on the following page is a useful tool in screening your surviving ideas.

3. The **Quick Feasibility Test** involves gathering internal and external data to answer an expanded list of twenty-four feasibility questions. This step often takes 20 to 30 hours per venture, and, if the venture passes the test, is usually as far as you’ll need to go before preparing a quick business plan.

4. When the risks are high or there are significant unknowns, some venture ideas require a **Full Feasibility Study**. These studies can take 100+ hours of work, and are often done by consultants at significant cost.

---

**FEASIBILITY CRITERIA**

A. **Strategic** – alignment with your mission and core values.
   1. Will this venture create a social impact that is related to your organization’s mission?
   2. Is there a staff person who will be passionate about seeing it succeed?

B. **Operational** – fit with capabilities, strengths and assets.
   3. Can you clearly describe the proposed service?
   4. Will you be able to produce and deliver it?

C. **Marketing** – evidence that customers will choose your service over their alternatives
   5. Can you clearly describe your target customers?
   6. Is there evidence these customers are willing to pay for this product or service?
   7. Is there evidence they will prefer it over their alternatives?

D. **Financial** – credible indications that annual revenues will at least cover costs.
   8. Is this venture likely meet or exceed your financial goals?
   9. Can you estimate the start-up costs and where the funding will come from?
### Feasibility Screening

Using your surviving ideas, run through the screening process below. Using the scoring key, assign a 1-4 score for each of the 10 questions for each venture idea. Then, add up your individual scores for each idea to calculate its Total Score.

Next, using your judgment and the total scores as a guide, assign a Bottom Line Rating for each venture idea based on the criteria at the bottom of the page. Please note: the Bottom Line Rating is not the average of the Total Score.

<table>
<thead>
<tr>
<th>Feasibility Criteria</th>
<th>Scoring Key:</th>
<th>Venture Idea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Feasibility – Do you want to do it?</strong></td>
<td>1 = no / don’t know</td>
<td></td>
</tr>
<tr>
<td>1. Will this venture create a social impact that is related to your organization’s mission?</td>
<td>2 = only somewhat</td>
<td></td>
</tr>
<tr>
<td>2. Will your board and top managers support it?</td>
<td>3 = mostly</td>
<td></td>
</tr>
<tr>
<td>3. Is there a staff person who will take personal responsibility for seeing that this venture succeeds?</td>
<td>4 = yes, very much so</td>
<td></td>
</tr>
<tr>
<td><strong>Operational Feasibility – Can you do it?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Will this idea make use of your organization’s core competencies?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Will you be able to produce and deliver it?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Market Feasibility – Will your customers want to buy it from you?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Can you clearly describe your target customers?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Is there evidence these customers are willing to pay for this product or service?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Is there a clear rationale for why they will prefer your product or service to the alternatives they have?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial Feasibility - Will it meet your financial goals?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Are you confident that this idea will meet or exceed your financial goals?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Do you know what the start-up costs for this venture will be and where the funding will come from?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Score**

**The “Bottom Line” Rating**

**The Bottom Line Ratings:**

1. **Throw Away** – This idea isn’t worth pursuing at all – do not spend any more time on it.
2. **Back Burner** – This idea either isn’t very strong but still holds some promise, or the timing just isn’t right – Put it “on the back burner” for now.
3. **Potential Star** – This idea looks good, but we need to do a Quick Feasibility Test before we go ahead.
4. **Fast Track** – We understand enough about this idea to move on it, but first we need to prepare a Quick Business Plan to have a plan to get it started.
5. **Quick Start:** Let’s implement this immediately – we know enough already, the risk is minimal, and the time is right! (Please note: This rating is reserved strictly for minor changes to existing enterprises.)
We will now examine how to take promising ideas through the third feasibility step – the quick feasibility test.

The Quick Feasibility Test (or QFT for short) involves gathering internal and external data to answer an expanded list of twenty-four feasibility questions (see following page). This step often takes 20 to 30 hours of work per earned income idea, usually over a period of four to six weeks.

The QFT will help you dig a little deeper into your chosen venture idea to see if it might really be the opportunity you’re looking for. In addition to assigning a numeric rating for each question asked in the QFT, you will write a line or two to explain your rating (“We rated this dimension a ‘4’ because…”), and another line to cite the evidence that supports your explanation (“We know this because…”).

Unlike the Feasibility Screen, which relies on your judgment and readily available information, the QFT is a research-based, data-driven process. This can be contrasted with a Full Feasibility Study which, while also a research-based process, is much more comprehensive and is generally reserved for higher risk ventures.

Almost all new ventures should undergo a QFT; exceptions are very low-cost, lowrisk opportunities, for which the best feasibility testing is often simply to start doing it. Social entrepreneurs who skip the QFT and go straight to the business plan do so at their own peril; errors in their reasoning and untested assumptions can quickly be caught by the QFT and radically improve the venture’s chances for success (or uncover fatal flaws in the venture). Conversely, entrepreneurs who automatically go prematurely into a full feasibility study stand the risk of over-analyzing an idea that could have been green-lighted by the QFT – and wasting precious time and resources in the process.

Completing a QFT should ideally be a team effort. Participants typically include a board representative on the strategic alignment questions, program staff on operational capability questions, and your accountant or board treasurer on the financial questions.

Outside experts, such as ICADC, can assist you. There are also a number of excellent books – Market Research Made Easy by Self-Counsel Press for example – that can guide you through answering the marketing feasibility questions. So, while completing the QFT may be the role of the venture champion, the effort works best with the support of at least three other people.
**Quick Feasibility Test**

Below is a quick feasibility test that can be applied to your surviving venture ideas:

**Strategic Alignment - Do you want to do it?**
1. Will this venture create a social impact that is related to your organization's mission?
2. Will your board members and top management support this venture?
3. Is there a staff person who will take personal responsibility for seeing that this venture succeeds?

**Operational - Can you do it?**
4. Can you clearly describe the proposed product or service?
5. Will this venture build on your core competencies?
6. Will you be able to produce and deliver it?
7. Will you be able to effectively promote and sell this product to your customers?
8. Do you have the staff (both managerial and operational) you will need to operate this venture?
9. Will this venture idea be feasible from a legal and regulatory perspective?
10. Will this venture idea be able to overcome any other barriers you may be aware of?
11. What will your productive capacity be?

**Marketing - Will your customers want to buy it from you?**
12. Can you clearly describe your target customers?
13. Can you clearly describe how your customers will find this product or service beneficial to them?
14. Do you have a positive reputation or relationship with your target customers?
15. Is there evidence these customers are interested and willing to pay for this product or service?
16. Are they growing in numbers or buying more each year?
17. Can you clearly describe the criteria (features, pricing, etc.) these customers use when selecting this kind of product or service?
18. Do you know what alternatives these customers consider when they look for this kind of product or service (i.e. who or what your competition is)?
19. Will it be difficult for another firm to replicate your product?
20. Is there a clear rationale for why they will prefer your product or service to the alternatives they have?

**Financial - Will it meet your financial goals?**
21. Do you have clear financial goals and/or success criteria for this venture?
22. Is there evidence that this venture will meet or exceed these goals?
23. Does the minimum sales level required to meet these goals seem achievable?
24. Do you know what the start-up costs for this venture will be and where the funding will come from?
**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?²⁸

**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.

**Business Structure of Social Enterprises**

- **Division or Department of Organization**: 60%
- **For-profit Subsidiary**: 15%
- **Nonprofit Subsidiary**: 8%
- **Joint Venture**: 5%
- **Franchise**: 1%
- **Other**: 11%

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

![Figure 3.3](image-url)

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.

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 vice 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.
The L3C: Low-Profit Limited Liability Company

The L3C Designation
The L3C, or Low-Profit Limited Liability Company, is a new type of corporate designation that is a cross between a nonprofit and for-profit corporation. The L3C was enacted by the Vermont legislature in May 2008 and builds upon the existing Limited Liability Company (LLC) structure.

- **The L3C is a specific type of LLC.** L3Cs are like LLCs in that they have the liability protection of a corporation, the flexibility of a partnership and the ability to be sold in pieces. Unlike the basic LLC, however, L3Cs are specifically formed to further a socially beneficial mission and can qualify as a program related investment, or PRI making them eligible to attract foundation funding. The same as in a LLC, L3Cs are not tax-exempt.

- **Organizing as a L3C is similar to organizing as a LLC.** According to the Vermont legislation, organizing as a L3C is the same as organizing as a LLC, “except that the L3C designation must be indicated when the articles of organization are filed and the name must include the words ‘L3C’.”

Bridging the Gap: “The For-Profit with a Nonprofit Soul”
The L3C designation is meant to bridge the gap between the capabilities of nonprofit and for-profit corporations. At its core, the L3C is a profit-generating entity with a social mission as its primary objective.

- **L3Cs create a market for investment in financially risky, but socially beneficial activities.** A L3C organization will be able to access capital in situations where the profit potential of a business is too low to warrant the risk of investment by traditional investors. The corresponding return on investment profile and private sector resources available for each type of organization are outlined below:

<table>
<thead>
<tr>
<th>Type of Corporation</th>
<th>Organizational Purpose(s)</th>
<th>Potential Rate of Financial Return on Investment (ROI)</th>
<th>Private Sector Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Liability Company (LLC)</td>
<td>Financial</td>
<td>5% or greater</td>
<td>Market driven; making money and building wealth</td>
</tr>
<tr>
<td>Low-Profit Limited Liability Company (L3C)</td>
<td>Financial and mission-related</td>
<td>Between 0% and 5%</td>
<td>Philanthropic source invests with a lower than market rate of return; philanthropic investment lowers the risk and raises potential ROI for subsequent investors</td>
</tr>
<tr>
<td>Nonprofit (501(c)(3) or other tax-exempt organization)</td>
<td>Mission-related</td>
<td>0% to negative 100%</td>
<td>Market incentives inadequate or non-existent</td>
</tr>
</tbody>
</table>

Source: Americans for Community Development

---

Candidates for the L3C Designation
In addition to having a socially beneficial mission, strong candidates for the L3C structure are organizations that:

- **Have cash flow.** Since investors will be seeking a return on their investment in a L3C, the organization must consistently generate revenue.

- **Are entrepreneurial in finding ways to generate revenue.** Organizations that are willing to supplement their current services with additional revenue-generating activities will be more attractive to investors.²

Existing nonprofits can utilize the L3C structure in two ways: reincorporating as a L3C or establishing a subsidiary. If a nonprofit generates enough earned income to qualify as “low profit,” it could reincorporate as a stand-alone L3C. However, the most likely scenario for existing nonprofits will be establishing subsidiaries to conduct qualifying activities.

The L3C structure is characterized by its flexibility, and organizations and investors are developing creative models to capitalize on the L3C opportunity. Some specific examples of L3Cs that are in the planning phases include:

- **The National Cancer Coalition.** The National Cancer Coalition will operate a clinic offering low-cost early-detection and cancer treatment services for women in Paraguay, generating revenue from patient fees while providing health services to a population in need.

- **The Montana Food Bank.** The MT Food Bank provides farmers with access to its food processing plant to process and deliver fresh, local food to Montana grocery stores. The food processing program is also a training program for Montana prisoners.

More general models include health clinics, charter schools, music venues and museums, among others.³

Almost 1 in 2 Organizations are Equally Motivated by Mission and Revenue

![Bar chart showing the percentage of organizations motivated by mission and revenue]

Implications for Foundations

The opportunities for foundations with the L3C center on PRIs and the opportunity to invest in organizations that have both financial and social returns. For a foundation, the L3C provides several positive benefits:

- **Reduces the costs of PRIs.** Since the L3C legislation in Vermont was written in such a way as to comply with all PRI regulations, the structure eliminates the need for private letter rulings or legal opinions for foundation investment in L3Cs.

- **Attracts outside investors.** Investment in a L3C can be layered, delivering returns according to the needs of the investor (low or no return to a foundation, greater returns for a market-driven investor). Foundations will be able to serve as early-stage investors by taking on more financial risk, in exchange for a high social return. Further, early foundation investment will pave the way for more market-driven investment.

- **Satisfies a foundation’s philanthropic mandate.** Investment in a L3C would allow a foundation to invest in an organization that is meeting community needs, while providing an opportunity for a foundation to generate a modest return. To be successful at investing in a L3C opportunity will most likely require close coordination between the program staff and the foundation’s investment officers.

For Further Reading


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 success.

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 committee. 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.

The Venture Champion

<table>
<thead>
<tr>
<th>Typical Responsibilities</th>
<th>Typical Skill Set or Knowledge Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring that the venture meets its financial and social goals</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Managing the day to day operation of the venture</td>
<td>Sales and Marketing</td>
</tr>
<tr>
<td>Supervising the venture staff</td>
<td>Industry Knowledge</td>
</tr>
<tr>
<td>Liaising between the venture and the nonprofit parent</td>
<td>Entrepreneurial Attitude</td>
</tr>
<tr>
<td></td>
<td>Motivated by financial success vs. mission success</td>
</tr>
</tbody>
</table>

22 Cohen, Janet S. “The Role of Business Advisory Committee.” 1.
Section 4
Planning and Financing Your Venture

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 competitors\(^\text{23}\). 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, contacting industry associations, and/or visiting public agency or government websites and reading their reports.

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 businesses.24 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 requirements.

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

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.

---

Business Planning

There's nothing magical about business planning. At its core, it involves thinking through and documenting who your target customers are, how your proposed venture will profitably address their needs better than the competition, how you will communicate with these customers, and how resources will be obtained to pay for startup costs.

Writing these things down, and asking outsiders to review them, often leads to finding and fixing flaws in your assumptions and logic. The result is that you're better prepared for launching your venture. A written business plan also enables you to engage others who can make vital contributions to the development of the venture – such as business people on your board and entrepreneurs outside of your organization who can challenge your thinking and improve your plan.

The amount of work needed to complete a business plan depends largely on the complexity and level of risk for your venture; with risk defined as the likelihood and consequences of failure. A low-risk venture may only need a three-page business plan, while a high-risk venture requires something more rigorous. In general, ventures that fit closely with your mission, core competencies and understanding of the marketplace – ventures, incidentally, that are most likely to succeed – require less planning. The Quick Feasibility Test completed prior to working on your business plan, will shed light on your venture’s risk and help determine the appropriate level of planning.

The Quick Business Plan

For the majority of ventures that present relatively low risks – say for example developing a product you already have expertise with, and selling it to current customers or those who are similar to them – the Quick Business Plan can be an efficient and effective way to move forward. It is a simple tool to capture the answers to the key questions that any business plan should have, presented in an accessible, three-page format.

Among the advantages of doing a Quick Business Plan is that it can be completed relatively quickly, and that it tends to get used rather than sit on a shelf somewhere. An alarming number of full-length business plans never get implemented. If the necessary feasibility testing has been done and it is determined that a Quick Business Plan is appropriate, it can be completed by the entrepreneur in a few days. This is contrasted with the risky alternatives of “winging it” with no business plan, or getting bogged down with a 50-page behemoth that can suck the life out of your entrepreneurial efforts before a single sale takes place. What the Quick Business Plan provides is just enough planning to allow you to move forward with confidence into the startup or growth of the venture, which is why we’re doing all this work in the first place. An example of a quick business plan can be found on the following pages.
Quick Business Plan

Venture Name: ___________________________  Champion: ___________________________

1. What products and services will this venture include, and how will it be presented to the customers?

_________________________________________________________________________________

_________________________________________________________________________________

2. Which customers will this venture target? (If there’s more than one customer group, answer each question for each group.)

<table>
<thead>
<tr>
<th>Who are they (how would you describe them)?</th>
<th>How many of these clients are there in your service area?</th>
<th>Growth trend (i.e. declining, stable, increasing)?</th>
<th># served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are they (what is the service area)?</td>
<td>How many of these clients are there in your service area?</td>
<td>Growth trend (i.e. declining, stable, increasing)?</td>
<td># served</td>
</tr>
<tr>
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<td># served</td>
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<tr>
<td>Who are they (what is the service area)?</td>
<td>How many of these clients are there in your service area?</td>
<td>Growth trend (i.e. declining, stable, increasing)?</td>
<td># served</td>
</tr>
</tbody>
</table>

3. What customer needs will this program address? What evidence is there that a need exists?

_________________________________________________________________________________

_________________________________________________________________________________

4. Who will actually buy the services this venture will provide (who will be the buyer, if different than the consumer)?

_________________________________________________________________________________

_________________________________________________________________________________

5. What are the buyer’s primary priorities regarding where they purchase this kind of product or service?

_________________________________________________________________________________

_________________________________________________________________________________

6. From your buyer’s perspective, who or what are the top alternatives to your venture?

<table>
<thead>
<tr>
<th>Competitive Alternative</th>
<th>Describe their product / service and pricing</th>
<th>Strengths in addressing the buyer’s priorities</th>
<th>Weaknesses in addressing the buyer’s priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product / Service:</td>
<td>Pricing: ___ per _____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product / Service:</td>
<td>Pricing: ___ per _____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product / Service:</td>
<td>Pricing: ___ per _____</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Given your buyer’s priorities, and the alternatives they have, why will they choose your product or service (i.e. what is your “unique selling proposition”)?

_________________________________________________________________________________

_________________________________________________________________________________
8. What is your typical pricing for this product or service? How does it compare to your costs? Your competitors’ pricing?

9. What is your primary promotional message? Is it consistent with your unique selling proposition in 7.?

10. How will you communicate your promotional message? Is it consistent with how and when your buyers prefer to get their information about this kind of service?

<table>
<thead>
<tr>
<th>How? Where?</th>
<th>When? How Often?</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

11. How will the product / service be created and delivered to the customer?


12. What will the startup costs for this venture be, and how will you pay for them?

<table>
<thead>
<tr>
<th>We Will Require The Following</th>
<th>Cost</th>
<th>Sources of Funding</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

Total $ Total $

13. What level of sales will be required to break even in the first year of operation? $
14. What are the annual financial projections for this venture (the budget)?

<table>
<thead>
<tr>
<th></th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
<th>Month 4</th>
<th>Month 5</th>
<th>Month 6</th>
<th>Month 7</th>
<th>Month 8</th>
<th>Month 9</th>
<th>Month 10</th>
<th>Month 11</th>
<th>Month 12</th>
<th>Year 1 Totals</th>
<th>Year 2 Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Gross sales revenue</td>
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<td>b. Direct costs¹</td>
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<tr>
<td>c. Operating profit</td>
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<td>d. Allocated general</td>
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<td>e. Net profit</td>
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<td>f. Direct grant revenue²</td>
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<td>g. Net contribution</td>
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</tbody>
</table>

15. Budget assumptions:

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16. How will this venture contribute directly to your mission?

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Some additional questions that may need to be answered include:
- What is the basic activity of the business?
- What is the primary product or service?
- What customers will be served?
- What are the business objectives?
- What type of research should be conducted?
- What is the customer profile for the product or service?
- What geographical area will you serve?
- What are the distinguishing characteristics of your product or service?
- How will you set the price?
- How will you sell and promote the product or service?
- Tell me about your competition.
- What and how do you plan to forecast sales for the product or service?
- How will you handle day-to-day operations?
- Who else will be involved decision making in your business? Support system? Mentors?
- How much cash will you require to start the business?
- How much do you currently have in assets in your business and how much to you plan on investing?

¹ Direct costs are all the new, incremental costs that you will incur to market, deliver and manage this venture.
² Direct grants are grant funds that you will receive if you implement this business plan.
What Are the Potential Risks in Launching a Social Enterprise?

There are some important risks to consider before developing a social enterprise. The following figure illustrates the three main categories of risk: organizational, financial, and reputational.

**Organizational**
- Divert attention
- Increased complexity and skill needs
- Culture shift
- Staff and board resentment

**Financial**
- Venture may lose money
- Opportunity cost - resources could have gone elsewhere
- Traditional funders may decrease funding

**Reputational**
- Compromised Brand
- Negative effect on reputation if venture fails

How to Finance Your Venture

In starting up your Social Enterprise 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**

<table>
<thead>
<tr>
<th>Traditional philanthropic grants</th>
<th>Venture philanthropy</th>
<th>Community debt financing</th>
<th>Community development equity/venture capital</th>
<th>Angel investors/social venture capital</th>
<th>Socially responsible investment funds</th>
<th>Traditional institutional capital (e.g., banks, mutual funds)</th>
</tr>
</thead>
</table>

Social equity investors | Private equity investors

Figure 4.1

• **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 (CDFIs)** 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. CDFIs have generally been more open to social enterprise by virtue of the fact that Social Enterprise’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 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, lines 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.

### 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):

**Start Up Costs**

- **Cost Benefit Assessment**: Does the potential social impact justify the upfront investment?

  - **Start Up Costs**
    - **How much will it cost to set up this business?**
      - Are there costs such as equipment, store fit-out, or consulting fees?

**Break Even Assessment**

- **Break Even Feasibility**: Could your business ever sell the break even number of units?

  - **Break Even Assessment**
    - **How many units will you need to sell to cover the fixed costs?**
      - What are the fixed costs of opening the business?
      - What is the margin per unit sold?

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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.

**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.

![Framework for Trade-off and Prioritization](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.
Financial Analysis: Drivers of Profit

The following figure illustrates the components that drive profit. Sales revenue is computed by multiplying the number of units sold by the price per unit. Total cost is calculated by adding variable costs, or costs that change, in proportion to a good or service that a business produces, to fixed costs. Variable costs are calculated by multiplying the variable unit costs by sales volume. Finally, sales revenue minus total cost equals profit.

Adapted from “Notes on Low-Tech Marketing Math,” Harvard Business School

SECTION 5

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 6
Examples of Social Enterprises in Action

BikeStation
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.

Bienvenidos
Bienvenidos, 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.

Greenway Arts Alliance
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....

Illumination Foundation
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
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.

The YWCA of San Gabriel Valley
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
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
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.

Recycle Force
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 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.
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.

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.

“Can we teach others the importance of being self-sufficient and, at the same time, not be self-sufficient ourselves?”

Mike Burns, Former CEO
Pioneer Human Services
RecycleForce (formerly known as Workforce, Inc.) is a 501(c)(3) nonprofit that operates as a social enterprise. Their stated mission is twofold: (1) become the most comprehensive recycling hub in Indianapolis, Indiana; and (2) help those returning from prison gain immediate, legitimate earnings combined with a broad array of social support.

In 2006, RecycleForce (RF) started providing recently released offenders with transitional jobs in the emerging electronic waste recycling industry. Waste is one of the top three exports of the United States. Recycling businesses in developing countries gather raw materials from US “waste” to produce goods, many of which are resold to the US. Given this, it makes sense to process or add value to the waste before it goes overseas to be used for manufacturing. By doing so, RF can create jobs and reduce the risk of harm due to a lack of regulatory oversight of recycling processes in some developing countries. This program seeks to keep as much electronic waste as possible out of landfills and recover the waste so that it can be reused in industry.

Since its launch in 2006, RF has grown from two workers and 600,000 pounds of processed materials to more than 35 employees and 3.4 million pounds of processed recyclables annually. During this time, the program has employed nearly 400 people and paid over $2.3 million in wages. Only 28% of participants have been returned to prison, as compared to an average rate of around 50% in Indianapolis. Employees who owe child support pay an average of $1,300 in child support during the 4 months of transitional employment, and most report improved relationships with their children. Most are proud to show their kids they can work in the mainstream economy, many for the first time in their lives.

Although RF began specializing in recycling electronic waste, it has expanded to offer recycling services for a whole host of materials, including plastic, aluminum, paper and cardboard. Since its inception, RF has helped clean up our environment by processing a total of 11 million pounds of recyclable material.

RF uses its revenues from the recycling business to help formerly incarcerated individuals rebuild their lives by providing gainful employment. As its recycling operation has grown, so has RF’s capability to employ and train hundreds of ex-offenders, successfully guiding their re-entry back into the community. RF participants benefit not only from jobs but also from state programs to improve literacy and math skills, as well as “contextualized learning” opportunities with accompanying certifications (e.g., forklift operation or HazMat handling).

Formerly incarcerated individuals have the odds stacked against them upon their release. Most have no job and no home to return to. Without these foundational elements, the rate of reoffending and returning to the criminal justice system is higher than necessary. In fact, more than half of all ex-offenders returning to Indianapolis/Marion County in 2009 ended...
up back in the prison system.

RF’s social enterprise revenues totaled over $1 million in 2010. Their goal is for the venture to become 60 to 70% self-supporting through the sale of recycled material. In fiscal year July 2010 – June 2011, sales supplied 60 percent of income.

RF also receives funding from philanthropic organizations and public contracts. RF has been awarded a $5.5 million random assignment grant from the U.S. Department of Labor to test the validity of their model as compared to “services as usual” for ex-offenders coming home. MRDC10, one of the nation’s premier evaluation firms, will study the experiences of 1,000 people. The study will help inform government on the efficacy of social enterprise as a means to help people reenter society and succeed after incarceration. RF is also beginning to offer fee for service technical assistance to support more recycling based social enterprises like themselves to get off the ground in other communities nationwide.

RF’s Executive Director, Gregg Keesling, notes that it is a challenge to get stakeholders to understand that they must function as both a social venture and a business. People who see RF solely as a business may not understand that RF has added costs and inefficiencies associated with employing exoffenders and trying to get them back into productive lives. At the same time, those who see RF as a nonprofit with a social mission may not understand why RF cannot serve all people who need help or why it may make decisions that are as much focused on business needs as social needs.

Generation Water, Los Angeles, CA

Every year, Southern California imports approximately two-thirds of its water from the Western U.S., while its population grows by 150,000 people. The region’s long-term water usage patterns are unsustainable. Over time, the region must develop new sources of water, including (1) conservation – getting people to use less water; (2) increasing efficiency – making better use of the water we have; (3) recycling water; and (4) infiltrating rainwater into local aquifers.

Unemployment among young adults is high. Young people, regardless of education, often struggle to find a career entry point. At the same time, water utilities are facing a retirement crisis as baby boomers retire.

Generation Water (GW) is focused on developing a pipeline of diverse, well-qualified young people for the career opportunities of the green economy (Figure 3). GW achieves this mission in two ways:

1. By completing demonstration projects that reduce water use, recharge groundwater, and improve watershed health through ecosystem renewal.
2. By providing young people, ages 18-24, with training and on-the-job work experience as they begin careers in water conservation, irrigation, sustainable landscaping, and related areas.

A subsidiary of the nonprofit Los Angeles Infrastructure Academy, Generation Water was created as a social enterprise in 2009. Its initial client was the Los Angeles Department of Water and Power. The first project was to conduct water surveys of 120 high schools and middle schools in the Los Angeles Unified School District (LAUSD).

Today, GW has developed three service areas:

1. Irrigation Surveys and Repair: GW conducts GIS-based irrigation surveys for schools and parks. These surveys identify all broken irrigation equipment and compare water usage patterns and equipment to the standards set by California’s Water Efficient Landscape Ordinance. GW also installs weather-based irrigation controllers and repairs broken irrigation equipment. Clients are typically water districts interested in reducing aggregate water usage on large landscapes. To date, GW teams have successfully completed more than 160 school and park irrigation surveys, located and inventoried more than 400 irrigation controllers and 5,300 valves, and cataloged more than 100,000 sprinklers, including more than 14,000 malfunctioning or broken sprinklers.
2. Rainwater Infiltration: GW is installing 1,000 residential “rain gardens” to infiltrate water into the ground from roofs as a mechanism to recharge aquifers and improve the health of the local watershed.
3. Habitat Restoration: GW is removing invasive plant species and restoring native vegetation to a local regional park. Habitat restoration promotes watershed health and fosters the return of local flora and fauna.

GW applied for and won a $2.5 million Green Innovation Challenge grant from the State of California in 2009 in partnership with the Los Angeles Conservation Corps and several other environmental nonprofit groups. Together, these groups are responsible for training 175 young adults, ages 18-24, and placing 70% of them into industry positions.

Generation Water started as a program for at-risk high school students, but as the technical complexity of the work has increased (and as the Green Innovation Challenge grant has provided new opportunities), the GW workforce has become older and more experienced. Today, 80% of the 30 employees are either in college or are recent college graduates. Many of the college students are studying (or have studied) environmental science, biology, urban planning, landscape architecture, or related fields. GW team members learn a range of skills including irrigation, water management, sustainable landscaping, construction, Geographic Information Systems, database entry and management, marketing, and business management. GW is becoming a nonprofit business focused on water management by the next generation of water employees for the next generation.

In addition to gaining paid on-the-job experience, young people participate in training sessions on irrigation, water management, horticulture, sustainable landscaping, and other topics. They also attend industry meetings and trade shows. GW also hosts occasional overnight field trips and leadership retreats. Team members also routinely outline their goals and receive performance feedback.

GW’s business model currently depends on a mix of earned income, government workforce development funding, and corporate donations. For 2011-12, the mix is budgeted to be 57% earned income, 37% government funding, and the remainder philanthropic or other funding. Generation Water’s goal is to be 100% self-sufficient with earned income by June 2012.

Rising Sun Energy Center, Berkeley, CA

Rising Sun Energy Services is a social enterprise run by Rising Sun Energy Center, a 501(c)3 non-profit organization. The enterprise offers bridge employment that provides graduates of Rising Sun’s Green Energy Training Program (GETS) the opportunity to put their training into practice through paid employment with Rising Sun’s own social enterprise on building performance, Rising Sun Energy Services. The GETS training is designed to prepare individuals who have barriers to employment for entry-level and semi-skilled positions in the residential energy efficiency industry (Figure 4). Through a combination of lecture and hands-on instruction in the classroom, lab and field settings, participants are introduced to the fundamentals of building science and industry-accepted energy efficiency upgrade practices. The on-the-job experience Rising Sun Energy Services Crew Members gain through auditing and retrofitting homes makes them much more attractive to potential employers. Rising Sun Energy Services Crew Members are employed by Rising Sun Energy Center on a part-time basis for a period of three to nine months and are paid $15 to $17 per hour. The Rising Sun Energy Services program goals are:

- To provide GETS graduates the opportunity to conduct home performance testing and remediation work to hone the technical and professional skills gained in their GETS training;
- To assist GETS graduates by giving them “bridge employment” until they can be permanently placed;
- To provide energy upgrades to home-owners across Alameda, Contra Costa and Marin County at a significantly reduced cost;
- To improve the efficiency, durability, health, safety, and comfort of homes within the community;
- To stimulate interest and demand for energy efficiency work to encourage the creation of more jobs;
- To assist local governments in reaching their Climate Action Plan (CAP) goals.

Rising Sun’s GETS Energy Services provides energy efficiency services to moderate-income homes in Berkeley and Rich-
mond, CA with the assistance of subsidies and incentives from local governments and the utilities. In addition they pro-
vide similar energy efficiency services throughout Alameda, Contra Costa and Marin County with incentives through the
utilities. Rising Sun provides this subsidized service to residents who benefit by paying for the service at a reduced rate.
The revenue generated from the retrofit service is used to fund the social enterprise, including wages for participants (em-
ployees), operational and administrative costs, inventory, marketing, and all other costs associated with doing business.
Additional funds are raised via government and foundation grants to cover the costs of additional training, case manage-
ment, support services, and job coaching and development.

Westmoreland Community Action Agency

“It's a new business that's getting up and running that will support a community in need. [Shop Demo Depot] will employ
struggling low-income individuals or unemployed single female heads of households.” – Tay Waltenbaugh, Chief Executive
Officer

History and Background
Westmoreland, Community Action Agency (WCA) is located in the county of Westmoreland Pennsylvania and operates
in main office in the historic city of Greensburg. Greensburg was historically known for being a gathering spot for mem-
bers of the Revolutionary War and is composed of eight wards; most popularly, Bunker Hill, which got its name from the well-
known Battle of Bunker Hill, because of the frequent brawls which took place in Bushfield Tavern in the 1840's. Now,
the city of Greensburg has been deemed one of the fastest growing towns and was named one of the best places to retire
by US News and World Report in 2007. Westmoreland County is located in Southwestern Pennsylvania and is part of the
breathtaking Laurel Highlands. Sadly, amid the growth and prosperity among the twenty six townships and boroughs of
Westmoreland County, there are 37,978 people living below poverty, which is 10.4% of the county's population.

Since 1980, Westmoreland Community Action has helped struggling families in Westmoreland County obtain resources
to improve their standard of living and become more self-sufficient. Westmoreland Community Action provides housing
services, emergency assistance, mental health programs, employment programs, child development and other human
services. Westmoreland’s mission statement embodies the spirit of community action by: “strengthening communities
and families to eliminate poverty”, continues the agency’s dedication to assisting those in need, but also focuses on the
need for communities to do more to help the less fortunate in the county. WCA employs close to 240 people and operates
twenty-two community programs in the following areas:

- Housing Programs
- Early Childhood Education
- Emergency Services
- Financial Services
- Employment programs
- Mental Health Programs
- Community Services

Anually, Westmoreland Community Action Agency helps 900 residents each year living in Westmorland County.

Community Economic Development Tools in this Case Study

- Micro-enterprise and Business Development
- Commercial Development
- Environmentally Beneficial Project Development

Project Description
In 2009, Tay Waltenbaugh and his leadership team began looking for a social enterprise venture that would eliminate pov-
erty in the area by providing job skills training and placement. As WCA looked at 22 different types of projects it settled on
one that would invest in its community by eliminating blight and preserving environmental resources. After receiving $1.2
million dollars from the American Recovery and Reinvestment Act of 2009 (ARRA), WCA used a portion of those funds to
create Shop Demo Depot. Shop Demo Depot is a retail outlet for used building material. The operation recycles reusable
building materials from construction, remodeling and demolition projects. The project goals are to operate a tax paying
entity which hires within the community, particularly low-income residents, single heads of households.

This case study is about the development of a social enterprise venture used to fulfill the need of local job creation and community investment.

**Who Shop Demo Depot Targets**

Westmoreland Community Action serves the residents in twenty-six townships of Westmoreland County. Its programs are structured to meet the needs of low to moderate income people who reside in the townships. With unemployment in the area above 10% it is imperative that WCA create programs that focus on the unemployed. After considering many job creation options, Westmoreland Community Action and’s Shop Demo Depot project proved to offer both job training and job placement opportunities.

The agency designed Shop Demo Depot to divert 250 tons of building materials and waste plastic from local landfills each year, to use these waste materials in productive and commercially viable ways and to create and sustain an organization which provides a minimum of 36 jobs for low-income people. In addition to the jobs it has provided, more than half of those employed at the operation had minimal skills in the area of recycling and equipment operation, which opened the door for new training opportunities for low-income people in need of skill development.

Shop Demo Depot is a unique building deconstruction and material reuse business that recovers and recycles building materials then sells them to consumers and construction companies at affordable prices. Currently, Shop Demo Depot services Washington, Westmoreland, Green and Fayette counties in Pennsylvania. It accepts tax-deductible donations of surplus reusable building supplies from businesses, manufacturers and individuals for resale to the public. It serves as a collection and recycling center for waste plastic, which is then used to generate heat and electricity. Shop Demo Depot will be instrumental in preventing the 243 million tons of waste and recyclable items that end up in America's landfills. The operation will impact the environment significantly by reusing items like kitchen cabinets and counter tops, bathroom tile, sinks, doors, lumber, PVC pipes and many more items that are thrown out on a daily basis. Shop Demo Depot is a collaborative effort between three Community Action Agencies: Westmoreland Community Action Community Action Southwest and Fayette County Community Action Agency.

**The mission of Shop Demo Depot is:**

*To reduce landfill waste and promote the resale and reuse of goods, while financially supporting Community Action initiatives that help those in need.*

“Shop Demo Depot proves a significant value to our customers”, said Tay, “it diverts tons of building waste from landfills while providing our retail customers with access to affordable building supplies for new construction, rehab work and repairs, it’s a win-win operation.”

**Project Impact**

The project will provide 36 jobs and several contract opportunities which include the refuse and recycling of tons of building materials. The project also educated the community on reusable building material processing it helped the agency reach its goal to increase the number of jobs it provides for unemployed people within the community. It provided the social enterprise the organization was looking for and increased the agency's operating revenue. As a result of WCA's commitment to improve its community and capitalize on the increased number of homes being constructed in the area, it will remove reusable materials from 496 homes that were being constructed or razed. In turn, it will salvage 80% of reusable and recyclable items in buildings and resale them to consumers in need of lumber, gutters, fencing lighting and electrical fixtures, vinyl windows and many other items.

**Project Budget and Financing**

**Total Budget: $2,830,000**

- $330,000 Capital Investment of 43 CAA's
- $300,000 PA Dept. of Community and Economic Development
- $800,000 OCS grant
- $1.5 million Private foundations

Westmoreland Community Action Agency organized the Shop Demo Depot project as a nonprofit and is the managing partner with two other community action agencies, each possessing vast economic development experience. Fayette County Community Action Agency and Community Action Southwest contributed funding to make the initiative success-
ful. All partnering agencies have over 35 years of community action experience, a budget of $50 million and collectively serve more than 50,000 people per year. All three agencies along with the southwest Pennsylvania Community Development Corporation participated in this planning process.

Beginning with a business plan the three agencies and an experienced consultant developed a three year operational plan that would make the investment a viable social-enterprise that could be replicated, create jobs and eventually become profitable.

The project financing began with WCA committing $230,000 and CASA and FCCAA committing $50,000 each. A proposal was submitted to the Office of Community Services for $800,000 while simultaneously submitting proposals to a handful of foundations for $1.5 million. The enterprise is designed to be self-sufficient within four years of operation and will produce measurable mission-specific outcomes from its inception.

**Key Staff and Partners**
The success of the project was highly predicated upon the Shop Demo Depot employees and partners. The business employs three full time skilled staff and several partners. The staff collectively, has over 40 years of experience in the community development, construction and business development field. All the jobs created under Shop Demo Depot are skilled positions that pay living wages. The full-time positions and descriptions are as follows:

**Warehouse Manager:** The Warehouse Manager manages the Warehouse Workers, Drivers, De-construction Supervisors. The role of the manager is to ensure that all donations are picked up in a timely manner, handled appropriately and distributed as requested. Additionally, the manager oversees all warehouse inventory and schedules drivers for pick-up and delivery. Depending on experience this position pays above $18 per hour.

**Warehouse Worker**- Warehouse Workers are responsible for organizing warehouse items, receiving and loading items on trucks. Each Warehouse Worker has been trained in fork lift operation.

**Drivers**- The Shop Demo Depot Drivers are responsible for picking up and delivering the donations. The base rate of pay for each driver is $10.00 per hour.

**Sales Executives**- The sales executive’s role is to provide business awareness, by visiting area businesses, forging new partnerships, obtaining donors and building new relationships and strengthening the relationships that already exist.

Shop Demo Depot has also been successful due to its diversified partnerships that each bring a unique set of resources, experience and financial support.

84 Lumber
Lowe’s
Several private housing contractors
Community Action Southwest
Fayette County Community Action Agency

**Lessons Learned (Challenges)**
Shop Demo Depot was primarily funded with ARRA funds in 2009, so the sustainability of the project posed an initial concern. However, with the engagement of several corporate and local partners the project has sustained for two years. However, some lessons learned have been related more to the human capital needs than the tangible needs. The project received a large amount of media attention, which thankfully, created broad community interest and support. However, in the first year, the project only had funding for three positions, while the need for more staff to receive and process donations and stock the warehouse was surmounting on a daily basis. The primary lesson learned was to structure the start-up phase of the enterprise to include more funds for personnel.

A project of this size required heavy diversification of funding and of course, no two funding sources have the same funding use requirements. So setting up a funding plan with a strategic communication plan is necessary for a project of this size.

An additional challenge was the learning curve to help clients of the agency understand the concept of a social enterprise and how it is tied into the mission of the organization. Once the community began to see the benefit of the business and how it was providing jobs, helping the environment and providing new skill development for low-income people, they
began to connect the dots.

A business such as Shop Demo Depot can be replicated with some strategic development early in the process. Leaders of the agency, first started with a detailed business plan and put a strong emphasis on the financial and organizational capacity of the agency and its partners. It would need this, as it will acquire a blighted 23 acre site to house the operation. Hiring skilled staff with construction experience and management skills is key to the success of operating the retail site. Tay Waltenbaugh, who serves as the CEO has over 30 years of experience in the field and his Program Manager, Jack Brown has four years in the construction and management field. An agency taking on this type of endeavor should have some acquisition and development experience or have skilled consultants and professionals at hand to handle this process.

**The Future of Shop Demo Depot**

In addition to hiring additional staff and expanding into Washington, Green and Fayette Counties, Shop Demo Depot will also serve as a collection and processing facility to convert plastic waste into a clean energy source. This “new” fuel will be used in commercial and industrial hot water heating systems and in the generation of electricity. The site will serve as a demonstration site for an Eco Clean heating system, where the new technology will be displayed for people to learn about. Future plans for Shop Demo Depot are to start a deconstruction company which will remove salvaged building materials from buildings that are scheduled to be razed.

**How to find:**
Westmoreland Community Action Agency/Shop Demo Depot
Chief Executive Officer: Tay Waltenbaugh

Locations:
226 South Maple Ave
Greensburg, PA
Shop Demo Depot:
Same office
724-834-1260
Website: www.westmorelandca.org

**People Inc., Community Action Agency: Business Development and Microenterprise**

“Very few financial institutions combine business training and assistance with loan products. This is what makes our business owners successful.” –Robert Goldsmith Executive Director

**History and Background**

In Hayter’s Gap, a rural valley in Washington County, Virginia, a school principal, a general store owner and his school teacher wife formed the Hayter’s Gap Community Club to provide education, recreation, and day care for local residents. From that humble beginning in 1964 grew People Incorporated of Virginia, one of the largest community action agencies in the nation.

The club soon grew in scope when it attracted the attention of staff from the federal Office of Economic Opportunity (OEO), which had been recently created by President Lyndon B. Johnson as the primary tool in his “War on Poverty.” By December of 1964, the Hayter’s Gap Community Club had been re-named the Progressive Community Club and was chartered as one of the nation’s first community action agencies, designated to serve low income people throughout Washington County and the neighboring city of Bristol.

Today, what began as a small community based organization has grown into People Incorporated of Virginia, one of the Commonwealth of Virginia’s largest and most successful Community Action Agencies. Now serving Buchanan, Dickenson, Russell and Washington Counties and the city of Bristol, People Incorporated offers over 32 programs designed to, “give people a hand up, not a hand out.” Throughout its long history and to this day, the agency has worked to achieve the same mission: To provide opportunities for low-income people to improve their lives, their families, and their communities.

**People Incorporated’s mission is:** to provide opportunities for people to reach their goals in order to enhance their lives, their families, and their communities.
People Inc. is located in Abingdon Virginia, which is 133 miles south of Roanoke Virginia and is a small historic town known for its quaint artsy shops and esoteric museums. People Incorporated Financial Services (PIFS) which is a sub organization of People Incorporated, provides comprehensive training and technical assistance and loan products. It currently offers a cadre of courses, tradeshows, workshops and monthly networking events for local businesses under its BusinessStart program. To date, 1,043 have benefited from the services it offers. The project has lowered the area’s unemployment rate, as it has provided over 1,495 jobs.

**Community Economic Development Tools Found in the Case Study:**
- Business Development
- Micro-lending
- Non-government Partnerships and Collaboration

People Inc. is the only organization of its size and expertise in the rural area it serves, so it has gained a reputation as the “go to” agency for area businesses seeking technical assistance, loans, training and referrals. In 2009, 618 participants received Financial Literacy and Business training through the program.

Over the last year and a half, People Incorporated has expanded its entrepreneurial activities and credit literacy classes/workshops to non-traditional populations including high school youth and ex-offenders. People Incorporated’s business development and ex-offender programs have joined forces to provide workshops within the regional correctional facilities for individuals who are soon to be released from prison. By providing entrepreneurial encouragement to these two underserved populations People Incorporated has found the opportunity to foster a life-changing impact.

**Target Population**
Rural business owners lacked access to capital, due to limited resources in the areas of business planning and financial preparedness to obtain loans from mainstream banks or financial institutions. The rural area also lacked services and its residents were in need of jobs. People Inc., began its Business Smart program in 1992 focusing on providing comprehensive training and technical assistance and loan products. Since its inception the program has assisted 1,043 small business and provided 1,495 jobs. Due to its close proximity to a state prison facility, the area has a steady number of ex-offenders that make Ashland their residence. The agency partnered with the regional correctional facilities and began providing classes in the prison facilities.

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**Project Description**
In 1992 People Inc., realized that businesses in their rural business climate lacked access to capital due to limited resources in the areas of business planning and financial preparedness to obtain loans from mainstream banks or financial institutions. Residents were in need of jobs and the local economy was suffering as a result of high unemployment. People Inc., solved this problem by creating a subsidiary of People Inc.- People Incorporated Financial Services (PIFS). PIFS was created to help existing and new business owners become prepared to compete in the business world.

The BusinessStart Program teaches comprehensive training on the fundamentals of starting a business. In addition to the no-cost technical assistance training. Free courses offered are:
- How to Start and Operate a Business
- Growing Your Business/Marketing Strategy
- Financing/Marketing Resources
- Business Plan Writing
- NextLevel Business Training

People Incorporated has developed a blend of training and technical assistance tailored to educate and encourage entrepreneurs in rural communities, where they are and on their own level, with the goal of creating stable and profitable businesses.
**Project Financing**

- Small Business Administration
- Virginia Development of Business Assistance

**Project Challenges**

Many of the PIFS’ entrepreneurs have benefited greatly from the technical assistance provided by the program. For example, many do not have the adequate resources or technical expertise to create their own website or to pay for advertising. Social networks are used by two of four Americans and are an inexpensive marketing tool for small businesses. PIFS identified a need for curriculum to help entrepreneurs in this area. In partnership with the Virginia Development of Business Assistance (VDBA), local development authorities and Small Business Development Centers and the Virginia Tourism Commission, the Entrepreneur Express Workshops were created to provide training in social media fundamentals. These three hour workshops are held in regional facilities throughout Southwest Virginia with available computer labs. This training is particularly useful to participants because it is an effective use of Federal funding to increase access to broadband services in rural localities that are often isolated from the wireless access and benefits urban areas realize.

**Project Results**

Since 1992 the PIFS program has assisted 425 small businesses, which created 1,495 new jobs and has issued over 7.6 million in loan funds for businesses to start, sustain and or grow their business. Instructors have provided over 456 sessions of one-on-one technical assistance to entrepreneurs.

**How to Find this Agency:**

People Incorporated
Robert Goldsmith, Executive Director
1173 West Main St
Abington, VA
(276) 623-9000
www.peopleinc.net

**Resources for Human Development**

Resources for Human Development is a growing social service agency that manages $165 million in contracts in 11 states. The Philadelphia nonprofit serves people who are homeless, mentally ill, developmentally disabled and drug addicted.

The nonprofit has been starting forprofit businesses, and using the profits to serve more people. Executive director Robert Fishman and Stanley L. Shubilla, associate to the executive director, discussed the nonprofit's newest venture: a forprofit pharmacy.

Q: Why is RHD starting the for-profit SQA Pharmacy Services Inc.?
Fishman: RHD is facing a cutback in funds to take care of a number of needy populations. We are looking to be able to take care of those populations by entering into businesses, which can augment our ability to take care of the uninsured. We saw the closed-end pharmacy as one of a number of businesses that we could look at as an opportunity because we were giving that business to the private sector.

Q: How was the private sector doing?
Fishman: They were performing adequately, but they were falling short with mistakes and with lack of the quality we were looking for ... they are also taking a decent profit away from the nonprofit needs.

Q: Isn't there a risk to starting a new business?
Fishman: We have a 38-year history of starting businesses in the nonprofit and for-profit sectors ... we know there are risks, but we know how to run large and small businesses. We are currently running $165 million of contracts.

Shubilla: We were able to ensure we had a market sufficient to break even. That's about where we are ... It opened in September 2006. We're serving about 650 to 700 people. Within the first half of this year, we expect to see a profit ... We're now talking about going to the not-for-profit community and talking to them about a vehicle-leasing business. We wouldn't enter that business unless and until we had a sufficient number of nonprofits to join us.
Q: How does the SQA Pharmacy work?
Fishman: The pharmacy delivers the monthly drug needs for clients who live in a group home. And they are distributed by staff to the individual clients. These are consumers who are not free or capable of going to a pharmacy to buy their own drugs. They are dependent populations . . . We established an independent for-profit corporation that we have an interest in that is running the pharmacy. The nonprofit is not running the pharmacy.

Q: How much money did it take to start?
Shubilla: We received an equity commitment of $250,000 from our New Market Venture Capital fund, set up by the federal government. We were one of six for-profit entities to establish this fund in the country. We also got a $650,000 line of credit from Wachovia. The total was about $900,000. We’re not anywhere near utilizing our working capital line.

Fishman: We had a business relationship with Wachovia and they stepped up. We were able to secure an interest rate for this venture that was equal to what RHD was getting.

Q: How will you grow this?
Fishman: We’re going to start marketing outside of RHD to other nonprofits, assisted-living facilities, and small under-100 nursing homes. At the same time, we are beginning to serve units in 11 states. We’ve already started to serve a group home in Florida. And we are finalizing licenses for Tennessee, Massachusetts Connecticut, Delaware . . . We are also inviting inquiries from other nonprofits that want to use this system.

Q: What’s the significance of this effort for nonprofits?
Fishman: We control, and have been able to improve, the quality of the service. We can recapture ultimately 75 percent of the profit produced by the pharmacy and donate it back to nonprofit needs of the uninsured. We call this a crossover business. A portion will be used to address social needs without dependence on a taxing authority . . .

Nonprofits have always looked for tax dollars or donations dollars. This is a different path where nonprofits join together to run businesses, and they will own a portion of the business. Like any stockholder they will get an income if the venture does well . . . SQA may not use its profits other than fueling the health care needs of the community . . .

Q: How is this different from other nonprofits that have for-profit subsidiaries?
Fishman: The difference is we are allocating the profits for a broader social population and social needs, rather than RHD’s. . . . The percentage of donations given by a corporation’s profit is something like 1 percent. We are allocating 75 percent.

Q: How is this different from other nonprofits that have for-profit subsidiaries?
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Q: If you’ve been running for-profit ventures for 25 years, why aren’t you generating more money?
Shubilla: It’s only now reaching the level where we are going to start achieving some benefit . . .

Fishman: We were too busy growing the nonprofit . . . We have over $1 million to invest in these crossover businesses.

Shubilla: We’re not always looking to throw off profits. The industrial cleaning company we had employed 100 low-income people at its peak . . . If we could break even, that was a success. Sometimes it isn’t a cash profit. It’s a social profit.