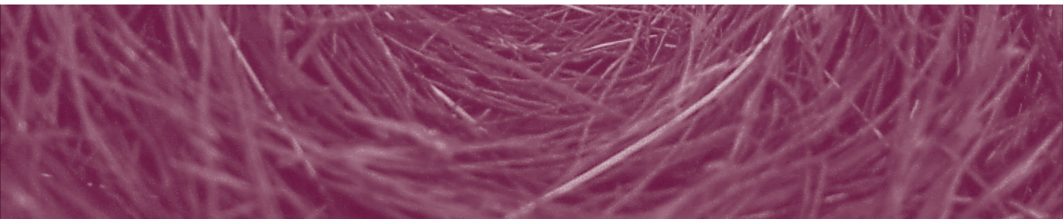
NESsT Practitioner Series

get ready, get set…

Lee Davis, Nicole Etchart, María Cecilia Jara & Joanna Messing

Starting down the road to self- financing



NESsT Nonprofit Enterprise and Self-sustainability Team

NESsT
Practitioner Series

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Starting down the road to self-financing

Lee Davis, Nicole Etchart,
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Abstract:

This interactive handbook focuses on the pre-planning stages that all nonprofits need to complete as they prepare to launch social enterprise activities. *get ready, get set...* guides the staff and board of nonprofit organizations through a series of exercises that helps them to assess their organizational and financial readiness for an enterprise activity, and to outline the values as well as mission and financial goals that they want to achieve through this activity. The handbook outlines a creative method for selecting an enterprise idea that meets both the core competencies and self-financing criteria of each organization. Once the idea is identified, the handbook guides the nonprofit organization through the steps of a pre-feasibility study, designed to quickly assess whether the idea is feasible and whether it will eventually meet the organization's goals. Designed specifically for nonprofit organizations, *get ready, get set...* builds the entrepreneurial capacity of nonprofit leaders and prevents organizations from potential mission drift.

get ready, get set... Starting down the road to self-financing

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NESsT does not undertake to update this publication.

Table of Contents

The *get ready, get set...* binder and Case Study of Community Vocational Enterprises (CVE) accompany this CD Rom under separate cover.

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Chapter 1:
Getting Ready

Objectives:

- to understand the purpose and objectives of this handbook,
- to understand how to use this handbook, and
- to assemble an Enterprise Committee to lead the process.

1.1 Purpose of *get ready, get set...*

For most nonprofit organizations, access to financial resources beyond project grants is particularly limited. In their ongoing search for secure sustainable sources of financing, some nonprofits are starting social enterprises (i.e., self-financing) in an attempt to generate additional sources of untied monies to supplement public and private donations. For many nonprofits, entering the marketplace means entering unknown territory, involving skills outside their professional experience. This reality presents a new set of challenges to nonprofit leaders who must prepare for the unique risks and demands of entrepreneurship, ensure that enterprise activities are used responsibly and without harm to the core mission and spirit of their organization, and guard the reputation and and values of their organization and the nonprofit sector more generally.

get ready, get set... is designed to assist the staff and board of nonprofit organizations at the early, "pre-planning" stages of social enterprise development. The process is designed to help nonprofits understand and prepare for the risks, demands and challenges of entrepreneurship before embarking on a journey for which they may be unprepared.

The primary purpose of *get ready, get set...* is to help nonprofits:

- **to stop** (i.e., to prevent those nonprofits that are not ready for self-financing to stop and reassess their situation); or

- **to go** (i.e., to help nonprofits that are ready for self-financing to refine their enterprise idea to achieve their financial and/or mission goals).

Much of *get ready, get set...* focuses on prevention – just as a roadmap is intended to help you find your way and prevent you from getting lost. This book is not intended to discourage or prevent innovation or entrepreneurship among nonprofit organizations. On the contrary, it is intended to help nonprofits prevent themselves from taking on more risk than they are prepared to manage. The potential risks encountered by nonprofits when using self-financing are numerous and oftentimes greater than the risks associated with starting a regular for-profit business (see Box 1-1). *get ready, get set...* is intended to help you recognize and prepare for these risks early in the process of social enterprise development.

An assumption made in this book is that the more you understand and anticipate the potential risks of social enterprise, the more likely you will be to succeed in reaching your goals for self-financing. Although there are never any guarantees – the world of enterprise is filled with surprises, unanticipated changes and chance – the process in *get ready, get set...* will hopefully help better position you and your organization for success.

get ready, get set... outlines a process for walking you through the "pre-planning" steps of social enterprise development (see next page). There are numerous other resources already available for assisting nonprofit organizations with the latter stages of business planning and enterprise management (some of which are listed in Additional Resources). *get ready, get set...*, however, focuses on the earlier stages of social enterprise development that are oftentimes overlooked and underestimated. Recognizing that some nonprofit organizations are more experienced with enterprise development than others, *get ready, get set...* begins at the very beginning. Some users may therefore choose to skip early steps in the process. However, we encourage you to remain true to the process outlined herein, as we have learned that the best strategy in managing the potential risks of enterprise development is to anticipate and prepare for them carefully.

BOX 1-1: KEY RISKS IN SELF-FINANCING

1. The risk of shifting focus and priority away from the mission of the organization to the enterprise activity (this is especially a concern if the enterprise is unrelated to your mission);

2. The risk of diverting nonprofit organizational resources (i.e., staff time and financial resources) away from your programs and to the enterprise;

3. The risk that the enterprise may not generate any profit (or only a limited one) for use by your organization toward your mission;

4. The risk of potential indebtedness or loss of limited financial resources in a failed or failing enterprise;

5. The risk of damage to your organization's reputation among stakeholders or the general public; and

6. The risk of over-extending or "burning out" staff with the added stresses and demands of starting up and managing a social enterprise.

At the end of the *get ready, get set...* process, you should be able to answer the following questions:
- is self-financing a goal our organization should pursue?
- are we ready to undertake self-financing?
- what enterprise idea(s) would be appropriate for us?
- which enterprise ideas have the potential to achieve our self-financing goals?
- should we dedicate more time and resources to explore our enter prise idea further?

We encourage you to remain true to the process outlined herein, as we have learned that the best strategy in managing the potential risks of enterprise development is to anticipate and prepare for them carefully.

1.2 Steps in the pre-planning process

STEPS IN THE PRE-PLANNING PROCESS FOR SOCIAL ENTERPRISE:

STEP 1: READINESS ASSESSMENT

Are you organizationally and financially ready for self-financing and social enterprise?

STEP 2: SELECTING AN ENTREPRISE IDEA

Which idea(s) best meets your criteria and core competencies?

STEP 3: PRE-FEASIBILITY ANALYSIS

Which of your social enterprise ideas have the most potential to achieve your self-financing goals?

The pre-planning process for social enterprise development outlined in *get ready, get set...* consists of three steps:

Step 1: Organizational Readiness Assessment

The focus of the readiness assessment step is to help you clarify the overall purpose and objectives of self-financing and to understand what internal support, financial and organizational capacity you already have to undertake a social enterprise. At this step, you will:

- learn what self-financing and social enterprise are, and the potential benefits, challenges and risks for your organization;
- determine whether self-financing complements the core values and overall strategic plan of your organization;
- establish clear goals and expectations for self-financing;
- develop a strategy to garner sufficient organizational support for your social enterprise idea(s); and
- assess whether sufficient organizational and financial capacity exists to undertake your social enterprise idea.

Step 2: Selecting an Enterprise Idea

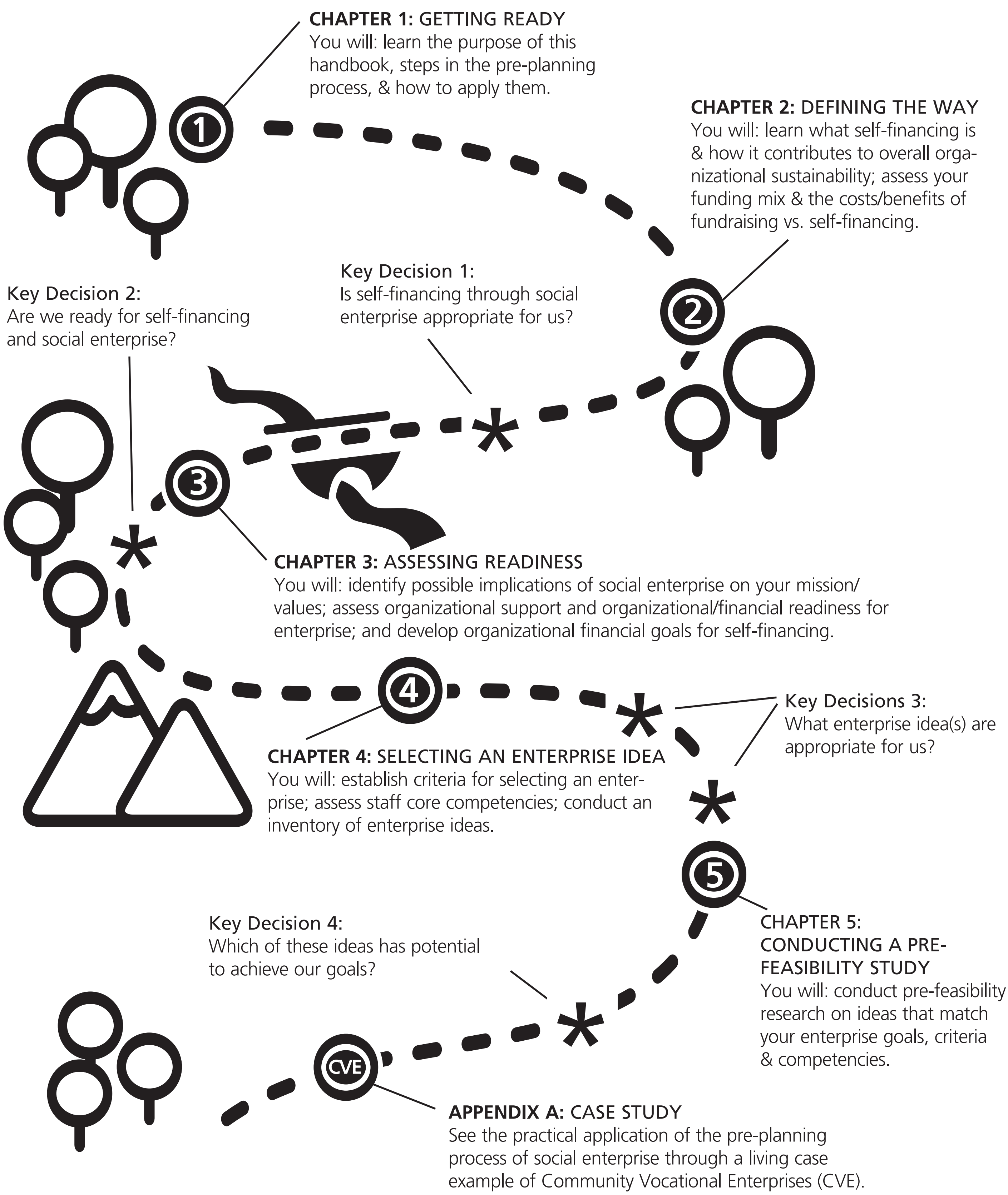
An important part of the organizational readiness step is to select a self-financing idea that meets both your mission and financial goals. Often organizations have many ideas of what they would like to pursue or what they are good at, but they don't have a clear methodology for narrowing down these ideas. At this step you will:

- identify the core competencies of your staff;
- clarify organizational criteria for self-financing;
- identify self-financing options/ideas, prioritize and select the 2 to 3 most appropriate for your organization.

Step 3: Pre-Feasibility Analysis

The focus of the pre-feasibility step is to help you to begin to assess the viability (and potential profitability) of your social enterprise ideas. A pre-feasibility assessment allows you to make quick calculations and decisions to determine whether the ideas are worth additional exploration (i.e., a full feasibility study) without investing significant time and resources at the outset. The pre-feasibility analysis helps you eliminate enterprise ideas that may not be profitable or that may not otherwise have the potential to achieve your goals.

A ROAD MAP OF THE *GET READY, GET SET...* PROCESS



1.3 Using *get ready, get set...*

1.3.1 Who should use *get ready, get set...*

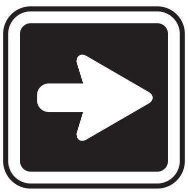
get ready, get set... is designed to assist nonprofit organizations that are considering using social enterprise as a means to achieve their self-financing goals (i.e., to further their mission and/or generate income to support their mission). This handbook is useful for a number of audiences:

- *nonprofit practitioners:* The primary audience of *get ready, get set...* is nonprofit sector practitioners – staff, board members, etc. – who can apply the pre-planning process to their own organization;
- *donors and investors: get ready, get set...* is also intended as a tool for donors and investors who are interested in learning more about social enterprise development so as to understand how best to foster such activity among the nonprofit organizations they support;
- *management and development consultants, trainers, scholars and students*: *get ready, get set...* is also a useful teaching, coaching, training or reference tool for those who provide assistance to nonprofit organizations and/or for trainers or educators in the nonprofit and business developopoment or management fields.

1.3.2 How to use *get ready, get set...*

get ready, get set... is a set that includes this CD Rom with Chapters 1-5, 38 Worksheets, and the Additional Resources section; a printed version of the CVE Case Study; and a three ring binder. We suggest that you print out the excercises in the CD Rom for use among the members of the Enterprise Committee. The binder will help you organize these worksheets as you go through the process.

Workbook Exercises:
This icon refers to a an exercise that you should complete for a given step in the *get ready, get set...* process. The number in the upper left corner corresponds to the Exercise number in the Workbook.



Pointers:
This icon refers to a practical example or advice that can help you apply a step in the *get ready, get set...* process to your organization.

The *get ready, get set...* process is designed around a combination of excercises and case examples:

- ***exercises:*** *get ready, get set...* includes numerous exercises intended to help you apply the real situation and data of your organization to each step of the pre-planning process. Not all exercises included in *get ready, get set...* will be relevant or applicable to all nonprofit organizations. Depending on the current capacity and experience or your organization, you can pick and choose what exercises to complete. However, we recommend that you not skip exercises assuming that they are not important for your situation without at least trying to complete them. Each exercise is intended to build on previous ones. Therefore, omitted exercises may only leave you with missing information and unanswered questions at the end of the process.

- ***pointers:*** throughout *get ready, get set...* you will find numerous short examples and boxes with pointers and hints on how to help you understand or apply a particular step in the pre-planning process;

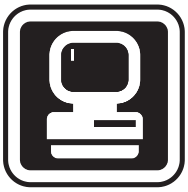
- ***caution points:*** throughout *get ready, get set...* you will find numerous caution points where we draw attention to an issue or potential problem to which you should give particular attention or care during the pre-planning process;

- ***case vignettes:*** The case vignettes included in the Case Study of *get ready, get set...* illustrate the practical application of each step of the pre-planning process through the real experience of Community Vocational Enterprises (CVE), a nonprofit organization in San Francisco, California (USA). The six case vignettes reflect the process used by CVE to assess the feasibility and launch a social enterprise. Vignettes 1-3 reflect CVE's process of pre-planning (parallel to the stages outlined herein). Vignettes 4-6 document the actual planning and start-up of one of CVE's enterprises. These latter vignettes are included to illustrate how the important decisions made during the pre-planning process effect the subsequent planning and start-up of an enterprise. For example, CVE developed a full feasibility study on one of its businesses but not on another, and this had implications later in the enterprise development process. You should refer to the vignettes to give ideas and guidance as you complete the exercises.

- ***additional resources:*** *get ready, get set...* includes a listing of other useful publications, organizations and websites for additional information on the pre-planning and planning processes for social enterprise.

Caution!
This icon draws attention to an issue or potential problem to which you should give particular care during the *get ready, get set...* process.

Case Vignettes:
This icon refers to a case vignette in the CVE Case Study that illustrates the practical application of *get ready, get set...* exercises. The number in the upper right corner corresponds to the referenced vignette.



Additional Resources:
This icon refers you to the Additional Resources section for additional information on a topic raised in the *get ready, get set...* process.

1.3.3 Establishing an Enterprise Committee

Neither the exercises in this book nor the pre-planning process should or could be completed by only one person in your organizaton. A critical part of the pre-planning process is garnering the necessary support within your organization to prepare for and launch your enterprise. Do not underestimate the political and practical aspects of this! Involving key stakeholders from the very beginning of the pre-planning process will have a direct and evident effect on the ultimate results of the process. Without the "buy-in" and support of key leaders and beneficiaries of your organization who possess the power, resources and influence needed to take the pre-planning of an enterprise to reality, the entire process outlined in *get ready, get set...* will all be for nought.

We suggest that you assemble a small "Enterprise Committee" within your organization consisting of key stakeholders (i.e., staff, board, volunteers, beneficiaries, clients etc.) who can together guide and go through the pre-planning process outlined in *get ready, get set...*

Mandate of the Enterprise Committee
The Enterprise Committee should be established with the support of both the executive management and board of your organization. And should be provided with both a budget to cover expenses related to completing the pre-planning process as well as the administrative support required to fulfill its tasks. Time should be budgeted within the workplan

CAUTION!
Without the "buy-in" and support of key leaders and beneficiaries of your organization who possess the power, resources and influence needed to take the pre-planning of an enterprise to reality, the entire process outlined in *get ready, get set...* will all be for nought.

of each staff Committee member to guarantee their participation is recognized as a priority and requisite of their regular work.

The mandate of the Enterprise Committee is to:

- clearly communicate the rationale and need for exploring self-financing and social enterprise opportunities for your organization;
- ensure the pre-planning process is undertaken with the full committment and support of key decisionmakers;
- ensure the pre-planning process is inclusive and transparent and allows for input and feedback from key organizational beneficiaries;
- ensure the process includes expertise needed for completing its tasks and making informed decisions;
- ensure that the outcomes of the pre-planning process are incorporated into a concrete plan of action and implemented.

1-1 **Workbook Exercise 1-1:** Identify the members of your Enterprise Committee to help guide your organization through the pre-planning process.

Membership on the Enterprise Committee

Ideally, the Enterprise Committee would include five to six people in order to ensure a well-balanced representation of opinions, skills and positions/levels within your organization. The Committee should include a "facilitator" or "champion," the executive director, a board member, a staff (or board) member with financial/business experience, a staff person with the potential to lead a future enterprise, a beneficiary/client, and a "critic" (i.e., someone who can play a critical but constructive "devil's advocate" role).

Convening the Enterprise Committee

The Enterprise Committee will need to meet on its own to organize the process, and to discuss progress made by the organization at each step. The Committee will be responsible for leading completion of the exercises among other stakeholders. Finally, the members will need to gather to analyze results of the exercises and to make the key decision of whether to move to the next step.

BOX 1-2: KEY DECISION POINTS IN THE *get ready, get set...* PROCESS

There are four critical points in the *get ready, get set...* pre-planning process where you will need to make important decisions. At these key decision points you may need to convene or consult with your organization's Board of Directors. The case examples and worksheets in *get ready, get set...* will assist you in gathering the necessary information that your Enterprise Committee and Board will need to make an educated decision.

KEY DECISION 1: Is self-financing for us? Will social enterprise help us to achieve our self-financing goals?

KEY DECISION 2: Are we ready for self-financing? Do we have the financial and organizational capacity needed?

KEY DECISION 3: What enterprise ideas match our mission and values, competencies and goals?

KEY DECISION 4: Is the enterprise idea feasible? Does it have the potenial to meet our goals?

1.4 Words of caution

There are a few important issues and words of caution that deserve mention before beginning the *get ready, get set...* pre-planning process:

> **BOX 1-3: WORDS OF CAUTION**
>
> 1. Don't be afraid of financials! They are a necessary and useful management tool -- and they are not rocket science.
>
> 2. Non-mission-related enterprises are typically more risky than mission-related enterprises.
>
> 3. Planning may be over-rated but it will -- without doubt -- help you anticipate and prepare for potential risks and keep you focused on your enterprise goals.

1.4.1 Overcome your fear of financials!

One primary purpose of *get ready, get set...* is to help you determine if your organization is financially ready for self-financing and if your enterprise idea is financially feasible. Many of us in the nonprofit world do not feel comfortable discussing or working on financials. However, as this book will illustrate, the financial concepts necessary for nonprofit management and social enterprise development are not "rocket science." Most of us deal with these concepts on a daily basis. Nonprofits do account for their spending and must keep a positive balance in their profit & loss statements in order to run their programs and cover their operating expenses. The main difference in *get ready, get set...* is that we are adjusting the financial planning process to the unique issues related to starting up or running a social enterprise.

The financial exercises in *get ready, get set...* are an integral part of the pre-planning process. Since one main reason for starting a social enterprise may be to generate income, it is critical to assess whether a particular enterprise idea has the potential of doing so – and, if so, how long it will take before it may generate a profit. It is also important to understand (and have in place) the finanial systems and tools to be able to monitor the performance of a new enterprise and to make critical business management decisions. The financial exercises and cases in *get ready, get set...* will help you to prepare for this. This book is designed for beginning-level users and should therefore be accessible to nonprofit leaders of varied financial experience and expertise. Although some of the financial concepts and exercises may be new, they have been developed by nonprofit peers for nonprofit peers and should therefore be more easily understood and relevant to your needs.

1.4.2 Non-mission-related enterprises are innately more risky!

Every nonprofit organization will have different criteria for assessing the effect of self-financing on its mission, programs and values. The ultimate goal of self-financing is to provide nonprofits an additional means of accomplishing financial- and mission-related goals. This could happen directly, through a mission-related social enterprise where some of the

goals of the mission are being met directly through the existence of the enterprise itself (e.g., employment generation). Or, it could happen indirectly, where surplus revenues from the enterprise are used to support mission-related programs or to cover organizational overhead costs.
A mission-related enterprise that is only breaking even may also accomplish mission-related goals (e.g., employment generation for your beneficiaries). However, a non-mission-related enteprise that fails to break even and continues to loose money (which is oftentimes common in the early years of enterprise start up) can be a potential drain on a nonprofit organization's limited resources. It is for this reason that although we do not *discourage* nonprofit organizations from pursuing non-mission-related enterprises, we also do not *encourage* it either. Simply put: starting down the road to self-financing with a non-mission-related enterprise is far riskier, particularly for the social enterprise novice.

Simply put: starting down the road to self-financing with a non-mission-related enterprise is far riskier, particularly for the social enterprise novice.

1.4.3 Planning may be overrated but its importance cannot be overstated!

Pre-planning is perhaps the most crucial stage in enterprise preparation and development. Many of the most strategic decisions affecting the future success of your social enterprise are made at this early stage of the process. Likewise, many obstacles faced by nonprofit leaders later in the start-up and management stages can be avoided when these issues are anticipated and addressed in the pre-planning stage.

Although planning is not a prerequisite for success, it can reduce the risks and help you better navigate the bumpy road of social enterprise development. Given that most nonprofit organizations have limited financial and human resources, it is oftentimes difficult to dedicate the amount of time and resources needed to plan – regardless of whether it is organizational strategic planning, enterprise planning or otherwise. We certainly do not advocate planning in place of action. It is true that many entrepreneurs succeed by simply trying many different enterprise ideas, failing, and trying again until they succeed. Regardless of how well you plan, you will never have all the answers and much will be left to chance, management decisions, leadership, troubleshooting, luck, and circumstance. However, most nonprofit organizations can not afford to face the unknown risk that many of their for-profit peers can when starting up an enterprise. The pre-planning and planning process of enterprise development allows nonprofits to buffer some of that potential risk.

The pre-planning process outlined in *get ready, get set...* builds upon itself: the organizational assessement step leads directly into the pre-feasibility step, which leads into the feasibility step, which leads then into the planning step, etc. Each step of the process requires a greater detail of information, and a greater committment of time and resources. The idea is to begin easy and small and, assuming the results are positive, to continue to the next level of complexity. Taking this approach, you can avoid wasting time and money by ensuring you embark on a social enterprise journey that is feasible and compatible with your goals, mission and core values.

Chapter 2:
Defining the Way

Objectives:

- to define self-financing and social enterprise,
- to understand how self-financing fits within your organization's overall sustainability strategy,
- to examine trends in your organization's financing mix,
- to asses the costs and benefits of self-financing versus fundraising strategies, and
- to establish goals for self-financing in your financing future.

Chapter 2: Defining the Way

BOX 2-4: TERMINOLOGY OF SELF-FINANCING

The following are just a few of the terms that have emerged to describe the entrepreneurial activities of nonprofit organizations. All are a sort of "hybrid" utilizing enterprising strategies to further a nonprofit (e.g., social) mission:

- affirmative businesses
- community-based businesses
- community wealth enterprises
- earned-income strategies
- income-generating activities
- nonprofit enterprises
- productive enterprises
- public-purpose ventures
- social enterprises
- social firmes
- social purpose businesses

For the purposes of *get ready, get set...*, we will use the terms "social enterprise" and "self-financing" interchangeably.

Before starting down the road to self-financing, it is important to stop, step back and think about where your organization is now, where it is going, and how self-financing could fit into your overall strategic plan to meet your organizational goals. This chapter is designed to help you learn more about what self-financing is and how it fits within the broader context of your organizational and financial sustainability.

2.1 Defining self-financing

There are numerous terms currently in use to describe the entrepreneurial activities of nonprofit organizations, including nonprofit enterprise, social enterprise, social purpose business, earned income, income generating activity, etc. (see Box 2-4) For the purposes of *get ready, get set...*, we use the terms "self-financing" and "social enterprise" to refer to enterprise strategies used by nonprofits to generate income and/or further their mission. Social enterprises can further a nonprofit mission directly (e.g., by providing employment or other benefits to your beneficiaries) or indirectly (e.g., by generating income that can be used to financial support your programs).

Self-Financing Methods
A variety of self-financing methods exist for nonprofit organizations. The types of self-financing activities addressed in *get ready, get set...* include (see Box 2-5, on the next page, for more explanation):
- membership dues
- fees for services
- product sales
- use of "hard" assets
- use of "soft" assets
- other investment strategies

Relatedness to Nonprofit Mission
Self-financing methods can be both mission-related and non-related. Some self-financing can be simply a direct extension of an existing program or activity (i.e., an organization begins to offer a new product or service to its existing beneficiaries); or can be one step removed (i.e., an organization begins to offer an its existing product or service to a new beneficiary or client). An organization can also decide to offer a totally new product or service to a totally new beneficiary or client. As Box 2-6 on the next page illustrates, the further the organization moves away from its original mission and constituency, the riskier the self-financing activity typically becomes. In these instances, the nonprofit runs an increased risk of moving away from not only its core mission and values, but also from its organizational capacity, expertise and experience.

BOX 2-5: METHODS OF SELF-FINANCING

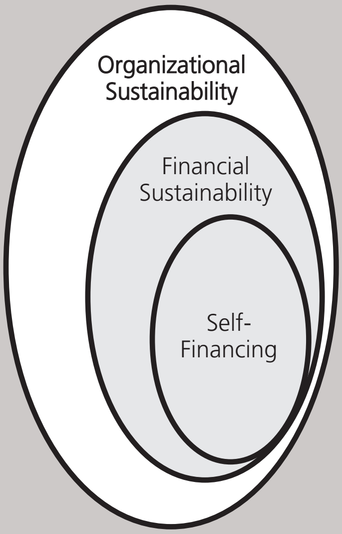
METHOD	EXAMPLE	PROFITABILITY / RISK
Membership Dues A fee collected from nonprofit members or beneficiaries in exchange for some kind of product or service or other benefit.	Your nonprofit provides a magazine to members and/or offers other membership services or products.	The difference between a donation and a membership fee is that the nonprofit provides something (product/service) in return. This is often the least time-consuming, lucrative and risky of self-financing methods.
Fees for Services Fees charged by the nonprofit in exchange for a provided service, oftentimes a service capitalizing on some existing skill or expertise of the staff.	Your nonprofit provides consultation services to individuals, businesses or government agencies.	The true profitability of services is often difficult to calculate as many are subsidized by donations/grants. Pricing structures may be such that paying clients "subsidize"non-paying or lower-paying clients (e.g., cross-subsidy). Services are often the most time consuming (but potentially lucrative) self-financing method.
Product Sales Selling products produced by or for the nonprofit's beneficiaries; reselling donated products; or producing and selling new products.	Your nonprofit sells its publications or products produced by your beneficiaries as part of an employment generation program.	Like sale of services, the costs of making the product are difficult to recover (if one includes labor) and they are therefore often subsidized by grants.
Use of Hard Assets Renting out real estate, space/facilities, equipment, etc. when not in use for mission-related activities.	Your nonprofit rents out its conference room space for trainings, workshops or meetings.	Hard assets can provide a stream of revenues while also appreciating in value (although they can also depreciate). Hard assets can also pose some risk as they must be maintained from wear and misuse.
Use of Soft Assets Generating income from nonprofit-held patents, licensing agreements, royalties for intellectual property, or endorsments.	Your nonprofit endorses a product of a corporation, lending your name in exchange for a royalty fee.	Use of soft assets can be lucrative but can be highly risky, particularly for the nonprofits organiation's reputation and public image.
Investment Dividends Dividends from active or passive investments of financial resources (e.g., savings, endowments, reserve funds, etc.).	Your nonprofit invests its savings in high-yield interest-bearing accounts or mutual funds.	Few nonprofits have reserves or excess income, but some invest program funds not currently in use on a short-term basis. Stock-market investment can be highly risky, but maximizing income from interest-bearing accounts can be low risk.

BOX 2-6: SPECTRUM OF SELF-FINANCING ACTIVITIES. Related to Mission ⟷ Unrelated to Mission.

PROGRAM ACTIVITIES	EXISTING PRODUCT/ SERVICE EXISTING CUSTOMERS	NEW PRODUCT/ SERVICE EXISTING CUSTOMERS	EXISTING PRODUCT/ SERVICE NEW CUSTOMERS	NEW PRODUCT/ SERVICE NEW CUSTOMERS
Services specified in the nonprofit charter, bylaws, mission	Earned income directly from the nonprofit's program activities	New products/services offered to the existing nonprofit beneficiaries	Extension of the mission-related activities of the nonprofit to new paying clients	New product/service to new paying customers (unrelated/ancillary business activities)
Example Environmental Education nonprofit offering public education seminars and publications.	**Example** Environmental Education nonprofit charges fees for its educational seminars and charges for its publications.	**Example** Environmental Education nonprofit opens vegetarian restaurant and environmental products shop.	**Example** Environmental Education nonprofit offers cleaner technology seminars/consulting to businesses.	**Example** Environmental Education nonprofit opens website design studio.

2.2 Assessing your organizational sustainability

BOX 2-7:
ORGANIZATIONAL SUSTAINABILITY



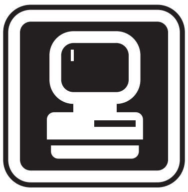
Organizational sustainability is not strictly a financial consideration. Financial sustainability is but one of several factors contributing to an organization's overall sustainability. Likewise, self-financing is but one factor contributing to the overall financial sustainability of an organization.

Self-financing should not be considered a separate, isolated financing strategy for a nonprofit organization. Self-financing is but one contributing factor to an organization's overall financial and organizational sustainability. As a result, the process of preparing and planning for self-financing can not take place in lieu of or separate from an overall strategy to develop the organizational sustainability of a nonprofit. Before even approaching the starting point of the self-financing pre-planning process, you must identify and understand both the internal and external factors affecting your organization's sustainability. Likewise, you need to assess you broader financial situation and all financing/fundraising options before investing the time and resources needed to define and develop a self-financing activity.

It is important to first define the context of self-financing and how it fits within a broader strategy of organizational sustainability for your nonprofit organization.

When first asked the question "What makes your organization sustainable?," what do most people in your nonprofit organization respond? Typically individuals will focus on financial issues. "Money," "grants," "donations," "sufficient financing" are the most typical responses. However, organizational sustainability refers to a much broader issue of an organization's ability to fulfill its mission in an on-going, effective manner. If your organization were financially "rich" (i.e., it had all the resources it needed to continue its work) would it automatically also be sustainable? Paula Antezana, a former NESsT Board member and Director of the Center for Organized Participation at the Arias Foundation in Costa Rica, and currently an independent consultant, defines organizational sustainability as "the capacity of [nonprofits] to consolidate and enhance their interaction with society to fulfill their mission."[1] Note this general definition does not even include a reference to financing. Antezana uses the word "capacity" to illustrate that sustainability is a dynamic concept that is based on "an aggregate value of the activities carried out by [nonprofits], including both their internal efficiency and their ability to connect with their surrounding environment."

Sustainability is therefore not an end in itself, but rather an ongoing process that moves beyond the strictly financial realm to take into account a series of factors, including (but not limited to) garnering sufficient financial resources. This is a critical point to understand before continuing to use *get ready, get set...* Our focus in this handbook on issues of financing and self-financing should by no means imply that a nonprofit can address the issue of sustainability without addressing the myriad of factors that play a role beyond simply garnering sufficient funding or financing.



[1] See Paula Antezana, "Sustainability and the Role of Self-Financing," *NGO Venture Forum: Lessons in Self-Financing from the International Gathering*, NESsT, Budapest, 1999, pp. 23-30.

What are the other factors that contribute to a nonprofit organization's overall sustainability? In Box 2-8, we identify 12 key factors that contribute to a nonprofit's overall organizational sustainability. This is not an exhaustive list but is a useful guide for nonprofit leaders. Although it is challenging for nonprofit organizations (particularly new or small ones) to have all of these capabilities in place, they should be aware of them and have a "sustainability plan" that assesses their current status and a strategy for developing weak areas.

Developing an organizational sustainability plan goes hand and hand with developing an organization's strategic plan:

- a **strategic plan** defines the way an organization will fulfill its mission, taking into account both its internal and external situation at any one time (usually a three to five year period).
- a **sustainability plan** defines how the organization will carry out its strategic plan in a sustainable manner. It includes short, middle and long-term components for becoming financially sustainable.

BOX 2-8: KEY ELEMENTS IN SUSTAINABILITY

A nonprofit organization cannot address the issue of sustainability without addressing the myriad of factors that play a role beyond simply garnering sufficient funding or financing.

Identity: A clear vision, mission and values	Management ability: The existence of systems of strategic planning, evaluation, monitoring and control
Good internal governance: A measure of the nonprofit's "internal democracy," decision-making should involve all stakeholders and focus on the intended target population	Strategic thinking: Engage in permanent analysis of environment and self-evaluation, and have knowledge of its practical and strategic priorities, necessities and niche
Resourcefulness: Possibilities for innovation, creativity, risk assumption, and knowledge of loss of market.	Ability to renovate: Skill to learn continuously, foster culture of change and be flexible
Impact: Generate added value, create a social base, fulfill its mission according to its values and make its work seen. "In the end this gives the nonprofit legitimacy in its field."	Transparency and accountability: Verify fulfillment of its objectives, values, principles and decisions; also makes known its procedures and results not only internally, but to target population and general public
Ability to relate to its environment: Skill to know and analyze the actors, forces, movements and arenas round it; when possible, to establish dynamic relationship with its surroundings.	Advocacy skills: Ability to negotiate, articulate and propose.

Adapted from Paula Antezana, *The Bases for NGO Sustainability in Central America*, Fundación Arias, San José, Costa Rica, 2000, pp. 35.

According to *The Bases for NGO Sustainability in Central America*, published by the Arias Foundation, a sustainability plan is "a set of complimentary strategies based on the core values and core competencies which allows an organization to forge its sustainability in accordance with a strategic vision."[2] A sustainability plan is dynamic and addresses both internal and external issues that affect a nonprofit's ability to achieve its mission in a sustainable way.

Workbook Exercise 2-2: Conduct a sustainability survey for your organization.

BOX 2-9:
CONDUCT A SUSTAINABILITY SURVEY FOR YOUR ORGANIZATION

Use the Sustainability Survey to quickly assess the sustainability of your organization against 12 key criteria.

1. Copy and circulate the Sustainability Survey to members of the Enterprise Committee and at least 10 other beneficiaries (e.g., board members, staff, volunteers, etc.).

2. Collect and tally the results. What percentage of responses were strong? average? weak? In what areas is their general consensus? In what areas are there widely divergent opinions?

3. Although not scientific, the results can be used to spur discussion within the Enterprise Committee about the overall "health" of your organization and how self-financing goals can help strengthen areas of weakness. Also, results can help gauge whether it is indeed a good time to pursue self-financing or whether other urgent issues require more immediate attention.

This handbook does not go into the details of how to develop a sustainability plan. However, we suggest that you refer to other publications designed to help nonprofits develop broader strategic and sustainability plans (see Additional Resources). The process of *get ready, get set...* assumes that your organization has already done this and you are ready to assess your readiness for self-financing.

2.3 Assessing your financial sustainability

Diversity
Flexibility
Longevity
Quantity

As with organizational sustainability, financial sustainability means a great deal more than simply having a lot of money. Financial sustainability is the ability of your organization to secure a steady and diverse stream of revenues that allow it to sustain your mission-related work and impact. Key to financial sustainability is having a diversified funding base that relies on different sources and types of funding, and ensuring that some of these funds are guaranteed in the long run. Nonprofits need flexible, untied funding that can be allocated for activities that are not (or can not be) funded by donations/grants. Nonprofits may need grant funding to launch new and innovative projects or continue existing ones. But you also need funds for your core expenses and organizational development. And, ideally, you should have excess funds that you are able to use to reinvest and secure your future.

There is no single financial formula, model or scheme applicable to the needs of all nonprofits. Much depends on an oganization's mission, size, contacts/networks, etc. However, the general precepts of diversity, flexibility, longevity and quantity apply to all organizations:

- **diversity:** nonprofits need financial resources that are diverse in both their type (i.e., appropriate to the financial needs and stage of development) and source (i.e., foundations, individuals, etc.);

- **flexibility:** nonprofits need financial resources that are "untied" and can be easily moved/allocated to cover financial priorities;

- **longevity:** nonprofits need financial resources that are available for an extended period of time to allow the organization a continuity and ability to plan strategically and long-term;

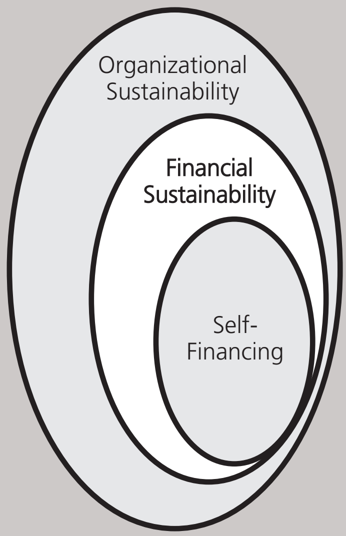
- **quantity:** nonprofits need financial resources sufficient to meet their capital needs and savings and/or reserves to provide cash-flow security from year to year.

2.3.1 Diversification/Dependency

Is your organization dependent on any one type or source of financing? The following two exercises are designed to help you answer this question by examining your current financing mix.

Financial sustainability is the ability of your organization to secure a steady and diverse stream of revenues that allow it to sustain your mission-related work and impact.

BOX 2-10:
FINANCIAL SUSTAINABILITY



Financial sustainability is but one of several factors contributing to an organization's overall sustainability.

Workbook Exercise 2-3: Composition of your current funding sources.

Workbook Exercise 2-4: Examine the financial diversification of your organization.

2.4 Fundraising vs. self-financing

Workbook Exercise 2-5: Assess the costs and benefits of fundraising versus self-financing.

It's important for you to be aware of the general costs and benefits of each type of financing so you can consider where best to place a priority of your time and resources.

> BOX 2-11:
> CALCULATE THE COST OF A GRANT?
>
> Have you ever stopped to think for a moment about one of the grants you have received and how much it cost you to "earn" that grant?
>
> Income from grant
> Expenses to obtain grants
> *1. Personnel (to identify, write a letter of inquiry, follow-up and cultivation, prepare proposal, meet with donors, report, etc.)*
> *2. Travel & Communication with donor*
> — *3. Supplies and copies*
>
> Income over expenses
>
> Gain or loss?

Once you have a clearer idea of your current financing mix and the role that self-financing has or might play in it, it's important to also think about the costs and benefits of "self-financing" versus other "fundraising" approaches. This exercise is complex, since each financing strategy has both financial and non-financial rewards and costs. It is never easy to anticipate all the issues that might arise while implementing a particular financing strategy.

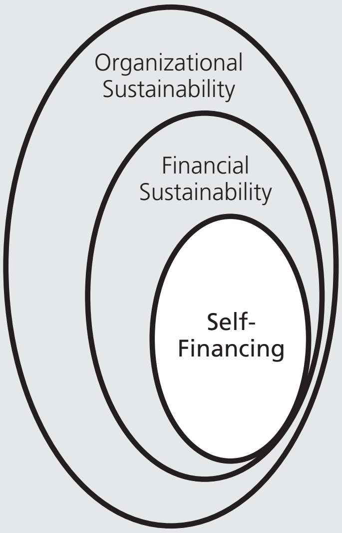
For most nonprofits, a considerable amount of organizational resources and staff time are spent on fundraising. A great deal of time can be dedicated to tasks associated with researching donors, sending letters of inquiries, arranging meetings, preparing grant proposals, maintaining communication and writing donor reports. Likewise, self-financing is an extremely time-consuming financing strategy. It entails a great deal of pre-planning and preparation, determining adequate quality and pricing for the service or product, developing a business plan, securing the necessary start up funding, responding to legal and other regulatory requirements, and then working hard to start up or expand the enterprise and ensure that it eventually covers its costs and/or begins to yield a "profit."

Where the "fundraising" and "self-financing" strategies tend to differ, however, is in the kind of resources they yield. In the case of grants, the resources are often tied to specific projects and don't allow for a great deal of flexibility or administrative/institutional support. This type of funding tends to be short-lived. In the case of individual donations, the moneys tend to be more flexible and longer-term, but it requires having the institutional capacity to build a broad database of committed donors. This is often challenging in societies where philanthropy is limited and organizations have little know-how in this area. In the case of self-financing, the funds generated tend to be more flexible and long-term. Some enterprises also may accomplish the dual objectives of generating revenue and helping further the organization's mission. However, the use of market-based strategies can also pull nonprofits away from their mission, or require a set of skills and competencies that you don't have within your organization. In addition, use of enterprise activities is also subject to changes in the market and economic conditions.

It is important to reinforce the point that self-financing is not intended to replace philanthropic support from other donors. Instead, self-financing is one additional opportunity for nonprofits to generate a portion of their own resources and complement funding from other sources. So, the question is not if one is better than the other; rather, what mix of each is the most appropriate for your organization, your needs and goals.

2.5 Defining a role for self-financing

BOX 2-12: SELF-FINANCING



Self-financing is but one of several strategies that nonprofits can use to generate income and diversify their financing mix.

In the previous sections of this chapter, you have defined what self-financing is, its context within overall organizatonal sustainability and financial sustainability. At this point it is important for you to consider the general question: What role would you like self-financing to play in ensuring a more sustainable future for your nonprofit organization?

Organizational Sustainability
Refer back to the results of your sustainability survey. What role do you believe self-financing could play in your overall organizational sustainability plans? Has self-financing been built into your strategic plan? into your sustainability plan?

Financial Sustainability
Refer to Exercise 2-4 and reflect for a moment on your current financing mix. Now use Excercise 2-6 to envision how you would like your financing mix to look in five years. What role does self-financing play in your financing future? Has self-financing been built into your future financing plans?

Self-financing
Now use Exercise 2-7 to asses how you believe self-financing could affect your sustainability.

Workbook Exercise 2-6:
Define a role for self-financing in your future financing mix.

Workbook Exercise 2-7:
Assess how self-financing could effect your sustainability.

KEY DECISION POINTS IN THE *get ready, get set...* PROCESS

KEY DECISION 1:
Is self-financing for us? Will social enterprise help us to achieve our self-financing goals?

Now that you have completed the exercises in this chapter, you are ready to decide whether self-financing is the financial sustainability strategy you want to pursue.

Gather with the Enterprise Committee to discuss and decide this before continuing to the next chapter.

Chapter 3:
Assessing Readiness

Objectives:

- to understand the implications of self-financing for your mission and core values,
- to assess organizational support for self-financing among your stakeholders,
- to assess your organizational readiness for self-financing,
- to assess your financial readiness for self-financing, and
- to define a clear rationale and organizational/financial goals for self-financing.

Chapter 3: Assessing Readiness

Building a strong case for self-financing within your organization takes time and considerable self-reflection. Gaining the support and buy-in from key stakeholders is one of the most critical preconditions for success on the road to self-financing. Gaining this support requires that a strong rationale be made for why self-financing is important to your organization's overall strategy (as we began to explore in Chapter 2). To gain support the Enterprise Committee must ensure key stakeholders that self-financing will neither compromise your organization's mission and core values nor its organizational or financial integrity.

A clearly articulated rationale and argument for why self-financing will further promote the mission and core values of your organization is a critical precondition for success.

The exercises in this chapter will guide you through a process of:

- assessing your organization's overall "readiness" for self-financing in four areas (see Box 3-13): mission and core values; organizational support; organizational capacity; and financial readiness;
- defining and articulating a clear case and rationale for self-financing; and,
- setting realistic goals for self-financing based on your readiness and rationale.

CVE-1 & 2

The first and second vignettes in the Case Study illustrates how Community Vocational Enterprises (CVE) assessed its readiness for enterprise.

BOX 3-13: ASSESSING READINESS FOR SELF-FINANCING

To fully assess your readiness for self-financing you will need to examine your organization in four key areas:

MISSION AND CORE VALUES Anticipating and preparing for the potential implications of self-financing for your mission and core values.	**ORGANIZATIONAL SUPPORT** Assessing support for self-financing among your key organizational stakeholders (i.e., staff, board, members, donors, etc.)
ORGANIZATIONAL CAPACITY Assessing whether your organization has the sufficient skills, experience and capability to undertake self-financing.	**FINANCIAL READINESS** Assessing whether your organization has sufficient: financial health, stability financial, untied funding and financial systems needed to undertake self-financing.

3.1 Assessing implications of self-financing for your mission and core values

As we discussed in Chapter 1, the mission and core values comprise the soul of a nonprofit organization and are its most unique and valuable assets. As a result, it is critical that any decisions about whether or not to undertake self-financing be measured against your mission and values.

Perhaps the greatest single difference between self-financing and fundraising is the impact that these strategies have on an organization's mission and values. Unlike grants and donations, income from self-financing is oftentimes not seen as "charitable." Self-financing involves entering the marketplace and engaging in "commercial" activities. Not all self-financing activities are directly related to the mission of the organization. By its very nature self-financing requires entering a territory that many nonprofits know little about and often regard with mistrust and fear. It is important for nonprofits that are considering self-financing to know and recognize this dilemma and to be conscious of it from the very beginning. Being conscious of this potential dilemma will help to ensure that self-financing does not pull your organization away from or compromise your mission and core values.

Self-financing requires entering a territory that many nonprofits know little about and often regard with mistrust and fear.

BOX 3-14: EXAMPLE: IMPACT OF SELF-FINANCING ON CORE VALUES

Our Mission: To employ our clients (mentally-and physically-disabled adults) in social purpose businesses that generate income and pay them a fair wage so that they may support themselves and lead productive and healthy lifestyles.

OUR CORE VALUES	Potential Impact of Self-financing: Does self-financing potentially **enhance** or **threaten** this value?
1. Human dignity	**Enhances:** By employing our clients and selling their products self-financing upholds human dignity.
2. Truth	**Neither**
3. Fairness	**Either/Both:** By becoming more sustainable we can further our mission to provide employment for the homeless; but we might have to lay off employees or freeze wages if sales drop.
4. Transparency	**Enhances:** Running a business will require us to have our finances in order and to make them readily available.
5. Responsiveness to our clients' needs	**Threatens:** Client needs might be placed secondary to the needs of the business under certain circumstances.

Workbook Exercise 3-8: Assess potential implications of self-financing on your mission and values.

3.1.1 Addressing Ethical Dilemmas

Understanding the unique ethical dimensions of enterprise activities is also especially important in assessing your readiness for self-financing. Your self-financing activities can be paralyzed by internal debate if your organization is not prepared to anticipate and resolve potential ethical challenges that may arise from your use of self-financing. As values-driven and mission-oriented organizatons, we must be very careful to manage our commercial activities as transparently and fairly as possible, always placing our nonprofit mission and values first. We must maintain the trust placed in us by our beneficiaries, donors and the public at large. Maintaining this trust is paramount and should govern all decisions and actions we make in the marketplace.

As values-driven and mission-oriented organizatons, we must be very careful to manage our commercial activities as transparently and fairly as possible, always placing our nonprofit mission and values first.

In 1999, NESsT published the first code of ethics especially for social enterprise. *Commitment to Integrity: Guiding Principles for Nonprofits in the Marketplace*[1] is a set of principals and standards to help nonprofit leaders recognize and better prepare themselves for the ethical dimensions of entrepreneurial activity. *Commitment to Integrity* outlines principles in four primary categories to which nonprofits should remain committed when entering the marketplace:

- **commitment to mission and values:** organizations need to place their mission and values above all other considerations.

- **commitment to transparency:** organizations need to maintain and make available clear financial records, which separate social enterprise activity from programs.

- **commitment to accountability:** organizations need to ensure that their social enterprise is legally and ethically accountable.

- **commitment to fairness:** organizations should follow fair and ethical employment and vendor practices.

Workbook Exercise 3-9:
Ethical dilemmas:
What do you do?

Workbook Exercise 3-10:
Develop ethical guidelines for self-financing and specific actions for practicing them.

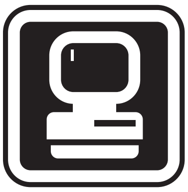
Even if your organization has already adopted a general code of ethics, it is still important to ensure that your code is sufficient to addresses the unique ethical dilemmas of using enterprise activities.

Exercises 3-9 and 3-10 will also help you answer the following questions:

- What are the potential ethical dilemmas that could arise for your organization? how can you anticipate and prepare for them?

- Do you already have standards and systems in place for addressing the unique ethical dilemmas that may arise in self-financing?

As with all nonprofit codes of ethics, the guiding principles you established in Exercise 3-10 are self-regulated and are only useful to the extent that your organization applies and respects them.



[1] See the "NESsT Publications" link at www.nesst.org for information on ordering a free copy of *Commitment to Integrity*.

is a short case example illustrating that “staying close to mission” can be the best strategy for avoiding mission drift.

3.1.2 Preventing Mission Drift

Many nonprofit organizations fear that when starting self-financing activities they will “drift” away from their mission and core values.

When a self financing activity is planned carefully, taking into account possible mission risks, the likelihood of mission drift decreases. To follow is a short case example illustrating that “staying close to mission” can be the best strategy for avoiding mission drift.

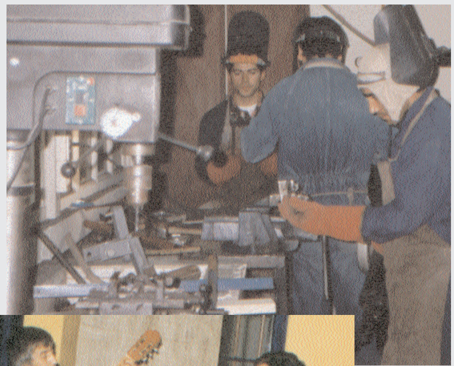
BOX 3-15: CASE EXAMPLE: Preventing “Mission Drift”

CIEM Aconcagua
(San Felipe, Chile)

The nonprofit organization CIEM Aconcagua is a community development organization in Chile that supports development of micro-enterprise, the preservation of the environment and promotion of local culture and the arts. As is the case with many nonprofits in Chile, CIEM has limited access to grants and relies heavily on self-financing as a key source of financing. A large component of CIEM's self-financing is derived from contracts with the government to provide training and consulting to small entrepreneurs and young people. In addition, CIEM runs a series of capacity-building courses in the arts and trades for young people as well as for the general public. Although some of these courses are subsidized through government grants, CIEM charges fees to recover costs and generate income.

In 1997, given the available space and in-house skills of its trade staff and students, CIEM decided to begin selling wood and wrought iron furniture on a custom-made basis, drawing clients who valued its workmanship and reputation. However, by 1999, CIEM realized that this was not an appropriate self-financing activity as they were barely able to meet the costs of producing the furniture and were in fact *losing* money. The pro-blem was that these products required a level of in-house skill that the Center did not have. CIEM is a training center and therefore many of the participants in their courses are apprentices that do not have the skills needed for the kind of quality product expected by customers of custom-made goods.

Jorge Razeto, CIEM’s founder and executive director, realized that expanding from training to product-making had been a mistake because it moved the organization away from its true mission (e.g., to provide capacity building in the arts and trades). When Jorge examined the financials for the training workshops and consultancies, he realized that CIEM was in a much better position to recover its costs and even make a surplus from these activities. He and his staff then evaluated each of their self-financing activities and realized that this logic held consistently true: those activites that were not directly related to CIEM’s mission-related programs were less likely to generate a surplus of funds. For example, the CIEM café was not a revenue generator because the CIEM staff that managed it knew little about the restaurant business. More lucrative for CIEM would be to sell the café to a restaurateur and rent out the space to her to generate a steady stream of income. Meanwhile, CIEM’s cinema and art gallery were covering costs as they required minimal maintenance and offered a service in an area in which CIEM staff had professional expertise (and personal interest and commitment).



“...those activites that were not directly related to CIEM’s mission-related programs were less likely to generate a surplus of funds.”

CIEM therefore learned that it was better to keep its self-financing activities close to its mission in order to both generate income and prevent “mission drift.”

3.2 Assessing organizational support for self-financing

BOX 3-16: GARNERING SUPPORT FOR SELF-FINANCING

- talk with everyone; don't be secretive
- clear rationale; be prepared to clearly articulate how the enterprise will further your mission
- cite examples of success
- set realistic objectives; need to prove the model
- identify key supporters on staff and board
- build overall trust

For some nonprofit organizations using self-financing, one of the greatest threats to success comes not from outside but from within the organization itself. Many nonprofits fail to recognize early in the process the importance of organizational "buy in" or support for both the idea and goals of self-financing. It can not be said enough times how important it is to involve key stakeholders from your organization in the earliest of conversations about self-financing. Without this early involvement and support, whatever self-financing plan will ultimately face resistence, regardless of how well-intentioned or well-planned. Box 3-16 suggests ways to garner support for self-financing among your stakeholders.

Much of the concern and resistance to self-financing within nonprofit organizations is based on initial, oftentimes uninformed myths or stereotypes about the place of enterprise activities within the nonprofit sector. Your Enterprise Committee needs to prepare in advance to address these concerns and myths with information and rationale to convince stakeholders of the benefits of self-financing for your organization. Box 3-17 outlines some of the myths surrounding social enterprise. Exercises 3-11 and 3-12 are designed to help you identify and preempt some of the philosophical and practical concerns that stakeholders in your organization may raise.

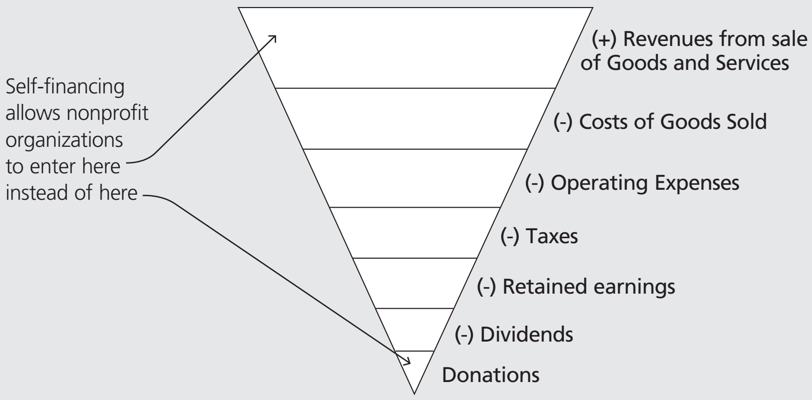
Box 3-18, offers an inspiring view of self-financing which you might want to share with those who are wary of entering the marketplace.

Workbook Exercise 3-11:
Assess preconceptions about self-financing in your organization

Workbook Exercise 3-12:
Assess support for self-financing within your organization

BOX 3-18: AN ALTERNATIVE ENTRY POINT

One inspiring way to view the opportunity of self-financing among nonprofit organizations was suggested by NESsT Board of Director Philip Collyer. Rather than ask for corporate or individual donations – which comes from whatever money may be leftover after taxes are paid and profits distributed – self-financing enables nonprofits to do business with the (much larger) marketplace for mission purposes.



BOX 3-17: TOP TEN MYTHS AND REALITIES ABOUT SELF-FINANCING*

Gaining support of key organizational stakeholders requires overcoming the many myths that exist about enterprise activities in the nonprofit sector. Many people's fears are unfounded but nonetheless persist due to the general lack of information available or due to a predisposed position against enterprise in the nonprofit sector. To follow is a list of some typical "myths" -- and "realities" associated with each. It is important that members of your Enterprise Committee familiarize themselves with these issues to prepare themselves to dispell potential fears or misperceptions as you move through the pre-planning process.

Myth	Reality
"Conducting business activities is not appropriate for nonprofits."	Enterprise activities are a widely accepted and used strategy of nonprofits worldwide. In most countries, income from enterprise constitutes a significant portion of overall nonprofit financing.
"Conducting business activities is illegal for nonprofits."	Laws vary from country to country but few disallow nonprofits from engaging in some form of enterprise activities.
"Business is too risky for nonprofits."	All enterprise requires a certain level of risk as success is not a guarantee. But you can define an enterprise that corresponds to a risk level with which you and your organization are comfortable. Also, remember fundraising entails risks as well.
"Our beneficiaries won't like it."	Beneficiaries may not like it if they do not fully understand the rationale and how enterprise can further your mission and contribute to the overall financial health of your organization.
"We can't do it...we don't know how to make business."	If you are not able to identify an enterprise idea that makes use of in-house experience and skills, you can bring in outside expertise to augment this. Also, business skills can easily be learned!
"Business will distract us from our mission."	If you are aware of this possibility ahead of time and prepare for it, it is unlikely that you will be distracted. Also, when related to the mission, self-financing will increase your attention to it.
"Our donors won't like it."	In fact, many donors like the fact that their grantees are working to generate some of their own income. And, self-financing can help you leverage new grants.
"There's nothing we could do to make money."	You don't know until you try. Most nonprofits underestimate their own skills and the value of their work.
"We (or someone else) already tried and it doesn't work."	Every case is unique. Most entrepreneurs try numerous business ideas before finding a winner.
"That works in the USA but not here . . . "	Many of the most innovative cases of self-financing are from places where the regulatory environment and access to philanthropic support is the least favorable.

* Selections adapted from Jim Masters, *Profit Making for Nonprofits and Social Enterprise: A Tool Kit*, 1999, pp. 19.

3.3 Assessing your organizational capacity for self-financing

For many nonprofit organizations, the challenge of starting up or expanding a self-financing activity has less to do with organizational support than with capacity. Some nonprofits may have unanimity among stakeholders that self-financing is a worthwhile pursuit to further their mission but may overestimate their own ability to fulfill their self-financing goals.

Assessing your organization's capacity for self-financing entails examining the skills, experience and capabilities you have within your organization to reach the organizational and financial goals you have set for self-financing. Box 3-19 demonstrates the four areas of organizational capacity of the readiness quadrant shown in Box 3-13 (page 28).

Workbook Exercise 3-13:
Assess your organizational capacity to undertake self-financing.

The first vignette from the CVE Case Study illustrates how CVE assessed its capacity to launch a new social enterprise (page 4).

BOX 3-19:
ASSESSING YOUR ORGANIZATION'S CAPACITY FOR SELF-FINANCING

ORGANIZATIONAL CULTURE	**STAFF CAPACITY**
INFRASTRUCTURE CAPACITY	**STRATEGIC CAPACITY**

3.4 Assessing your financial readiness for self-financing

Financial Health/Stability
Financial Autonomy
Financial Systems

In Chapter 2 we examined the overall financing mix of your organization and how self-financing could contribute to your organization's overall plan for financial sustainability. However, more difficult to answer is the very practical question of whether your organization is financially prepared to start down the road to self-financing. There are several financial reasons why a nonprofit should not consider self-financing activities. For example, if an organization is currently in debt, undergoing cash flow problems, or recently launched another resource-intensive fundraising campaign, it is perhaps not a good time to consider self-financing. Self-financing is not a short-term, "quick fix" financing approach. Self-financing requires a certain degree of financial stability

BOX 3-20: QUICK QUIZ
How would you evaluate the overall financial status of your organization?
(Check the box above the answer that best reflects your response).

☐	☐	☐	☐	☐
VERY GOOD "We do not have financial problems and feel financially secure."	GOOD ENOUGH "Basically, we have enough funding to support our main activities, but lack some financing."	UNSTABLE "Many of our activities are experiencing financial difficulties."	POOR "We can hardly maintain our basic activities/ projects because of insufficient funding."	VERY POOR "We are on the verge of financial collapse."

If you responded "unstable," "poor," or "very poor," it is unlikely that your organization posesses the financial health necessary to start up a social enterprise and you may want to consider whether it is truly the right time to be considering launching or expanding the activity.

Exercises in this section draw from materials developed by Cynthia Gair and Julia Jones of the REDF (www.redf.org).

and considerable patience to recognize a payoff. Assessing the true financial preparedness of a nonprofit for self-financing is therefore an integral part of the readiness assessment process.

This section will help you to assess your organization's financial readiness for self-financing on three levels:

- **Financial Health/Stability:** Self-financing requires that a nonprofit be in a relatively "healthy" financial situation as the potential benefits of self-financing may not be recognized for a year or more. Self-financing may also initially lose money or require a high degree of up-front financial investment. Is your organization currently in a financially stable position? What are the prospects for your financial stability in the coming year? Is your organization indebted? Is cash flow a significant problem?

- **Financial Autonomy:** Self-financing requires that a nonprofit have a certain degree of financial flexibility/autonomy to either llocate/invest financial resources for short- or long-term use and to respond to capital needs as the self-financing develops and grows. What is the nature of your current sources of financing? What portion of your current financing is "restricted" (i.e., designated for a particular project, expense or term)? What degree of flexibility to you have to allocate or reallocate funds as needs arise? What kind of financial "cushion" do you have to protect yourself against fluctuations in donor financing? or to meet immediate cash flow needs?

- **Financial Systems:** Self-financing requires that a nonprofit have in place financial reporting systems that will allow it to easily assess the financial situation of its enterprise(s) in an accurate, regular and timely manner in order to better inform financial planning and other decisionmaking. How sophisticated are the financial systems within your organization? Do you have the staff and technological capacity to input and report on the performance of a self-financing activity separate from that of your nonprofit organization?

This chapter will help you collect the necessary information to evaluate your financial health in these three areas. We recommend that the Enterprise Committee first work with your organization's financial staff when responding to the various worksheets and then work as a group to assess overall financial health.

3.4.1 Financial Health/Stability

First, take the "quick quiz" (see Box 3-20) on financial health to guage your overall feeling about the financial health of your organization. In Chapter 2, we examined your level of financial diversification. To follow is a series of exercises that you can use to evaluate your financial health in more detail.

Ideally, your organization already has the capacity to generate financial

BOX 3-21: FINANCIAL STATEMENTS
INCOME STATEMENT AND BALANCE SHEET

1. INCOME STATEMENT
The income statement shows what your organization and/or business has earned or lost over a specific period of time. It is also sometimes called a "profit and loss statement."

Income Statement Information:

- **Income** is also known as revenue or sales. Income is the money one receives from or is owed by its customers.

- **Expenses** are costs of running an organization or business. Expenses reflect the money used to provide the goods or services that are sold to customers.

When revenues exceed expenses for a nonprofit, this is called having a "surplus". In a business venture, this difference is called a "profit".

2. BALANCE SHEET
The balance sheet provides a financial picture of your organization and its business activities as of a specific date. It lists the assets, liabilities and equity.

Balance Sheet Information:

- **Assets** are resources that the organization owns, including: cash, accounts receivable, grants (that have been received and/or promised), land, property and equipment.

- **Liabilities** are what the organization owes others including: loans outstanding, and bills that are due.

If the value of current liabilities is more than current assets, the organization may be having trouble meeting existing obligations. Even if the value of assets is high, a source of cash must be available to finance a self-financing activity.

statements (i.e., income statement and balance sheet, see Box 3-21) that will provide the data to evaluate your financial health. If you do not have financial statements available to answer the questions, attempt to compile the information from other sources using Worksheets 3-14 to 3-17.
By performing simple calculations with data from these financial statements about your revenues, expenses, assets and liabilities, you can assess your financial readiness for self-financing.

If your organization's revenues have exceeded expenses and/or its assets exceed its liabilities and it has had an overall positive and/or growing fund balance in the past three years, you are in relatively strong financial health and in a good position to undertake self-financing. If this is not the case, you should try to assess what the causes of the difficulties and weaknesses in your financial health are and what needs to be corrected to remedy them. Having a negative balance one year might not be a problem if you have revenues from previous years. However, a negative balance for two or more years can be a cause for concern. It is therefore important to examine your financial statements for several years.

Workbook Exercises 3-14 to 3-17:
Complete an income statement (revenues and expenses) and a balance sheet for your organization (assets and liabilities). Use the discussion questions to assess your overall financial health. Use Worksheet 3-17 to calculate your "fund balance."

Although financial autonomy may not be the deciding factor of whether or not you should undertake self-financing, it is an important indicator of an organization's overall financial health.

3.4.2 Financial Autonomy

The concept of financial "autonomy" is an important one for nonprofit organizations considering self-financing. The lack of financial autonomy itself can be a motivation for a nonprofit to try to generate more income for themselves through self-financing. And while a low level of financial autonomy may not be the deciding factor of whether or not you should undertake self-financing, it is an important indicator of an organization's overall financial health. The concept of financial autonomy is a difficult one to define as autonomy can mean so many things to different organizations (see Box 3-22 for one theoretical definition). Financial autonomy is equally difficult to measure, however some financial calculations can provide you with an indication of the level of flexibility/autonomy your organization enjoys:

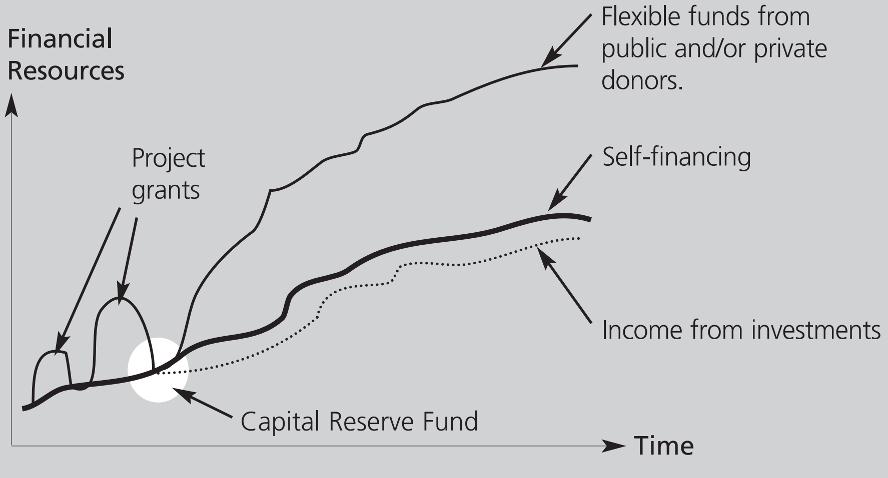
- **dependency:** In Chapter 2 you examined your funding sources, the financial diversification of your organization, and your relative dependence on anyone or more of these sources (see Exercises 2-3, 2-4). Reliance on only one or a few funding sources can decrease your financial auto-nomy since their disappearance can easily place your organization in a vulnerable situation. A healthy mix of funding sources, on the other hand, can contribute greatly to your financial autonomy.

- **restricted funding:** Using Worksheet 3-14 you calculated a percentage of your revenues that is "restricted funding" (i.e., designated by donors for a specific purpose only). Has this percentage changed dramatically over the last three years? This is also a useful indicator of your overall financial autonomy in terms of your flexibility to allocate resources freely and to purposes/priorities you identify.

- **reserve funds:** Autonomy can also be "measured" by looking at an organization's overall preparedness to adapt to unexpected fluctuations in its financial situation (e.g.,

BOX 3-22: FINANCIAL AUTONOMY: What does it mean?

In their 1989 book *Towards Greater Financial Autonomy,** authors Fernand Vincent and Piers Campbell defined financial autonomy as a 13-step process over the course of 10+ years whereby a nonprofit organization gradually increases its self-financing income to a point (i.e., between 40-60% of overall financial resources) thereby reducing dependency on project financing. Grant funding is not eliminated but becomes increasingly more flexible (i.e., not tied to individual projects) and the nonprofit builds a "capital reserve fund" which provides both investment income as well as a cushion against unanticipated or urgent cash needs.



* Adapted from Fernand Vincent & Piers Campbell, *Towards Greater Financial Autonomy,* IRED, Geneva, 1989, p.52.

from loss of a donor or cash flow problems). Whether your organization has “reserve funds” to provide a financial cushion for such fluctuations or for other strategic needs is an important indicator of autonomy.
Do you have reserve funds available? if so, for how many weeks or months would your organization be able to operate using these reserve funds alone to cover expenses?

- continuity: What percentage of your financing is secure for more than one year (e.g., a multiple-year grant from a donor)? This question also helps guage the level of financial security/autonomy you have in order to plan from year to year.

While fund accounting is a useful tool for nonprofits to budget and track expenses for individual projects, there are some limitations when trying to apply this system directly to social enterprise activities.

3.4.3 Financial Systems

Many nonprofit organizations design their financial statements and systems for project-based funding (i.e., “fund accounting”) where separate records are kept for each individual project or program of the organization (see Box 3-23). This approach usually reflects the type of financing nonprofits receive (e.g., grants and donations) from different sources. While fund accounting is a useful tool for nonprofits to budget and track expenses for individual projects, there are some limitations when trying to apply this system directly to social enterprise activities.

The second vignette in the Case Study explains the process of how CVE prepared its financial statements for social enterprise.

The example “Social Enterprise Financial Statement” in Box 3-24 is designed for a nonprofit organization that has a self-financing or business activity. The key difference between a “traditional” nonprofit financial statement (see Box 3-23) and that of a business financial statement is that the former doesn’t sufficiently differentiate the revenues and expenses of the business from those of the other nonprofit projects. This makes it very difficult for the organization to assess the individual performance of a self-financing activity (i.e., is it losing money? covering costs? generating surplus revenues?) or whether the business activity is actually being “subsidized” by other project income of the organization.

When a nonprofit organization’s self-financing income constitutes a relatively small portion of its overall financing, the need to separate the accounting from that of the overall organization is not as important. However, once an organization decides that self-financing will become a significant portion of its income, it is important that these two types of income and two types of expenses be separated so the financial statements can be more accessible, performance more easily interpreted, and used as planning and decision-making tools.

The traditional nonprofit financial statement (see Box 3-23) is helpful to analyze whether income will cover your expenses during a given period of time. It allows you to know, for example, your net income at the end of the year and what you will have to carry over for the following year. Nonprofits use the income statement (alongside their balance sheet showing accounts payable and receivable and other assets and liabilities) to give a general indication of their financial position. However, for a nonprofit that is practicing self-financing, the traditional statement is not

BOX 3-23:
TRADITIONAL NONPROFIT FINANCIAL STATEMENT
Agency ABC

Income	Budget	Actual
Grants	$100,000	$60,000
Sales	50,000	110,000
Total Income	**$150,000**	**$170,000**
Expenses		
Salaries	$125,000	$177,500
Rent	12,000	12,000
Utilities	2,400	3,000
Administrative and Office	3,600	6,000
Office Overhead	5,000	5,000
Total Expenses	**$148,000**	**$203,500**
NET INCOME	**$2,000**	**($33,500)**

Income This format does not distinguish between the income of the social enterprise and that of the overall organization.

Expenses This format does not distinguish between expenses directly related to the social enterprise and those associated with running the organization and/or its programs.

It is therefore difficult for Agency ABC to see the financial performance of the social enterprise apart from that of the overall organization.

Discussion Questions:
1. Why is Agency ABC losing money?

2. What is the impact of the enterprise on Agency ABC? (is it funding the agency? is it being subsidized by the agency?)

3. What other information do you need to answer these questions? Compare with Social Enterprise Financial Statement in Box 3-24.

adequate because it does not allow you to see whether the self-financing activity is truly meeting its costs. It simply lumps together all organizaional revenues and costs, making it difficult to "isolate" those specifically related to the self-financing activity. This is not the case with the social enterprise financial statement (see Box 3-24) that shows the relationship between the business revenues and costs and separates them from other program subsidies and expenses of the organization.

An income statement is also used to make projections and is especially helpful when deciding whether or not to launch a particular business. In the case of Agency ABC, reformating the income statement in the social enterprise format allows us to see inaccuracies that were not evident in the traditional income statement. When isolating the true income/costs of the enterprise, it seems that the business is actually losing money once operational expenses are calculated. However, these numbers only give

BOX 3-24:
SOCIAL ENTERPRISE FINANCIAL STATEMENT FORMAT
Agency ABC

What is different from the traditional nonprofit budget format in Box 3-23?

	Budget	Actual
Sales	$50,000	$110,000
Costs of Goods Sold (COGS)		
Direct Labor	35,000	97,500
Materials for office production	1,200	3,600
Total COGS	**36,200**	**101,100**
GROSS PROFIT	**$13,800**	**$8,900**
Operating Expenses		
Rent	6,000	6,000
Utilities	1,200	1,800
Other Overhead	2,500	2,500
Total Operating Expenses	**9,700**	**10,300**
NET INCOME (before subsidies & program expenses)	**$4,100**	**($1,400)**
Program Subsidies	**100,000**	**60,000**
Program Expenses	90,000	80,000
Salaries	6,000	6,000
Rent	1,200	1,200
Utilities	2,400	2,400
Administrative and Office Overhead	2,500	2,500
Total Program Expenses	**$102,100**	**$92,100**
NET INCOME (after subsidies & program expenses)	**$2,000**	**($33,500)**

COGS include all the expenses needed to make a product or offer a service (see Box 3-25 for a definition of COGS).

Gross profit shows the value that the enterprise is earning over the COGS. Gross profit is calculated by subtracting COGS from total sales. It is called "gross profit" since other expenses still need to be deducted in order to arrive at "net profit."

Operating Expenses are different from "overhead" in the traditional nonprofit definition as they are only the costs associated with the selling and administration of the enterprise itself.

Net Income or "net profit" is the amount remaining after all expenses have been subtracted from sales/revenue. However, in the nonprofit case we also need to distinguish between the net income before and after subsidies (grant/donations) are subtracted in order to "isolate" the financial health of the enterprise from that of the overall organization.

Discussion Questions:

1. Why is Agency ABC losing money?

2. What is the impact of the enterprise on Agency ABC? (is it funding the agency? is it being subsidized by the agency?)

3. What else can you tell about the social enterprise from the financials?

clues as to what is truly happening. When investigating more deeply, we can see that the production business (copying and collating papers) of Agency ABC has indeed increased it sales but meanwhile tripled its costs. To cope with the demands of increased sales, Agency ABC had to pay employees overtime. As a result, increased sales did not necessarily result in increased profit. In addition, Agency ABC moved one nonprofit program staff member to work on the business. This staff change resulted in less fundraising and, subsequently, less grant income. Agency ABC therefore also needs to be aware of how the business activity is affecting

Workbook Exercise 3-18:
Use Worksheet 3-18 to re-engineer your financial statements for social enterprise.

BOX 3-25: COST OF GOODS SOLD (COGS)

The social enterprise financial statement in Box 3-24 isolates the costs of producing and selling a given product or service from the costs associated with administering/operating the business generally. The Cost of Goods Sold (COGS) for an enterprise are the costs directly related to making and selling the product or service that is sold (e.g., personnel/labor, materials, production operations and overhead, etc.) during a given accounting period.

Workbook Exercise 3-19:
Use Worksheet 3-19 to assess your overall degree of readiness.

KEY DECISION POINTS IN THE *get ready, get set...* PROCESS

KEY DECISION 2:
Are we ready for self-financing? Do we have the organizational capacity needed?

Now that you have completed exercises in all four areas –1) mission and culture, 2) organizational support, 3) organizational capacity, and 4) financial readiness– you are ready to decide whether to begin considering possible self-financing strategies for your organization. Exercise 3-19 will help you compile the results of your assessment and to make your decision.
If you are ready, please proceed. You should also have a clear idea of those organizational areas which you will need to continue developing as you complete your pre-feasibility and feasibility studies.

3.5 Establishing mission and financial goals for self-financing

Having completed a general assessment of whether your organization is financially ready for self-financing, the Enterprise Committee should work to define your mission and financial goals for self-financing:

- **Mission goals:** It is important from the beginning of the process to define goals for your self-financing activity apart from merely financial ones (see below) in order to relate the self-financing more directly to the mission of your organization. How do you hope the self-financing will further the mission of your organization either directly or indirectly?

- **Financial goals:** Most likely, one of the goals for your prospective self-financing activity is to generate income for your organization. However, it is important for you to come to agree and be more specific and clear as to what exactly you hope to accomplish financially for your organization through self-financing – and by when (i.e., in the next year? in 3 years?).

3-20

Workbook Exercise 3-20:
Use Worksheet 3-20 to help define your mission and financial goals for self-financing, to prioritize your goals, and to articulate a rationale for each.

BOX 3-26:
ESTABLISHING MISSION AND FINANCIAL GOALS (AND A RATIONALE) FOR SELF-FINANCING

It is important to articulate the goals of your social enterprise and how it will benefit your organization:

Examples of mission goals for self-financing:

- to expand X program/service
- to generate X new jobs
- to increase awareness of our work among X group
- to continue X project that we have been unable to fund through donations/grants

Examples of financial goals for self-financing:

- to generate 20% of our organizational operating budget from self-financing in three years
- to cover our administrative/office expenses
- to generate X amount of untied income per year
- to pay for X staff position

Example of a rationale for self-financing:

Our organization is highly dependent on project funding provided by donors. While important, this funding alone limits our ability to develop as an organization and sustain our mission-related work. Self-financing will provide us with some financial flexibility to grow and develop as an organization, support our mission, and contribute to our long-term financial and organizational sustainability.

As you consider goals for your self-financing activity, remember that self-financing is not the "panacea" – you should be realistic and conscious of both the potential benefits and limitations of self-financing. Box 3-27 outlines some of the most commonly-cited benefits and limitations.

BOX 3-27:
BENEFITS AND LIMITATIONS OF SELF-FINANCING

The following is a list of some of the commonly-cited benefits (+) and limitations (-) of self-financing cited by nonprofit organizations from around the wold.

BENEFITS OF SELF-FINANCING

1. Increased income	If/When a self-financing activity is "profitable."
2. Diversified revenues	Self-financing can help diversity your funding base and help reduce dependence on fluctuating funding sources.
3. Greater flexibility	Unlike many grant sources, self-financing income is typically "unrestricted."
4. Improved overall organizational performance	Financial and managerial discipline required for self-financing can also improve overall nonprofit efficiency, planning and systems.
5. Positive impression on donors	Many donors like to see that a nonprofit is making a concerted effort to generate some of its own resources and diversify income.
6. Strengthened board	Self-financing can help engage board members and make use of their experience and skills in the business world.
7. Increased visibility	Marketing for self-financing can also help reach new audiences for the nonprofit and its mission.
8. Increased self-confidence	Nonprofit leaders and staff gain confidence from the realizing they have the ability to generate income for their mission.

LIMITATIONS OF SELF-FINANCING

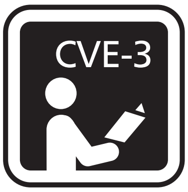
1. Not appropriate for all nonprofits	For whatever reason (financial, idealogical, capacity, etc) self-financing may not be appropriate for you.
2. It's not easy	If making a profit were easy, everyone would already be doing it.
3. Not for nonprofits that are in a financial crisis	Self-financing requires a certain level of financial stability and expertise that not all nonprofits have.
4. Not a way to get "quick money"	Self-financing is a long-term financing strategy; it may take several years before a financial return is realized.
5. Not risk free	Any kind of business activity is vulnerable to economic conditions, market fluctuations, etc.; and, if not well managed can place at risk a nonprofit's reputation and/or financial integrity.
6. There is no recipe	Self-financing is very specific to each nonprofits capacity, expertise, mission, skills, etc. There is no formula for success.
7. Can cause internal conflicts	Self-financing activities can cause a variety of internal organizational cultural dilemmas and or ideological conflicts with your mission.

Chapter 4:
Selecting an Enterprise Idea

Objectives:

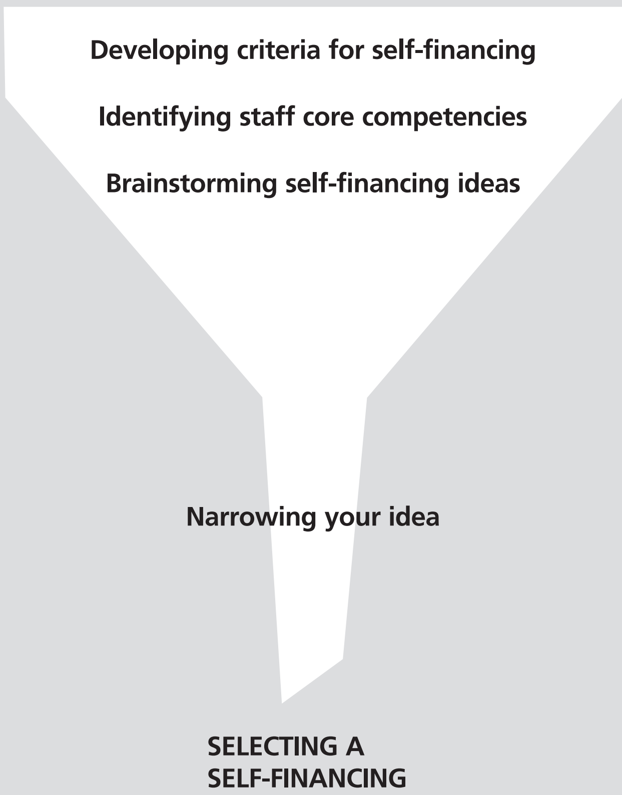
- to establish criteria for self-financing,
- to assess your core competencies as a staff,
- to generate an inventory of existing and new self-financing ideas, and
- to evaluate and prioritize self-financing ideas against established criteria and competencies.

Having defined organizational and financial goals for self-financing, and having garnered support for self-financing within the organization, you are now ready to define a specific self-financing strategy. In this chapter you will consider all of the strategies that you are currently doing and then brainstorm as many new ideas as possible as to what you could do. You will then weigh each idea against a set of criteria that you will develop for self-financing as well as against your organization's strengths and weaknesses and the staff's core competencies. By so doing, you can narrow down the possibilities to one or two realistic options that you will then carefully assess through a pre-feasibility study.



The third vignette in the Case Study illustrates how CVE used the process described in this chapter to select several enterprises ideas.

BOX 4-28:
THE SELF-FINANCING FUNNEL
The process for selecting a social enterprise idea



4.1 Developing criteria for enterprise ideas

In Chapter 3 you developed both financial and non-financial goals for self-financing and prioritized them (see Exercise 3-19). You now need to develop a set of financial and non-financial criteria for evaluating potential enterprise ideas. The criteria you select will be important to help ensure that whatever enterprise ideas you consider for your organization will be compatable with your mission and values (see Exercise 3-10), your current financial situation, your staff competencies and passions, your organizational "culture" and your overall organizational capacity and ability to carry out the potential enterprise.

It is very important that you spend time on gaining some organizational concensus on enterprise criteria in order to avoid disagreement and debate later in the enterprise development process.

In establishing your enterprise criteria, the primary questions you should consider are: on what issues are we not willing to compromise in order to pursue an enterprise idea? what are the preconditions of an enterprise idea before we would consider pursuing it? In establishing enterprise criteria you might consider the following:

- criteria to ensure that your *mission and values* are not compromised (e.g., does the enterprise need to be mission-related?);
- criteria articulating what you expect from an enterprise on purely *financial terms* (e.g., what financial resources are you willing to commit to the enterprise? does the enterprise need to be profitable?);
- criteria regarding *staff role* in relation to the enterprise (e.g., does the enterprise need to be based on existing staff competencies/skills/ experience? do staff need to feel excited or passionate about the enterprise idea?)

It is therefore very important that you spend time on gaining some organizational concensus on these criteria now so to avoid disagreement and debate later on in the enterprise development process.

4-21

Workbook Exercise 4-21:
Use Worksheet 4-21 to develop criteria for selecting a self-financing idea for your organization.

BOX 4-29:
EXAMPLE OF ENTERPRISE CRITERIA
Criteria for choosing a self-financing idea should be concise and achievable. For example:

"An enterprise idea appropriate for our organization should:
- not compromise our mission and values;
- use the existing skill sets of our staff but also allow for easily expanding these skill sets;
- entail limited level of risk;
- demonstrate (in financial projections) the potential for significant profit; and,
- excite staff and coincide with their interests."

4.2 Assessing staff core competencies

Human resources are the key asset of any organization or enterprise. Launching and running an enterprise requires qualified, skilled staff with a high level of commitment and motivation. Knowing the core competencies of your existing staff can be helpful both in identifying potential enterprise ideas as well as narrowing ideas down to those most feasible for your organization. Staff core competencies will also tell you what human resource assets you already have – what your staff members know, what experience and skills they possess, what they are able to do and what they enjoy or care most about. Assessing staff core competencies will also help you later when developing a business plan for your enterprise, since it will help you to identify what additional human resources you will need to acquire and/or how to allocate current staff resources in order to launch your enterprise.

Workbook Exercise 4-22:
Use Worksheet 4-22 to assess the core competencies (knowledge, skills and personality traits) of your organization's staff.

Use Worksheet 4-22 to help guide your staff assessment. If your organizations is not large, you may wish to conduct your assessment including all staff members. For larger organizations, starting with your Enterprise Committee, summarize the key staff competencies of the organization. You may still benefit from conducting an assessment of each individual staff member, as the process may allow them to feel more connected to the idea of self-financing activity – and you may be surprised what hidden human assets you have within your organization that could be useful in defining your enterprise strategy.

BOX 4-30:
ASSESSING STAFF CORE COMPETENCIES

An example of staff core competencies:

Knowledge/experience
- nonprofit management
- nonprofit sector theory
- start-ups
- nonprofit development
- business planning and development
- accounting & finance
- publications production
- marketing

Skills
- graphic design
- writing
- research
- case research
- languages
- training and teaching
- managing staff
- time management

Personality traits/interests/passions
- interpersonal communication
- motivating
- flexible, adaptable
- very driven and hard working
- implementing ideas into effect
- working closely with people we trust
- cooking

4.3 Taking an inventory of enterprise ideas

The art of brainstorming is based on the fundamental principle of generating as many ideas as possible without any judgement or preconceptions. Starting with your Enteprise Committee, focus on developing a list of as many possible enterprise ideas for your organization as possible. To help stimulate your creativity, try brainstorming ideas in several ways: 1) first, use Worksheet 4-23 to brainstorm by **type** of self-financing (i.e., existing or new products, services, hard/soft assets, investments, etc.); 2) second, use Workheet 4-24 to brainstorm potential enterprise ideas based on staff core competencies; and 3) third, use Worksheet 4-25 to brainstorm enterprise ideas based on the quadrants in Box 4-31 below.

Workbook Exercise 4-23 & 4-24:
Use Worksheets 4-23 & 4-24 to brainstorm potential enterprise ideas by type of self-financing as well as against staff core competencies.

BOX 4-31: ENTERPRISE IDEA BRAINSTORMING

Try to brainstorm potential enterprise ideas by matching existing/new products/services with existing/new customers.

1
EXISTING PRODUCT/SERVICE
EXISTING CUSTOMERS
How might you generate income from the products and/or services you already provide to the beneficiaries of your organization? (e.g., could you start charging beneficiaries a fee for a product/service they currently receive for free?)

2
NEW PRODUCT/SERVICE
EXISTING CUSTOMERS
How might you generate income selling a new product/service to the beneficiaries of your organization or to other potential clients? (e.g., what product/service might your beneficiaries need that you could provide to them for a fee?)

3
EXISTING PRODUCT/SERVICE
NEW CUSTOMERS
How might you generate income by providing the products/services you already provide to a new set of paying clients/customers? (e.g., could you start offering an existing product/service to individual/business clients who can pay for it?)

4
NEW PRODUCT/SERVICE
NEW CUSTOMERS
How might you generate income selling a new product/service to a new set of paying clients/customers? (i.e., what would be a completely new idea for a product/service we could offer to clients other than the constituents of our organization?)

Workbook Exercise 4-25:
Use Worksheet 4-25 to brainstorm potential enterprise ideas using the quadrants in Box 4-31.

4.4 Evaluating enterprise ideas against enterprise criteria and staff core competencies

Workbook Exercise 4-26:
Use Worksheet 4-26 to evaluate your enterprise ideas against the enterprise criteria you established on Worksheet 4-21. Refer to Vignette 3 to see how CVE evaluated ideas using its enterprise criteria (pages 12-13).

The next step in identifying an appropriate enterprise idea for your organization entails evaluating the extensive list of potential ideas you have generated in the previous brainstorming exercises against the enterprise criteria and staff core competencies you established earlier. This process is not intended to be scientific. Rather, it is meant to provide you with some structure to help eliminate ideas that may not fit your enterprise goals, criteria and staff competencies. For most organizations, the enterprise criteria they establish are a precondition for selecting an enterprise idea. That is not to say, however, that in discussing potential enterprise ideas you may not go back to revisit your enterprise criteria you may identify a promising idea that may bring significant benefit to your organization in a way unanticipated during the process to identify your enterprise criteria. Likewise, eliminating a potential idea because it does not match an existing staff competency may not be wise. There may

BOX 4-32: EVALUATING ENTERPRISE IDEAS AGAINST CRITERIA AND CORE COMPETENCIES

1. Enterprise criteria and staff core competencies:
Using Worksheets 4-26 and 4-27 transfer the enterprise criteria you established in Worksheet 4-22 and the staff core competencies you established in Worksheet 4-23 to evaluate your enterprise ideas.

2. Evaluating enterprise ideas:
Then, using a score between the range of -2 (low) to +2 (high), you will evaluate each enterprise idea by its ability to meet the criteria or match the staff core competency.

-2 -1 0 +1 +2

Definitely **will not** meet criteria

Definitely **will** meet criteria

ENTERPRISE CRITERIA	ENTERPRISE IDEAS Idea 1	Idea 2	Idea 3	Idea 4	Idea 5	Idea 6
1. Enterprise criteria	+2	+1	+2	+1	+2	0
8. Enterprise criteria	+2	0	+1	0	+2	-1
TOTAL SCORE	+22	+14	+18	-1	+16	+6

3. Scoring: After evaluating each idea, total the scores and identify the three highest-scoring ideas that you will consider further through pre-feasibility analysis.

be some ideas for which you have no experience at all (but for which you could get additional help) that could be very viable opportunities for reaching your enterprise goals. So, in going through the process of evaluating enterprise ideas, do not be quick to judge their potential – if you have a strong feeling that an idea has potential then you may choose to examine it more closely through a pre-feasibility analysis (described in the next chapter).

Meanwhile, it is also important that you remain true to the earlier part of identifying enterprise criteria and that you apply these criteria confidently in determining the "fit" of a potential enterprise idea for your organization. Particularly for those organizations for which enterprise is a new strategy, it may be wise to be somewhat conservative in applying staff core compentency criteria at this stage as well – since without a certain amount of staff comfort or understanding of an idea you may draw your organization into risky and unknown territory.

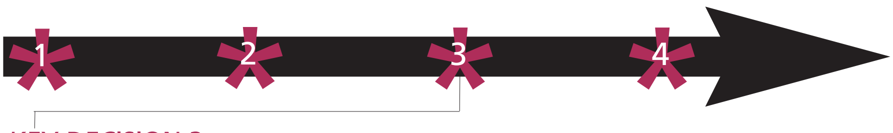
Workbook Exercise 4-27:
Use Worksheet 4-27 to evaluate your enterprise ideas against the staff core competencies you identified in Worksheet 4-22.

Narrowing your ideas
Narrowing your ideas
Narrowing your ideas

Once you have completed the process of evaluating your enterprise ideas, you will need to narrow them down to three. Use Worksheet 4-28 to select the top three ideas in relation to core competencies and in relation to criteria.

Workbook Exercise 4-28:
Use Worksheet 4-28 to narrow your final ideas and present them to your Board of Directors.

KEY DECISION POINTS IN THE *get ready, get set...* PROCESS

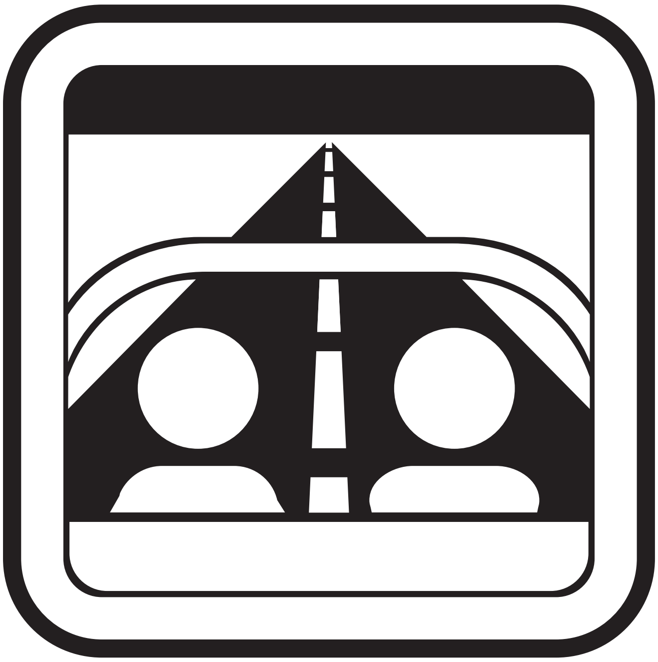


KEY DECISION 3:
What enterprise idea match our mission and values, competencies and goals?

Now that you have gone through the process of "narrowing your enterprise ideas", you will need to discuss with the members of the Enterprise Committee to make your final selection. There will most likely be an idea that meets most of your criteria and for which you have the necessary core competencies. The second and third selections might be more difficult to assess. You should use your best judgment, and select those that meet most of the criteria, encompass many of your core competencies, but that you feel could be feasible. The pre-feasibility study process that follows, will finalize the decision for you by providing more tangible information on whether this enterprise is or is not feasible.

GET READY, GET SET . . .

Chapter 5: Conducting a Pre-feasibility Study



Objectives:

- to conduct a pre-feasibility analysis of self-financing ideas,
- to define your product or service,
- to conduct initial market analysis,
- to develop a preliminary operations plan,
- to assess the break-even point,
- to consider mission impact, and
- to understand potential risks.

Conducting a preliminary feasibility (pre-feasibility) study on a potential enterprise idea is perhaps the single most important stage in the enterprise development process. It is at this point that you will be able to make an educated decision on whether it makes sense to invest more organizational time and resources to develop a full feasibility study and/or business plan for a particular enterprise idea and/or whether the idea does not make organizational or business sense.

The purpose of a pre-feasibility study is to assess whether the basic conditions exist that indicate that your enterprise idea could achieve your mission and financial goals, and to rule out options that are clearly not viable before investing too much time into research and development. Therefore, at this point the research aims at developing general knowledge of the market and industry; identifying key operational and management factors needed to launch and run the enterprise; initial financial analysis (i.e. start-up costs, operating costs, break-even analysis); identifying impact on the organizational mission and identifying risks. If an enterprise idea passes the pre-feasibility stage, these issues will be explored in much greater depth – first in a full feasibility study and then eventually in a business plan. These three initial steps in the enterprise development process – pre-feasibility, feasibility and business plan – build upon one another by exploring key enterprise areas in greater depth and supplementing what has already been determined in the preceeding step. Box 5-33 outlines the purposes of and key differences between the pre-feasibility, feasibility and business plan stages of the enterprise development process.

In order for the pre-feasibility study to be useful, the information has to be as accurate as possible. However, you don't want to invest too much time or resources in an enterprise idea at this early stage. Since you will be performing this process on several enterprise ideas, you should not

BOX 5-33: PRE-FEASIBILITY ANALYSIS, FEASIBILITY STUDY AND BUSINESS PLANNING

Remember, the pre-feasibility, is the first of three steps (before the full feasibility study and the business plan). The next two steps will be done in much more detail, building on what is done in this pre-feasibility study. So, this step must be thorough, but not too detailed. These three steps build upon each other by exploring each issue in greater depth without duplicating what's already known.

Selecting an enterprise idea:
Which of our enterprise ideas has the most potential?

Assessing feasibility of the idea:
Will our enterprise idea achieve our financial and mission goals?

Implementing the idea:
How will we implement our enterprise?

dedicate more than one to two weeks to explore each enterprise idea. You should estimate dedicating approximately five to ten days of work in order to complete a pre-feasibility on each idea (i.e., enough work for a five to ten page document on each enterprise idea) depending on the level of familiarity you have with the enterprise as well as on its complexity.

The pre-feasibility process will helps you to abandon – at an early stage – those enterprise ideas that don't appear to have the potential to match your goals and criteria. It is important not to feel pressured to continue investigating an idea only because you have already dedicated some organizational time and resources to it. However, if the potential mission benefit of an enterprise for your organization appears high but the risks also appears high, you may want to dedicate more time and effort than you normally would to ascertain its true potential.

It is most effective for one member of the organization to take the lead in completing the pre-feasibility study. However, it is crucial that the process be participative and includes key decision makers and team members during the process and at decision-making points. Also, make sure that you agree with decision makers in the organization on what information is necessary to make an educated decision, and how you plan to reach this decision (e.g. formal meeting? who participates?). Avoid surprises and make sure that all people involved have the same expectations in terms of the depth of analysis this stage requires.

The study also represents an excellent opportunity to meet people who in the future might prove useful in the enterprise (e.g., potential advisors, donors, customers, suppliers, contacts for a Steering Committee, pro-bono support on legal, tax, marketing, sales and communication issues). You may also receive excellent additional ideas for your enterprise or for other possible enterprises.

And most importantly, the pre-feasibility study lets you get to know your potential enterprise better and decide whether this is the enterprise for you – before investing too much of your scarce time and resources!

BOX 5-34:
CONTENTS OF A PRE-FEASIBILITY ANALYSIS[1]

To follow is a rough outline of the components of a pre-feasibility study and approximate time necessary to complete each step:

1. Description of product/service: what exactly are we proposing to sell? (1/2 day)

2. Initial market research: do people want our product/service? (approximately 3 days)

3. Operations/Management: what are our primary strengths/weaknesses as an organization in regards to this enterprise? (1 day)

4. Financial plan: what is our estimated break-even for this enterprise? (1 day)

5. Mission impact: how will this enterprise effect our mission? (+ or -) (1/2 day)

6. Risk analysis and management: what are the organizational resource requirements and opportunity costs for this enterprise? (1/2 day)

7. Summary: does this enterprise seem feasible given the potential problems and opportunities? (1/2 day)

[1] The pre-feasibility analysis process outlined in *get ready, get set...* is adapted from an outline prepared by Cynthia Gair for use by Community Vocational Enterprises (CVE) as illustrated in the case vignettes in the CVE Case Study.

5. Completing the pre-feasibility study

Complete the following pre-feasibility study. Use the questions as a guide for each section, and please be as thorough as possible. The time required by each section is an estimate.

5.1 Describing your product/service (1/2 day)

The first step of a pre-feasibility study is to provide a clear description of your product or service. Although this sounds fairly straightforward, it requires you to be quite precise, which is not always easy to do. You need to answer the five questions a reporter does in writing a story. Be as specific as possible.[2]

Workbook Exercise 5-29:
Use Worksheet 5-29 to develop your product or service description.

The definition should include:

1. *Who will want the product/service?*

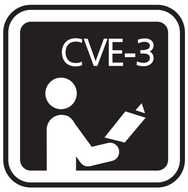
2. *What is the product/service?*

3. *Where will the product/service be found?*

4. *When will the product/service be used?*

5. *How will the product/service be obtained or delivered?*

The example in Box 5-35, from a community-based organization, illustrates the difference between a vague product description and one that is clear and responds to the five questions listed above.[3]

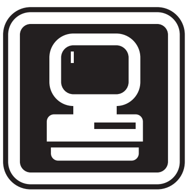


The third vignette in the Case Study illustrates how CVE analyzed its pre-feasibility findings for three enterprises ideas (pages 14-18).

BOX 5-35

Clear product description:
"We sell custom-made wooden benches and slides sculpted in different animal shapes (e.g. dachshund, elephants) for municipal parks and schools as well as families with children under the age of twelve in the Czech Republic. There are currently no other custom-made recreational equipment of this nature available in the country. The equipment has been safely tested at ten different schools and parks and will be delivered in a tailor-made crate directly to the customer by truck."

Vague product description:
"Our community development organization, a leader in the mental health field, will launch a new and innovative product. We will train young people who are in the last stage of drug rehabilitation in carpentry skills and sell the products made by them to generate revenues for our organization and to create employment."



[2] This concept was taken from Brinckerhoff, Peter C., *Social Entrepreneurship: The Art of Mission Based Enterprise Development*, New York, John Wiley and Sons, Inc., 2000.

[3] The example of the community-based organization in this Chapter is based on the experience of P-Centrum, a portfolio member of the NESsT Venture Fund in Czech Republic.

Later, you may refine your product definition based on new information gathered while doing the analysis. If people contacted understand what the enterprise is about, you can generate quality information in terms of interest and potential demand. Thi will also allow you to adapt or adjust your product or service. In this case, you would have to reassess according to your staff competencies, interests, and organizational values and mission goals, if these changes are possible and convenient.

Developing a clear description at the beginning of the process will greatly improve the quality of your findings during your market research (and subsequently the accuracy of your initial financial analysis).

It is also important that you approach your initial analysis with a flexible attitude, as it is very likely that you will have to modify some aspects of your product or service according to what you find the market actually NEEDS and DEMANDS. This is crucial for two main reasons:
- You will only sell what is demanded at a given price and for a given quality, not simply what you want to or are able to produce or what you think is needed.
- By focusing on demand, you will position yourself according to the needs of your potential customer, and communicate your product accordingly to satisfy this need. Marketing demands that you look at your product or service from your potential client's perspective. The same product may produce incredibly diverse reactions depending on how it is presented.

5.2 Conducting initial market research (3 days)

The initial market research conducted at the pre-feasibility study stage is designed to assess several key areas. Most importantly, the market research aims to provide a clear description and an approximate size of your target market. Secondarily, the research aims to provide a clear description and if possible, approximate size of your competition. The following set of questions will help you arrive at this description and number. The questions can be answered briefly here, and will be elaborated on later in the feasibility study stage. Here the concepts are simply introduced to raise any significant issues that might make the enterprise unviable.

Some advice as you pursue the responses to these questions:
- The depth of your analysis should be deep enough to get real information but does not have to be in great detail.
- The information you gather should be from primary sources and supplemented by secondary sources.
- You should be creative and open to approaching new people (both potential partners and competitors) when doing research. People generally enjoy sharing their wisdom, so cultivate relationships and ask lots of questions.

BOX 5-36: EXAMPLES OF INDUSTRY DRIVERS FOR DIFFERENT TYPES OF BUSINESSES

Every business has certain key characteristics that determine its success.

- Consulting firms: experience, standard modules.
- Publications: price, quality, price per unit, advertising.
- Health or legal services: referrals from acquaintances, reputation.
- Artisan products: distribution and marketing channels.
- Web based services: ability to be found on the Internet.

Demand for my product or service:

1. Who is your target customer? Target customer is the key group that will be interested in buying your product or service. General answers such as "Everyone" are not helpful! You may have several types of potential customers or groups that may buy your product but identify the one or two that are most likely to be your customer.

2. Are there different types of customers for this product? (Market segments are defined as groups which share similar interest and motivations with respect to the product/service being analyzed.)

3. What are the characteristics of your target market in terms of demographic (profession, income level, gender, education), geographic (city, country, neighborhood), psychographic (interests, lifestyles, personalities) and behavioral (different loyalty toward the product/service, benefits desired from consumption, frequency of use) profile? (only respond to those segments that you are familiar with at this stage).

4. Is demand for your type of product or service growing or shrinking? Are there any market trends that may affect demand?

5. Initially, how much would your customers be willing to pay for the product/ service?

6. How have you set the initial price for your product/ service?

7. What price seems reasonable to you? (and explain why it seems reasonable! If you explain this to others, do they also think it is reasonable?)

8. Are there particular market niches that this enterprise could/should develop? A market niche is a subset of your overall market with special needs or desires. Some businesses serve the majority population while others serve these smaller segments, often charging more for these specialty services.

9. Are there external trends or indications that might change/affect the demand for your product/service in the future?

Competition for my product or service:

Competition always exists even if no business is currently providing exactly the same product or service you are considering. Carefully consider any other products or services which could substitute or replace yours. How has the world been surviving until now without your business?

10. How are customers currently meeting this need?
- Competitors?
- Different or substitute products/services?

11. Are there many competitors providing this product or service to the same market? Are they increasing or decreasing in number?

12. How does your product/service compare to the competition?
- Price
- Quality
- Features
- Other

13. Give a detailed description of other companies selling to your target market. (Competitors type, size, location, product range, market policy).

Distribution and supply needs of my product or service
14. How is/would the product/service (be) delivered to customers?

15. How would you get raw materials (if applicable)?

Finding answers
The first step to finding the answers to the questions above is to rely on your own knowledge and experience. Put down the information you have and highlight the areas that require further exploration. At this stage it is okay to have a broader answer, but still answer all of the questions and try to be as descriptive/specific as possible.

A second step is to go out and find market information. Box 5-37 provides a list of data sources and strategies for obtaining the information. Box 5-38 provides several possible strategies for one specific example. Human contact is very important, so don't rely only on secondary data for your research (i.e., get on the phone or on the street!). In general people are willing to participate, collaborate and give advice if seriously and professionally approached, and even more so if the enterprise ultimately has a social objective. You may also receive excellent additional ideas for your enterprise or for other possible enterprises!

It is important to have an initial understanding of the "big picture," and find trends and their potential impact on the enterprise. You also need to know your first reactions and feelings towards the idea of forming part of this industry.

BOX 5-37: SOURCES OF MARKET INFORMATON

DATA SOURCES	DATA COLLECTION
Primary Sources	**Collecting information from primary sources**
- Customers - Competitors - Other local businesses that aren't competitors - Similar businesses in other regions (non-competitors) - Complimentary businesses - Industry experts	Common methods include: - Interviews - Surveys - Observation
Secondary Sources	**Finding secondary sources of information:**
- Internet - Industry publications - General publications - Newspapers - Magazines - Government statistics - Market studies done by market research firms	- These are typically available on the internet, at libraries, universities, bookstores or government offices.

Box 5-38: Finding Market Information

There are many ways that you may obtain information from the market. This box suggests sources of information depending on the type of information that you seek. The example is for a new business that will sell healthy sandwiches.

QUESTION	SOURCE OF INFORMATION	QUESTIONS ANSWERED
What industry information is available?	Restaurant industry journal	What types of restaurants are most popular? What is the size of the overall industry? What are trends for eating out?
What can you find out from potential customers?	Interview customers who walk by our potential location Interview customers walking out of our competitors	What type of sandwiches do you like? How much would you pay for fresh, healthy sandwiches? How often do you eat out?
Who can I talk to who has expe-rience with my type of business?	Founder of World Wraps (a successful, new restaurant chain)	How many customers did you get in the beginning? How did you build your customer base?
Who else might have know-ledge about my market?	Banker (and friend) who has made loans to similar businesses	What was the area like where the business started and what was their sales volume?

Box 5-39 describes these three areas using an example of the community-based organization P-Centrum, introduced in Section 5-1. Keep in mind that this is an example only. Your survey would vary depending on your product or service and your potential customer.

Before you begin, it is important to understand three key aspects of the market analysis: How to conduct a market survey; what is market segmentation; and how to identify your competition. Again, at pre-feasibility stage, you should begin to identify your potential customers, their different segments, as well as your potential competitors. However, this is a preliminary overview, so you do not need to include a vast amount of detailed information.

BOX 5-39: CONDUCTING A PRELIMINARY MARKET SURVEY

There are several key points to keep in mind as you develop your market survey. Whom will you survey? What will be the size of your sample? What will you say? Where will the survey take place? Who will conduct the survey?

Potential customers are a very good source of information. At the pre-feasibility stage, the survey should be clear and concise, approximately 5-10 questions, and should be for a small sample (The number of people you feel is necessary to give you a good indication of market need). It should take place at places frequented by potential customers. The person leading the study can conduct the survey, along with other members of your Enterprise Committee, and an MBA student volunteer if you have one.

In the case of P-Centrum that sells benches and slides, the organization could survey customers at a store that sells recreational equipment or people attending an exposition of recreational equipment for parks and schools.

"Pardon me, I work for a community-based organization that provides drug rehabilitation services to young people. We are planning to launch a new product and conducting a short survey to gather opinions from potential customers. Are you available to respond to five questions concerning our product?"

If the person agrees to the survey, you should continue by describing the product.
"We are planning to sell custom made wooden benches and slides sculpted in different animal shapes (e.g., dachshund, elephants) to municipal parks and schools in the Czech Republic. There are currently no other custom made recreational equipment of this nature available in the country. The equipment has been safely tested at 10 different schools and parks, and will be delivered in a tailored-made crate directly to the customer by truck. The benches will sell for approximately X and the slides for approximately Y."

Then ask your survey questions.
1. Does this product sound interesting to you?
2. If so, what features would you like to see in this product?
3. Does the price sound reasonable?
4. If not, what price would you be willing to pay?
5. Are you aware of other similar products? Which ones?

If the person sounds very interested, you provide them with additional information, share photos of the enterprise idea, ask for other potential contacts that they believe would be interested in the product, and ask if they would be willing to be added to a mailing list. Also, it's important to write the responses to the questions as soon as possible so that no information is excluded or misrepresented.

Workbook Exercise 5-30:
Use Worksheet 5-30 to develop a short market survey for your product or service.

Workbook Exercise 5-31:
Complete Worksheet 5-31 to consider the different potential segments of your market and the competitors for your product or service.

Market segmentation

Market segmentation will help you divide your potential market into smaller sub-groups making it easier to determine market size and eventually to market your product to them. Market segmentation groups people or organizations that share the same interests/motivations with respect to the product or service being analyzed. There are different ways to segment the market:

- Demographic: age, sex, income, education …
- Geographic: region, city, density …
- Psychographic: interests, attitudes, lifestyle, personalities…
- Behavioral: different loyalty level towards the product/service, benefits desired from consumption, frequency of use, occasions/events which encourage consumption …

In the case of P-Centrum, market segments include:

- Municipal personnel responsible for equipping parks
- Municipal personnel responsible for equipping schools
- Middle to upper income families with children under the age of twelve
- Municipal park directors
- Principles of elementary schools

You might want to complete your market survey with several of these segments since you will most likely gather different responses from each. The information will help you decide which of the segments is most likely to purchase your product and to eliminate those segments that are unlikely customers for your product or service or that don't meet your capacities. As mentioned earlier, it's important to identify your market niche, and to tailor your product to them. It's not likely that you will be able to concentrate in all of them, at least not right away, and it will help you respond to the specific needs of your most interested potential customer.

Market competition

Competition consists of any other company or organization that is offering a product that could be of interest to your potential customers. Competition always exists even if no business is currently providing exactly the same product or service you are considering. They might be offering a similar one, or one that could easily replace it. So you should be careful, and also consider any other products or services that could substitute or replace yours.
When considering your competitors, consider:

- Producers of same products or services
- Producers of similar products or services
- Producers of products or services of interest to your potential customers

There are several competitors to the wooden benches and slides that we have been considering in this section. They include:

- Producers of park recreational equipment
- Producers of school recreational equipment
- Producers of school supplies
- Producers of toys for children under age twelve
- Providers of entertainment and recreational services for children under twelve
- Can you think of others?

5.3 Operations and management (1 day)

In Chapter 3 we examined the readiness of your organization to undertake a self-financing activity. In this section of the pre-feasibility study, you will also examine capacity issues, but related to the operational and management needs of the enterprise itself. The operational plan will determine what skills, expertise, equipment, facilities and processes are needed to develop, operate and manage the enterprise. You will need to make sure that the operational needs are consistent with your enterprise criteria and competencies as an organization.

Workbook Exercise 5-32:
Complete Worksheet 5-32 to determine the specific operational and management needs of your enterprise and to strategize on how you will respond to them.

There are some typical operational and management challenges faced by nonprofits that are launching or running an enterprise. These include

- inability to acquire the property or equipment needed to run the enterprise,
- inability to attract new staff with the appropriate skills to run the enterprise,
- inability or unwillingness (for equity reasons) to pay a salary high enough to attract necessary staff,
- lack of existing staff with needed skills,
- inadequate initial research on operational issues and is later overwhelmed by the myriad of details associated with operating the business, and
- lack of consideration of additional issues arising due to the social dimensions of the enterprise.

The following are key operational and management questions that need to be considered early in order to avoid problems later down the road:

1. What are the organization's primary strengths and weaknesses in terms of this enterprise?

2. Are there production methods, special equipment or facilities, or technical requirements associated with this business?

3. What staffing is needed for this enterprise (numbers and skills)?

4. Does your staff have the core competencies to run this enterprise? (See organizational readiness worksheet 4-22)?

5. Is there a sufficient pool of available people who have the necessary management skills and experience (will recruiting appropriate management be difficult)?

6. Are there special employee liability issues associated with this business? (e.g., travel risks, on the job risks, etc.)

7. Are there any legal regulations, requirements or other particularities relevant to this type of business? For example: health certificates or inspections.

Nonprofits in most countries are able to operate self-financing activities. However, be sure to discuss with a lawyer the situation in your country and any limitations there may be. Also be sure to research appropriate tax laws particularly income and value-added tax (VAT) or sales tax. In many countries, nonprofits are not exempted or are not totally exempted from these taxes.

5.4 Financial plan (1 day)

At the pre-feasibility stage, you should consider two financial aspects of your enterprise: 1) Start-up costs- how much are they and how will you cover them? 2) Break-even analysis- how many units need to be sold in order to cover costs? These analyses should provide you with enough information to determine whether the enterprise is realistic and is likely to meet your goals. If not, this is the time to stop. If the enterprise still looks viable, more detailed financial information will be examined at the feasibility study stage.

5-33

Workbook Exercise 5-33:
Complete Worksheet 5-33 will help you to identify which costs you may incur in starting up your enterprise.

5.4.1. What are the start-up costs for your enterprise?
Start-up costs are all of the expenses incurred prior to launching an enterprise. The basic question to be addressed here is how much money do you need to get this business started? Usually you can estimate these costs fairly accurately if you research well enough. Make sure to count all costs you will incur until the day that you "open your doors". Any costs that are ongoing should not be included here. Therefore, for example, you would include the deposit you make on a rental space, but not monthly rent. This budget can also help you to fundraise, as it shows clearly what is needed as well as how much the organization is investing in the enterprise.

Having a clear and realistic start-up budget can help your organization to decide whether this enterprise is viable. If the start-up costs are unreasonably high, you may consider abandoning the enterprise.

Start-up costs include such items as hardware and software, construction and repair, equipment and supplies, systems development, initial marketing (e.g. website development), deposits on rent or other utilities, staff time needed to launch the enterprise. In the case of staff time, you will need to allocate a certain period of time that you consider will be needed to start the business and the staff costs associated with this period of time.

5.4.2. Break-even analysis
The object of break-even analysis is to understand how much of your product or service you need to sell in order to cover your fixed and variable costs within a particular time period. In other words, how much money needs to come in to exactly match the outflow of money. This is a powerful calculation that can help you to determine whether this is a viable enterprise, as well as an initial sense of how long it is likely to take before the enterprise starts to make a profit.

Break-even analysis is the first step in determining whether or not an enterprise is financially feasible. Most new businesses take at least two-three years to break-even. Once you have this information you need to go back to your organization's financial situation and determine whether or not the organization will be able to support the enterprise until it becomes sustainable. This is a common make or break point in the process.

Break-even analysis is only meaningful if it is completed in conjunction with your market research so that you can be realistic about the prices you can charge and the number you can sell.

To determine the break-even point, complete the following steps for your enterprise:

Step 1. Defining a "unit" of your good or service (e.g., one subscription, one book, one training day, etc.):
This enables you to have a consistent basis for comparison throughout the analysis and should reflect the way you define your product.

Step 2. Price setting:
This is commonly one of the most difficult steps, and that is because it is not an exact science! There are several different ways to go about selecting an appropriate price, but you will always need to monitor the market and your customer's reaction.

Here are three ways to calculate prices:

1. Estimate price per unit based on your market research.
Set your price to reach your target market share, or to meet or keep out the competition.

"My major competitor is _____, and they sell this product for $_______. Can I meet this price? What will happen if I don't?"

"My target customer is willing to pay $___? Is this enough? How does this price affect my target customer's perception of my product or service? (e.g., luxury good, bargain)."

2. Set a target level for profitability.
"I want to make $_______profit per month/year/etc. In order to make $______ profit, I must price my goods/services at $_____."

"I want to make a profit that is ____% of the total sales I generate (based on industry standards and your position relative to your competition)

3. Price/quality matrix.
Determine your price based on the quality of your product or service. The graph in Box 5-40 shows price on the x axis and quality on the y axis. Each quadrant represents a pricing strategy and some examples of products that fall in that strategy.

5-34

Workbook Exercise 5-34:
Complete Worksheet 5-34 to define a unit and to determine the initial price for your product or service.

BOX 5-40: PRICE/QUALITY INDEX

PRICE ↑	High Price Low Quality (example: name brand cereals)	High Price High Quality (example: diamonds)
	Low Price Low Quality (example: chewing gum)	Low Price High Quality (example: nonprofit services!!)
	QUALITY →	

As you can see, there are successful businesses that operate in almost all quadrants, with the Low Price/High Quality being the least attractive of them all. In general, High Price/High Quality is an attractive quadrant for nonprofits. Low Price/Low Quality requires large volumes in order to reach profitability. High price/Low quality requires either unethical standards or a name brand cache that can be difficult to achieve. And finally Low Price/High Quality it is very difficult to achieve profits in but it is the quadrant where most nonprofits position their product or service!!

Customers often perceive your product differently based on the price you charge. Higher prices may actually increase sales, as people will perceive your product to be more valuable.

There is no rule about the right place to be on this matrix, but it is valuable to understand where you fall, as it can help to determine your strategy and to ensure that your price is consistent with your desired position.

Step 3. Cost analysis:
With detailed research, you should be able to estimate your costs fairly accurately. You will have to choose a period of time (usually monthly or yearly) over which you will calculate costs.

Estimate monthly or yearly costs using the following steps:

1) Calculate fixed costs. Fixed costs are those that the business incurs on a regular basis that do not depend on the level of sales. For example, rent, utilities, equipment, salaries, etc. What are your fixed costs?

2) Calculate variable costs per unit. Variable costs are those that are directly linked to the number of products or services provided or sold. For example, the cost of materials, direct labor costs of employees involved in product or service production, delivery costs, etc. What are you variable costs? Make sure to only include the costs that are directly related to/reliant on each additional unit sale.

In those cases where your unit is part of a larger whole (such as one book from an entire printing), you should calculate variable costs for the whole printing and then divide the total by the number of books printed to determine variable cost per unit. In those cases where your unit is unique and is not part of a whole, estimate the variable costs per unit directly. For example, holding a workshop will only have one variable cost per unit as no other workshop will use the exact same materials or take the exact amount of time to produce.

5-35

Workbook Exercise 5-35:
Complete Worksheet 5-35 to determine the fixed and variable costs of your product or service.

Box 5-41: EXAMPLE OF FIXED AND VARIABLE COSTS

	EXPENSE	FIXED	VARIABLE
1	Personnel: Trainer		$150/unit
	Personnel: Trainer Coordinator	$1000 per year	
2	Rent/utilities	$1000 per year	
3	Telephone	$ 250 per year	
4	Postage	$ 50 per year	
5	Printing-training materials		$50/unit
6	Office supplies	$ 100 per year	
7	Insurance	$ 100 per year	
8	Advertising	$ 500 per year	
9	Other-travel to training		$50/unit
10	Other		
11	Other		
	TOTAL	$3000 per year	$250/unit

Step 4. Calculate your break even point:
Now that you have determined your unit, the price per unit, your fixed and variable costs, you are ready to calculate you break event point.

Break even can be calculated using a simple formula:

$$\frac{\text{Fixed cost for the desired period}}{\text{Price per unit} - \text{Variable cost per unit}}$$

This will determine how many of your products or services you must sell in a given period of time in order to cover all of your costs.

Workbook Exercise 5-36:
Complete Exercise 5-36 to determine your break-even point.

5.4.3. Other financial questions to consider include:

1. Do your current resources support your financial plans?

2. What are the tax implications of running this enterprise?

3. Are there any additional costs incurred due to the fact that this enterprise is being run by a nonprofit? Are there associated "social costs" (e.g., the employment of clients with special needs/limitations, use of environmentally friendly materials that are more expensive, or need for subsidies to low-income customers)?

5.5 Mission impact (1/2 day discussion)

If the enterprise poses too many risks to your mission, and if you assess that these risks cannot be overcome, you might decide not to pursue it.

Now that the main components of your pre-feasibility study are complete, it is critical to go back to revisit how this enterprise will impact your mission. The key difference between a social enterprise and a regular enterprise is that the main result of a social enterprise is to further the mission impact of the organization.

The key mission questions to be discussed as part of the pre-feasibility analysis are:

1. What are your organization's mission and financial goals in pursuing this enterprise? (see Worksheet 3-19). Does this enterprise meet these goals?

2. What are your organization's criteria for self-financing enterprises? (see Worksheet 4-21). Does this enterprise meet your criteria?

3. Does the enterprise support or threaten your ability to meet your mission? Does it threaten your values and programs in any way? (see Worksheet 3-8)

4. Does this business raise any organizational culture issues? (e.g., staff resistance to charging clients, payroll discrepancies between social and business staff, general distrust of business and profit) (see Worksheet 3-11).

5.6 Risk analysis and management (1/2 day discussion)

All enterprise activities entail risk. However, with careful planning your organization can develop strategies to lower risks. As well, identifying risks at an early stage can be a deciding factor as to which enterprise to pursue. Some organizations are more risk averse than others, so you will have to make your own decisions – but recognizing the risks and planning for them is crucial.

The objective of this section is to raise initial awareness of potential risks involved in your social enterprise. This will help you anticipate risks and start developing risk mitigation strategies in advance:

1. What are the biggest risks in pursuing this enterprise? Are there any unusual risks associated with this business?

2. What are the opportunity costs of the self-financing enterprise? (e.g., What is the cost of doing the enterprise instead of something else? How could you otherwise use the resources named above? What opportunities are you giving up in order to pursue this enterprise?)

Workbook Exercise 5-37:
Use Worksheet 5-37 to assess possible mission and organizational risks posed by the enterprise.

3. Are your key stakeholders supportive of this business? (see Worksheet 3-12)

4. If the enterprise fails, what are the implications on your organization? Financial? Ethical? Reputation?

BOX 5-42: WAYS TO MITIGATE POTENTIAL RISKS

- Respect organizational culture
- Participation of all stakeholders
- Continuous communication among staff
- Work plan for both the enterprise and other programs and activities
- Clear financial and social goals
- Know tolerance for risk of the organization
- Know the regulatory and tax environment in relation to the enterprise
- Well-founded and objective market research
- Know organizational weaknesses with respect to the enterprise
- Flexibility and ability to learn while implementing the enterprise
- Complete each step of the pre-feasibility process

5.7 Summary (1/2 day discussion)

Revisit the six sections of the pre-feasibility study carefully.
1. Description of product/service
2. Initial market research
3. Operations and management
4. Financial plan
5. Mission impact
6. Risk analysis and management

Consider this set of key questions to decide whether you should proceed to complete a full feasibility study on this enterprise.

1. Does this enterprise still seem feasible?

2. Is it a good fit with your organization?

3. Would you recommend putting more organizational resources into developing this enterprise?

4. What are the "problem areas" in this business (i.e., weaknesses that could limit our success in starting or maintaining it)?

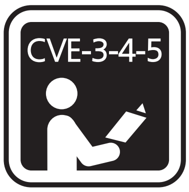
5. What are the organization's strengths that will be particularly helpful in this business?

KEY DECISION POINTS IN THE *get ready, get set...* PROCESS

KEY DECISION 4:
Is the enterprise idea feasible? Does it have the potential to achieve our goals?

Once completed, the organization must evaluate the pre-feasibility results for each enterprise idea alone, and in comparison to any other ideas considered. If the team agrees that the enterprise has potential, then it is time to move on to the feasibility study (see Box 5-33) and to learn more about this business! If the team agrees that there are important obstacles internally (e.g., investment needed, staff capacities, mission risk, no fit with market, etc.) or externally (e.g., strong competition, poor demand, demand subject to changes in product/ service which conflict with mission goals/ organizational values), then the idea should be abandoned. If you completed more than one pre-feasibility study, it is recommended that you decide on the one most promising enterprise, and focus your initial efforts determinig its feasibility before pursuing the others.

Workbook Exercise 5-38:
Use Worksheet 5-38 to list your organizational strengths and weaknesses to be aware of in relation to the enterprise.



Review Vignettes 3, 4 and 5 of the CVE Case Study to learn more about their feasibility study and business plan process as well as how the organization finally launched its business.

GET READY, GET SET . . .

Workbook:
Exercises

Contents:

- all the worksheets and exercises for the *get ready, get set...* process.

Workbook: Exercises

1-1

Exercise 1-1. Identify members of your Enterprise Committee

Back to Guidebook

Directions: Enter the names of the individuals who will serve as members of your Enterprise Committee.

Committee "Champion":

____

Committee needs a management-level staff facilitator to drive the process. A person who is organized, professional, respected, a dynamic presenter/sales person, taken seriously and could ultimately responsible for starting up/managing the potential enterprise.

Enterprise Committee

Board Member:

____

Committee needs board mandate for its work (preferable also with approved budget) and involvement of board member with interest/committment to the process.

Executive Director:

____

Committee needs executive management buy-in and participation to ensure that the mandate of the committee is take seriously among staff and seen as a priority.

Committee "Critic":

____

Committee needs a committed but critical member to lend a voice of reason (not of paralysis) who constantly brings the Committee back to the core mission, principles and values of the orgnization.

Financial/Business:

____

Committee needs involvement of a staff or board member with financial and/or business experience to lend credibility and strengthen financial assumptions and projections.

Beneficiary/Member:

____

Committee needs involvement of a member, beneficiary or client who can give perspective on how the committee's ideas/plans will be received and perceived.

2-2

Exercise 2-2. Conduct a sustainability survey in your organization

Back to Guidebook

Directions: Use the Sustainability Survey to quickly asses the sustainability of your organization against the twelve criteria discussed in Chapter 2.
1. Copy and circulate the Sustainability Survey to members of the Enterprise Committee and at least ten other beneficiaries, members, staff or volunteers.
2. Collect and tally the results. What percentage of responses were strong? average? weak? In what areas is their general consensus? In what areas are there widely divergent opinions?
3. Although not scientific, the results can be used to spur discussion within the Enterprise Committee about the overall “sustainable health” of your organization and how self-financing goals can be set to help strengthen areas of weakness. Also, results can help gauge whether it is indeed a good time to pursue self-financing activities or whether other urgent issues require more immediate attention.

SUSTAINABILITY SURVEY	Strong	Average	Weak	Comments
1. We have a clear mission.				
2. We have strong commitment among beneficiaries, members, volunteers and staff.				
3. We have the ability to adapt, and be flexible to changes in the environment around us.				
4. We have clear, realistic, strategic plans to achieve our mission.				
5. We have competent staff with the appropriate skills/experience.				
6. We have strong leadership.				
7. We have effective, efficient, high-quality programs/activities.				
8. Our programs/activities have an impact, produce valuable benefits.				
9. We have a reputation for being accountable, ethical, transparent.				
10. We have an enabling legal, regulatory or political environment that allows us to do our work without hindrance.				
11. We have sufficient financial resources for our work.				
12. We have good relations with other sectors of society (public and private).				
TOTALS (add the number of marks in each column):				

2-3

Exercise 2-3. Compose your current funding sources

Back to Guidebook

Directions: What is the composition of your current funding sources? [Please use actual amounts (indicate currency)]:

SOURCE	LAST FISCAL YEAR *(in local currency)*	CALCULATE %
FOREIGN/INTERNATIONAL SOURCES		
- International foundation grants		
- Foreign government support		
PUBLIC SOURCES (LOCAL/NATIONAL)		
- Government grants		
- Government contracts		
PRIVATE SOURCES (LOCAL/NATIONAL)		
- Individual donations		
- Foundation grants		
- Corporate grants		
SELF-FINANCING		
- Membership dues		
- Fees for service(s)		
- Product sales		
- Use of hard assets		
- Use of soft assets		
- Dividends from investments		
IN-KIND DONATIONS (estimated financial value)		
- Other Income (describe)		
TOTAL		

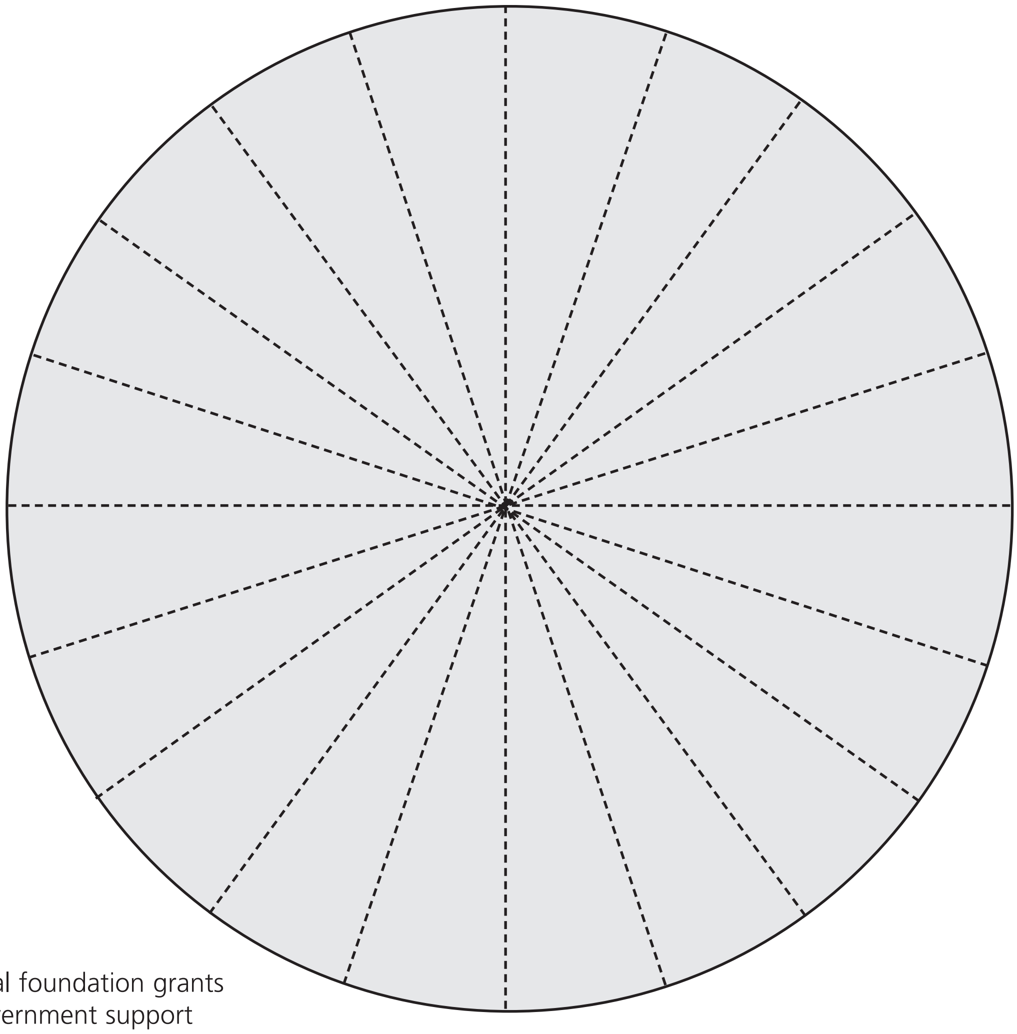
2-4

Exercise 2-4. Examine the financial diversification of your organization

Back to Guidebook

Directions: Create a pie chart of your current financing mix. If possible, use a different color for each source of financing listed in the key below.

How does your financing mix look now?
(sources as percentages of 100)



- ☐ International foundation grants
- ☐ Foreign government support
- ☐ Public support (national/local government/state grants or contracts)
- ☐ Individual donations
- ☐ Private foundation grants
- ☐ Corporate grants
- ☐ Self-financing
- ☐ In-kind support

Do you feel that you have a "diverse" funding mix? do you feel dependent on any source(s) or type(s) of financing?

2-5

Exercise 2-5. Assess the costs and benefits of fundraising vs. self-financing

Back to Guidebook

Directions: In your opinion or experience, how do the costs, time, management requirements, etc. for other fundraising approaches compare with those of self-financing? Circle your responses below:

> is **GREATER** than self-financing;

= is **SAME** as self-financing; or

< is **LESS** than self-financing

Fundraising Source	Cost per dollar raised vs. self-financing	Personnel time required to raise funds vs. self-financing	Management requirements vs. self-financing	Restriction placed on expenditure of funds vs. self-financing	Duration of availability vs. self-financing	Tension with mission vs. self-financing	Competition with other nonprofits for funds vs. self-financing
Government/ State Grants	> = <	> = <	> = <	> = <	> = <	> = <	> = <
Individual Donations	> = <	> = <	> = <	> = <	> = <	> = <	> = <
Foundation Grants	> = <	> = <	> = <	> = <	> = <	> = <	> = <
Corporate Donations	> = <	> = <	> = <	> = <	> = <	> = <	> = <
Other:	> = <	> = <	> = <	> = <	> = <	> = <	> = <
TOTAL							

This is not a scientific exercise. But as you consider self-financing options, it is important for you to think about the investment you make in fundraising and the corresponding returns.

1. How many ">" did you circle? ______ How many "<"? _____ How many "="? _____

2. Overall, how do you think self-financing compares with other fundraising approaches?

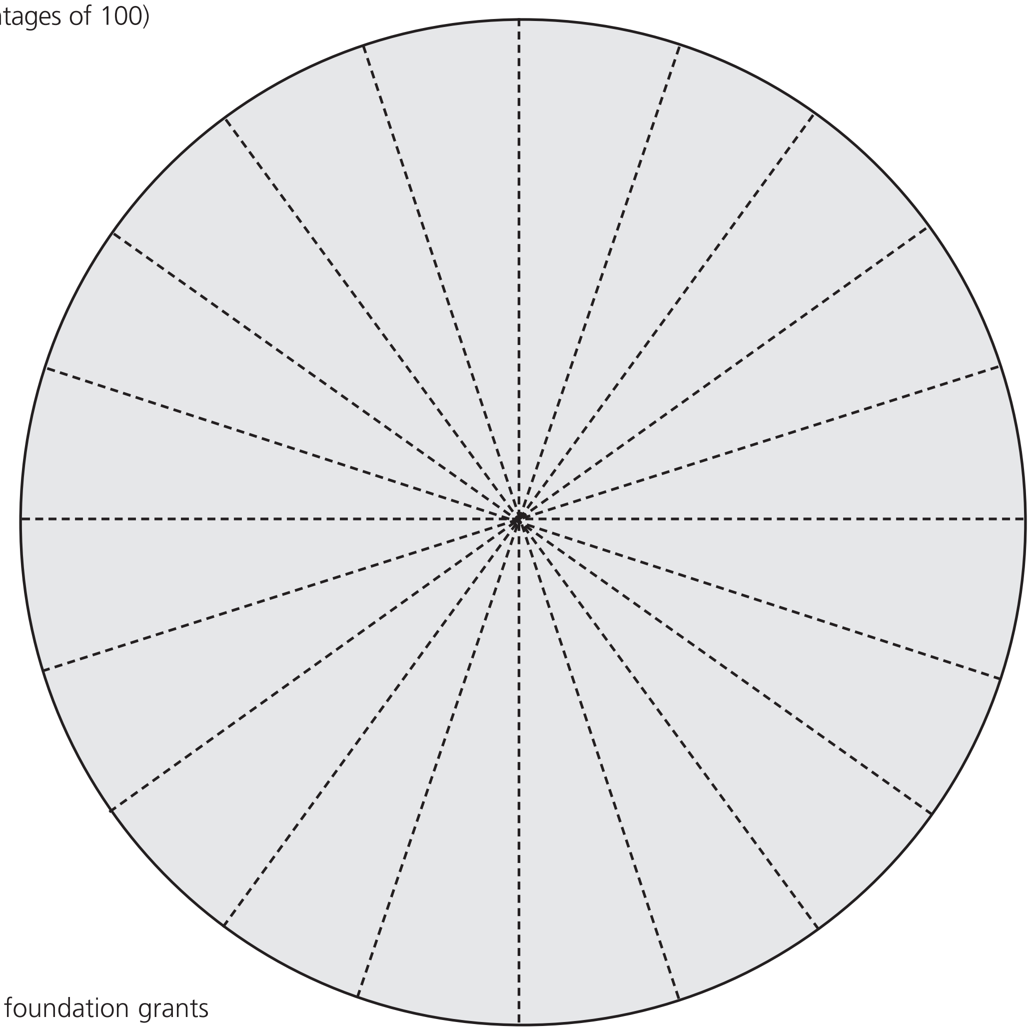
2-6

Exercise 2-6. Define a role for self-financing in your future financing mix

Back to Guidebook

Directions: Create a pie chart of how you would like your financing mix to look in five years. If possible, use a different color for each source of financing listed in the key below. Refer to exercise 2-4 for current mix.

How would you like your financing mix to look five years from now?
(sources as percentages of 100)



- ☐ International foundation grants
- ☐ Foreign government support
- ☐ Public support (national/local government/state grants or contracts)
- ☐ Individual donations
- ☐ Private foundation grants
- ☐ Corporate grants
- ☐ Self-financing
- ☐ In-kind support

What role does self-financing play in your financing plan? Explain.

Exercise 2-7. Assess how self-financing could affect your sustainability

Back to Guidebook

Directions: For each statement, indicate how you think self-financing could potentially help or hinder your overall organizational sustainability. Explain each of your responses.

Self-financing could potentially (help/hinder) . . .	help	hinder
1. To clarify our mission.		
2. To strenthen commitment among beneficiaries, members, volunteers and staff.		
3. Our ability to adapt, and be flexible to changes in the environment around us.		
4. Our strategic plans to achieve our mission.		
5. The skills/experience and competency of our staff.		
6. To strengthen our leadership.		
7. The effectiveness, efficiency, quality of our programs/activities.		
8. The impact and benefits of our programs/activities.		
9. Our reputation, accountability, ethics, transparency.		
10. Our legal, regulatory or political environment.		
11. Our financial resources for our work.		
12. Our relations with other sectors of society (public and private).		

3-8

Exercise 3-8. Assess potential implications of self-financing on your mission & values

Back to Guidebook

Directions: With your Enterprise Committee (and later in an open forum with a wider group of stakeholders), consider some of the potential implications that self-financing could have for your organization's mission and core values. What strategy could you use to prevent your values from being threatened?

YOUR ORGANIZATION'S MISSION:

CORE VALUES What are the core values of your organization?	Potential Implications Would self-financing potentially enhance or threaten this value?	Preventive Strategy What strategy can you use to prevent this core value from being threatened?

Discussion Questions:

1. Which of your core values are you absolutely NOT willing to compromise at all?

2. If the preventive strategies you listed were in place, would you feel confident that your mission and values would be adequately protected from being compromised?

Exercise 3-9. Ethical dilemmas: What do you do?

Back to Guidebook

Assessing your organization's readiness for the potential ethical challenges of enterprise activities requires anticipating some of the ethical questions that may arise and preparing an internal mechanism for discussing and resolving them in an open and transparent way. Below are several hypothetical ethical dilemmas that could arise (and have among other nonprofit organizations engaged in enterprise activities). Discuss each scenario within the Enterprise Committee and apply them to the values and principles you created in exercise 3-8. How might your organization anticipate, avoid and/or resolve these dilemmas? Create and debate other ethical dilemmas that your organization might face.

1. Mission/Enterprise Dilemma: Your enterprise is now making a profit. Your business manager advises you to reinvest the revenues into strengthening and expanding the enterprise. Your nonprofit program director advises you to transfer the profits to the nonprofit organization to cover expenses of operating your nonprofit homeless shelter program. What do you do?

2. Beneficiary Dilemma: Your nonprofit organization established an enterprise to provide employment to your beneficiaries. The enterprise is loosing money. Your business manager advises you that layoffs or deep cuts in salaries are necessary to keep the enterprise from collapsing. Your program director advises against this as it would leave beneficiaries unemployed or with salaries under the minimum wage levels. What do you do?

3. Staff Dilemma: You are recruiting a new business manager to help you launch a new enterprise. The strongest candidate requests a salary equivalent to double the amount you are currently paying an equivalent-level professional on your nonprofit program staff. What do you do?

4. Donor Dilemma: Your enterprise is anticipating a large contract that could potentially be very lucrative but requires an immediate infusion of funds to cover cash flow until the contract comes through. The only funds you have available are project grants for your programs. Your business manager suggests temporarily diverting the project grant resources to cover the enterprise cash flow until the contract comes through. What do you do?

5. Regulatory/Tax Dilemma: Your financial manager has found a method whereby you could report revenues of your enterprise as income to the nonprofit parent. This would allow the enterprise to avoid a heavy tax burden on its income and also allow for a greater amount of resources to pass from the enterprise to directly support your nonprofit's programs. What do you do?

6. Board Dilemma: Your nonprofit owns/operates a desktop publishing enterprise to employ physically-disabled beneficiaries. One of your nonprofit board members has offered that his private company will directly contract the nonprofit enterprise to provide desktop publishing services. This will benefit your nonprofit to gain its first large corporate contract and build a trackrecord for itself in the market. It will also benefit your board member since your nonprofit provides the services at a lower cost than his current vendor. What do you do?

7. Other: What other ethical dilemmas can you anticipate might arrise for your organization through its enterprise activities?

3-10

Exercise 3-10. Establish ethical guidelines for self-financing

Back to Guidebook

Directions: First, identify the general commitments that your ethical code for self-financing will follow. Return to the list of your core mission and values you created on Worksheet 3-8 to help you identify these general commitments.

Second, try to define specific actions you will take to guard each of your commitments. Discuss this among the Enterprise Committee.

ETHICAL COMMITMENTS AND ACTIONS FOR ENTERPRISE

1. General Commitments: What are the primary commitments that your ethical code will follow? We are committed to:	2. Specific Actions: What are the specific actions that you will take to guard each of your commitments? We will guard this commitment by:

3-11

Exercise 3-11. Assess preconceptions about self-financing in your organization

Back to Guidebook

Directions: To assess your organization's predisposition toward self-financing: 1) Copy and distribute the quiz below to the members of your Enterprise Committee and to a representative group of your organization's stakeholders; 2) Collect and summarize the responses; 3) Discuss results in the Enterprise Committee. Are there common concerns?

Dear Friend,
We would like to know your response to the following eight questions to help us in planning for a new initiative to further mission and financial sustainability in our organization. Thank you for your time and commitment.

1. **What is your educational background?** (i.e., your field of study and highest educational degree)

2. **Why did you choose to work for a nonprofit organization (as opposed to a for-profit company)?**

3. **What do you think is the primary thing(s) that distinguish a nonprofit from a for-profit entity?**

4. **From what source(s) do you think our organization could best financially sustain itself?**

5. **Who is the largest donor to our organization? How did the donor make the money they donated?**

6. **How do you feel about this statement: "Profit is bad."**
Check the response that most closely represents your opinion:

☐ Strongly Agree	☐ Somewhat Agree	☐ Indifferent	☐ Somewhat Disagree	☐ Strongly Disagree

Explain your choice:

7. **If our organization were presented with a business opportunity that could potentially generate significant income which could be used to further our programs/mission, what do you think should be the three primary criteria to evaluate whether or not to pursue the business opportunity?**
1.
2.
3.

8. **Please circle the statement below that most closely represents your opinion:**

We should pursue any business opportunity that will make money for our organization.	We should pursue any business activity that makes us money without diverting resources from our programs.	We have to judge each business opportunity individually.	We should pursue only business activities that are related to our mission.	We are a nonprofit organization and should rely only on charitable donations and grants.

Exercise 3-12. Assess support for self-financing within your organization

Back to Guidebook

Directions: Consider what the position of key stakeholders in your organization will be regarding self-financing. Be as specific as possible in identifying the particular issues that are most important to each stakeholder group.

STAKEHOLDER	Support self-financing	Don't support self-financing	Why? Why not? What are the most important issues (positive or negative) for these stakeholders regarding self-financing? What needs to be done to safeguard the interests of these stakeholders?
Senior Management, Director/President			
Staff			
Board			
Beneficiaries/Members			
Donors			
Other			

Exercise 3-13. Assess your organizational capacity

Back to Guidebook

Directions: Distribute this organizational capacity worksheet to the members of the Enterprise Committee to assess your organizational capacity.

YES	NO	Organizational Culture
		1. Is your organization entrepreneurial? 2. Is innovation and initiative rewarded and encouraged? 3. Would you say that your organization uses a participatory management style? 4. Do you think your staff have the level of risk tolerance necessary to undertake self-financing?
		Staff Capacity
		1. Does your staff have the managerial and technical skills, experience necessary to launch a social enterprise? 2. Do you have the ability and resources to leverage external support/volunteers to offset the skills/staff you currently lack? 3. Do you have one skilled/talented individual in the organization who will serve as the coordinator or "champion" of the enterprise? 4. Are the staff, board, members/beneficiaries willing to work extra hours and make additional effort to make the enterprise successful?
		Infrastructure Capacity
		1. Do you have the facilities, space and equipment necessary to launch a social enterprise? 2. Do you have the resources to acquire this infrastructure should be necessary? 3. Do you have the systems in place that are needed to reach your self financing goals? (i.e. financial, human resources, technology etc).
		Self-financing Strategic Capacity
		1. Do you have an organizational strategic plan? 2. Do you have an annual work plan? 3. Do you have a flexible decision-making process in place for adapting plans to changes and challenges that may arise 4. Has your organization ever developed a business plan before?
		TOTAL (add the number of marks in each column)

3-14

Exercise 3-14. Calculate your revenues

Back to Guidebook

Directions: Calculate your revenues for the past twelve months.

REVENUES

Category	Description	Amount	Restricted	Unrestricted
Grants				
Sales				
Service Fees				
Other:				
	TOTAL REVENUES			
		% of TOTAL		

If financial statements are not available, you can approximate your revenues using:

- invoices
- bank records
- inventory records, etc.

Total revenues for the past twelve months.

Some funders restrict grants to certain uses.

Some funds are flexible and can be allocated freely for use on projects or initiatives as needed.

Discussion Questions:
1. How have your revenues changed over the past several years?

2. How do you expect them to change in the next three years?

3. What percentage of your revenues are restricted to a certain use?

4. What percentage of your revenues are unrestricted?

3-15

Exercise 3-15. Calculate your expenses

Back to Guidebook

Directions: Calculate your expenses for the past twelve months.

EXPENSES

Category	Description	Amount
Rent		
Payroll		
Utilities		
Other expenses:		
	TOTAL EXPENSES	

If financial statements are not available, you can approximate your expenses using:

- bills
- price lists, estimates and/or quotes from suppliers
- labor rates x no. of employees
- receipts, etc.

Discussion Questions:
1. How have your expenses changed over the past several years?

2. How do you expect them to change in the next three years?

3. How do your total expenses compare with your total revenues? If total revenue is less than total expenses, please indicate the cause and how it will be remedied:

Exercise 3-16. Calculate your assets and liabilities

Back to Guidebook

Directions: Calculate your assets and liabilities as of the end of last year.

If financial statements are not available, you can approximate your assets using:

- bank statements
- investment statements
- invoices
- grant documentation, etc.

ASSETS

Category	Description	Amount
Cash		
Investments		
Accounts Receivable		
Grants Receivable		
Property, Plant & Equipment		
Other:		
	TOTAL ASSETS	

If financial statements are not available, you can approximate your liabilities using:

- loan statements
- bills, etc.

LIABILITIES

Category	Description	Amount
Loans		
Accounts Payable		
Other:		
	TOTAL LIABILITIES	

Exercise 3-17. Calculate your fund balance

Back to Guidebook

Directions: Calculate your fund balance.

FUND BALANCE

		Amount
Total Revenue (over the last year)		
minus Total Expenses (over the last year)	-	
plus Total Assets (at the start of the year)	+	
minus Total Liabilities (at the start of the year)	-	
Equals your FUND BALANCE	=	

Discussion Questions:

1. How has your fund balance changed over the past 3 years?

2. If your fund balance has decreased or remained stagnant over the last three years, explain why.

3. What does your fund balance indicate to you about the financial health of your organization? Note, it is important to examine your fund balance for the past several years in order to get the full picture of your financial situation. A negative balance one year might not be a problem if you have revenues from previous years. However, a negative balance for two or more years is a cause for concern.

3-18

Exercise 3-18. Rework your financial statements for social enterprise

Back to Guidebook

Directions: Transfer the data from your income statement from Worksheets 3-14 and 3-15 into the appropriate lines below to compare a traditional nonprofit budget template and a social enterprise template for your organization. (If you don't already have self-financing, use a hypothetical case.) Analyze/Discuss the differences with the Enterprise Committee.

TRADITIONAL NONPROFIT FORMAT

Income	Amount
Grants	
Services/Contracts	
Sales	
Other Income	
Total Income	
Expenses	
Salaries	
Benefits	
Rent/Utilities	
Telephone	
Postage	
Printing	
Travel	
Other Program Costs	
Total Expenses	
NET INCOME (Income minus Expenses)	

Discussion Questions:

1. What differences do you see in your "bottom line" (i.e., in the net income) of each format?

2. What new observations can you make overall about your financial situation?

SOCIAL ENTERPRISE FORMAT

Income	Amount
Gross Sales/Revenues	
Cost of Goods Sold (COGS)	
Labor	
Other Production Costs	
Total COGS	
Gross Profit (Net Sales-COGS)	
Operating Expenses	
Management Salaries	
Benefits	
Rent/Utilities	
Telephone	
Postage	
Printing	
Other Program Costs	
Total Operating Expenses	
NET INCOME (Gross Profit minus Operating Expenses)	
Subsidies	
Foundation Grants	
Government/State Subsidies	
Total Subsidies	
Program Expenses	
Program Salaries	
Other Program Costs	
Total Program Expenses	
NET INCOME (After program subsidies and expenses)	

3-19

Exercise 3-19. Assess your overall organizational readiness for self-financing

Back to Guidebook

Directions: The Enterprise Committee should guide key stakeholders of your organization through the process described in the subsequent sections of this chapter. Now that you have completed the exercises, take time to reflect on the results for each section, and give your organization a score from 1 (low) to 5 (high) for each of the readiness areas. Now examine the results to summarize your overall organizational readiness for self-financing.

MISSION AND CORE VALUES	Score
1. Clarity of mission	....
2. Strong set of core values	....
3. Clear ethical commitments	....
4. Clear mission goals for Self-financing	....
Total Score	....

ORGANIZATIONAL SUPPORT	Score
1. Strong predisposition toward self financing among stakeholders	....
2. Strong support for self financing among stakeholders	....
Total Score	....

ORGANIZATIONAL CAPACITY	Score
1. Entrepreneurial and participatory organizational culture	....
2. Strong staff capacity	....
3. Strong infrastructure capacity	....
4. Effective strategic capacity	....
Total Score	....

FINANCIAL READINESS	Score
1. Variety of funding types and sources	....
2. Level of untied funding	....
3. Level of reserves	....
4. Well developed financial systems	....
5. Clear financial goals for self-financing	....
Total Score	....

(Maximum Score: 75)

Total Score:	
Average overall score (total divided by 15)	
Average score by area (total divided by 4)	

Score Interpretation
1-25: You are not likely ready to pursue self financing
25-50: Ready but need to develop certain areas while completing the pre-feasibility study
50+: Ready but need to develop certain areas while completing feasibility study and business plan, and during start-up phase

3-20

Exercise 3-20. Define mission and financial goals for self-financing

Back to Guidebook

Directions: First, work with the Enterprise Committee to list your organizational goals for self-financing. Define both mission (i.e., what mission-related goals you hope to achieve with self-financing) and financial goals. Define goals that are ambitious but realistic and achievable. Do not tie your goals to a specific strategy or enterprise idea as you will later use these goals to help evaluate several potential enterprise ideas.

GOALS FOR SELF-FINANCING	PRIORITY	RATIONALE
Mission Goals for Self-financing		
Financial Goals for Self-financing		

Second, prioritize your goals (1=high; 2=medium; 3=low). Remember you might not be able to attain all of your goals simultaneously and you might have to compromise some in the short run.

Third, write a convincing rationale for each of your goals, describing how/why self-financing will help you to achieve each goal and how it will contribute to the overall mission of your organization.

4-21

Exercise 4-21. Develop criteria for selecting an enterprise idea

Back to Guidebook

Directions: First, with your Enteprise Committee, brainstorm a list of as many criteria as you can think for selecting an enterprise idea that is appropriate for your organization. Second, go through your list together and narrow it down to no more than eight primary criteria for selecting an enterprise. Enter your final primary criteria (up to eight) below:

PRIMARY CRITERIA FOR SELECTING AN ENTERPRISE

1.

2.

3.

4.

5.

6.

7.

8.

Exercise 4-22. Assess your staff core competencies

Back to Guidebook

Directions: With your Enterprise Committee, brainstorm the core competencies of the staff of your organization. Consider competencies in three areas: 1) knowledge/experience; 2) skills; and 3) interests/passions. Do not be judgemental or try to assume that some competencies will be more "marketable" than others. Focus on identifying the richness and diversity of experience, skill and interests among your staff.

Our staff has particular knowledge/experience in the following:	Our staff has particular skills in the following:	Our staff has particular interest in/passion for the following:

Now go back through the list and identify some of the core competencies that several staff possess. Are there particular knowledge, skills or interests that are common to several staff within the organization have?

4-23

Exercise 4-23. Brainstorm potential types of enterprise activities

Back to Guidebook

Directions: With the Enterprise Committee, use the format below to generate an inventory of all the current (and past) self-financing activities of your organization as well as many new ideas as you can think of. Be as open and creative as possible. Don't limit your ideas to only those that fit with the criteria and compentencies you established earlier. Try to indicate as many possible customers/clients as you can for each idea.

PAST, CURRENT AND POTENTIAL ENTERPRISE IDEAS	CUSTOMERS/CLIENTS
1. What kinds of **products** does/could our organization sell?	
2. What kind of **services** does/could our organization offer for fees?	
3. What "**hard assets**" (e.g., property/real estate, equipment, etc.) does our organization have that we currently/could use to earn income?	
4. What "**soft assets**" (e.g., copyrights, patents, licensing rights, intellectual property, etc.) does our organization have that we currently/could use to earn income?	
5. What **investments** does our organization currently have (or could we have) to generate income (both long- and short-term)?	

Exercise 4-24. Brainstorm enterprise ideas to match staff core competencies

Back to Guidebook

Directions: With your Enterprise Committee, and refering back to Exercise 4-22, brainstorm potential enterprise ideas that might match some of the more common staff core competencies you identified.

STAFF CORE COMPETENCY	POTENTIAL ENTERPRISE IDEA

4-25

Exercise 4-25. Brainstorm new/existing products/services for new/existing customers

Back to Guidebook

Directions: With your Enterprise Committee, use the quadrants below to help you generate enterprise ideas for existing/new beneficiaries/customers and new/existing products/services.

EXISTING PRODUCT/SERVICE EXISTING CUSTOMERS (Enter ideas for generating income from products or services you already provide to your beneficiaries) 1	**NEW PRODUCT/SERVICE** EXISTING CUSTOMERS (Enter ideas for generating income by creating new products/services to offer to your current clients/beneficiaries) 2
EXISTING PRODUCT/SERVICE NEW CUSTOMERS (Enter ideas of how to extend your current products/services to new customers) 3	**NEW PRODUCT/SERVICE** NEW CUSTOMERS (Enter ideas of how to create new products/services for new customers) 4

Discussion Questions:

1. What patterns do you see?
2. Are there similarities among the ideas within each box? Theoretically, those that are in Box 1 are closest to your mission and therefore less risky, and those in Box 4 are furthest from your mission and thus potentially more risky. We don't mean to discourage you from pursuing any ideas in Box 4, but only to make you aware that you might be entering new territory where you have less experience.

4-26

Exercise 4-26. Evaluate enterprise ideas against your enterprise criteria

Back to Guidebook

Directions: Follow the four steps below to evaluate your enterprise ideas against the enterprise criteria you established on Worksheet 4-21.

1. Enterprise criteria: Enter your enterprise criteria from Worksheet 4-21 here.

2. Enterprise ideas: Select six ideas from worksheets 4-23, 4-24 and 4-25 that are most interesting to staff.

3. Evaluating enterprise ideas against criteria: Third, use a scale of -2 to +2 (-2=low; +2=high) (see Box 4-32) to assign a score to each of your enterprise ideas to indicate how closely each idea meets each of your enterprise criteria.

-2   -1   0   +1   +2

Idea definitely **will not** meet our criteria — Idea definitely **will** meet our criteria

ENTERPRISE CRITERIA	ENTERPRISE IDEAS: Idea 1	Idea 2	Idea 3	Idea 4	Idea 5	Idea 6
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
TOTAL SCORE						

4. Scoring & selection: Finally, add up the total score for each and select the two enterprise ideas with the highest scores.

4-27

Exercise 4-27. Evaluate enterprise ideas against your staff core competencies

Back to Guidebook

Directions: Follow the four steps below to evaluate your enterprise ideas against the staff core competencies you established on Worksheet 4-22.

1. Staff core competencies: Enter your staff core competencies from Worksheet 4-22 here.

2. Enterprise Ideas: Enter the same six enterprise ideas from Exercise 4-26 here.

3. Evaluating enterprise ideas against staff core competencies: Third, use a scale of -2 to +2 (-2=low; +2=high) to assign a score to each of your enterprise ideas to indicate how closely each idea meets each of your staff core competencies.

-2 -1 0 +1 +2

Idea definitely **will not** match our core competencies

Idea definitely **will** match our core competencies

	ENTERPRISE IDEAS					
STAFF CORE COMPETENCIES	Idea 1	Idea 2	Idea 3	Idea 4	Idea 5	Idea 6
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
TOTAL SCORE						

4. Scoring & Selection: Finally, add up the total score for each and select the two enterprise ideas with the highest scores.

4-28

Exercise 4-28. Narrow your enterprise ideas

Back to Guidebook

Directions: List the ideas with the highest scores for criteria, and those with the highest scores for staff core competencies. Is there any overlap? Work with the Enterprise Committee to make your final selection, discussing each of those that have the higher scores and those that seem most feasible to you. You might end up with two or three key ideas.

Ideas with highest enterprise criteria score	Ideas with highest staff core competencies score
1.	1.
2.	2.

Now you are ready to present the key enterprise ideas to your Board of Directors. You will need to describe them clearly and to make a valid argument on how you arrived at these ideas. You might also want to point out some of the reasons why you believe that these ideas are worth pursuing, while also describing some of the concerns that you have and why you believe it's important to complete the pre-feasibility study to respond to these concerns.

GUIDE TO PRESENT THE THREE IDEAS TO YOUR BOARD OF DIRECTORS. Complete this box for each idea.

Idea Description

Meets our criteria:

Encompasses our core competencies:

Why we recommend pursuing this idea?:

Some concerns we have in pursuing this idea:

5-29

Exercise 5-29. Pre-feasibility study: Describe your product or service

Back to Guidebook

Directions: Work with the members of your Enterprise Committee to clearly define your product or service.

The definition should include responses to the following questions:
1. Who will want the product/service?
2. What is the product/service?
3. Where will the product/service be found?
4. When will the product/service be used?
5. How will the product/service be obtained or delivered?

You may refine your product definition based on new information gathered while doing the feasibility study.

Exercise 5-30. Pre-feasibility study: Conduct a market survey

Back to Guidebook

Directions: Work with the members of your Enterprise Committee to develop a short market survey for your product or service.

Whom will you survey?	
How many interviews are necessary to answer the questions?	
Where will the survey take place?	
Who will conduct the survey?	
How will you introduce yourself?	
What estimated price will you give your product/service?	
Describing your product/service (Exercise 5-29), list the questions you will ask.	1. 2. 3. 4. 5.

5-31

Exercise 5-31. Pre-feasibility study: Define market segments and competitors

Back to Guidebook

Directions: List all the market segments for your product or service using the following list as a guideline.
Market segments:
- Demographic: age, sex, income, education …
- Geographic: region, city, density …
- Psychographic: interests, attitudes, lifestyle, personalities…
- Behavioral: different loyalty level towards the product/ service, benefits desired from consumption, frequency of use, occasions/ events which encourage consumption …

1.

2.

3.

4.

5.

Directions: Now list your key competitors using this list as a guideline.
- Producers of same products or services
- Producers of similar products or services
- Producers of products or services of interest to your potential customer

1.

2.

3.

4.

5.

Exercise 5-32. Pre-feasibility study: Describe your operations and management needs

Back to Guidebook

Directions: Keeping in mind the questions and issues outlined in Section 5.3, complete the following chart on your enterprise idea.

	What do you need?	What do you already have? (existing core competency or resource)	How will you get the rest? (internal, external)	What more do you need to know about this issue?	How will you get further information?
Space & Equipment					
Staff and Management					

Exercise 5-33. Pre-feasibility study: Calculate start-up costs

Back to Guidebook

Directions: Complete the following chart to determine your start up costs. Add any categories that are missing, and when you have completed your research, form a complete start-up budget.

TYPE OF COST	SPECIFIC COST	AMOUNT (Local currency)	POTENTIAL SOURCE FOR COVERING COST
Facilities	First months rent/purchase Deposits (e.g. security, water, other utilities) Improvements or refurbishing/renovation Other		
Equipment	Vehicles Production machines/equipment Computer/software Furniture Telephones Other		
Materials/ Supplies	Starting inventory (or raw materials/work in progress) Office and packing supplies Promotional materials (brochures, display, etc.) Training supplies Other		

Discussion Questions:

1. How will you cover these costs? Financial projections will help you determine if you will be able to cover start-up costs from the enter prise's income, but it is likely that it will take some time before this is possible.

2. What are other ways that your start-up costs can be covered? Many organizations raise or borrow money to cover start-up costs. (e.g., grants, loans or reserve capital).

3. Does it seem likely that you will be able to raise the necessary capital?

5-34

Exercise 5-34. Pre-feasibility study: Define the unit and setting the price

Back to Guidebook

Directions: Complete the following chart to define the unit and set the price for your product or service. There is no established rule about price setting, but it is valuable to have a good estimate.

Define a unit for your product or service

Considering the three options for price setting explained in Section 5.4.2, what is the most appropriate way for you to set your price? (i.e., market research, desired profitability, price/quality index)

What information will you need to set your price this way?

What per unit price would you charge initially? (give your best estimate).

Discussion Questions:

1. Would it be helpful to use a sliding scale for mission oriented clients?
2. Would small changes in packaging or presentation allow you to increase your price?
3. Will a higher price improve your customer's perception of your quality?

Exercise 5-35. Pre-feasibility study: Identify fixed and variable costs

Back to Guidebook

Directions: Using the method described in Section 5.4.2, calculate the fixed and variable costs for your product or service. Add additional categories if needed.

	EXPENSE	FIXED	VARIABLE
1	Personnel Costs		
2	Rent/utilities		
3	Telephone		
4	Postage		
5	Printing		
6	Office supplies		
7	Insurance		
8	Advertising		
9	Other		
10	Other		
11	Other		
	TOTAL		

Exercise 5-36. Pre-feasibility study: Determine break-even

Back to Guidebook

Directions: Fill in the information to calculate your break even point!

Insert from the exercises 5-34, 5-35:

Price per unit	....	(Exercise 5-34)
Fixed costs per time period	....	(Exercise 5-35)
Variable costs per unit	....	(Exercise 5-35)

$$\text{Break even number of units} = \frac{\text{Fixed cost for the desired period}}{\text{Price per unit} - \text{Variable cost per unit}} = \boxed{}$$

Discussion Questions:

1. Now that you have your break-even number, what does it tell you?

2. How many units do you have to sell in order to cover your costs?

3. Does this seem a realistic scenario? It is also important to calculate with different assumptions – what happens if fixed costs go up unexpectedly or you are not able to charge the price you hoped for? How sensitive is your business?

4. Are costs prohibitively high? Is it reasonable to consider covering these costs? Are there unusual overhead costs such as equipment, salaries or property?

5-37

Exercise 5-37. Pre-feasibility study: Manage and mitigate potential risks to mission and to the organization

Back to Guidebook

Directions: Use this exercise to consider all the possible risks stemming from your proposed enterprise. Discuss this among members of the Enterprise Committee.

	WHAT WILL THE IMPACT BE?	HOW CAN YOU MITIGATE THIS RISK?
Could this enterprise hinder your existing beneficiaries?		
Will the enterprise cause you to focus more on paying clients as opposed to your beneficiaries?		
Could the enterprise cause tensions between your staff for any reason?		
Will organizational resources be diverted from other programs due to this enterprise?		
Could this enterprise threaten your environmental or other socially responsible practices in any way?		
Could this enterprise jeopardize your financial situation in any way?		
Could this enterprise jeopardize your reputation in any way?		
Other potential risks of this enterprise?		

Exercise 5-38: Summary: Assess your organizational strengths and weaknesses in relation to the enterprise

Back to Guidebook

List problem areas or weaknesses that could limit your success in this enterprise

....

....

....

....

....

....

List organizational strengths that could enhance or be helpful in this enterprise

....

....

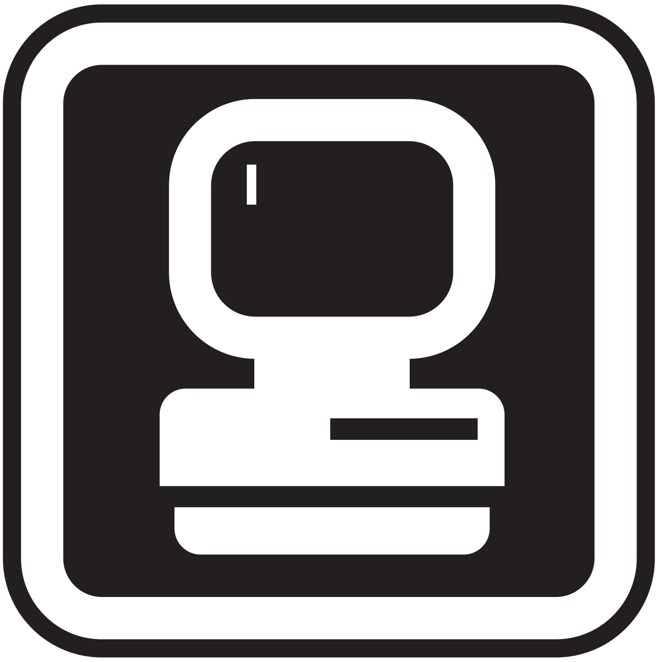
....

....

....

....

Additional resources



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About NESsT (www.nesst.org)

The Nonprofit Enterprise and Self-sustainability Team (NESsT) works to strengthen the financial independence of civil society organizations (CSOs) devoted to systemic social change. NESsT believes that through self-financing and social enterprise some CSOs can increase their long-term sustainability by generating their own, untied resources to supplement support from private and public donors.

NESsT was founded in 1997 with the goal of promoting CSO self-financing initiatives internationally through three distinct but interrelated lines of work:

NESsT University promotes innovation, accountability, and leadership in the field of social enterprise through several programs: (1) Social Enterprise Ethics Initiative (SEE INIT); (2) NESsT Entrepreneur-in-Residence (NESsTER) program; (3) Social Enterprise Workshop (SEW) series; (4) International Venture Philanthropy Forum; (5) NESsT International Social Enterprise Exchange (ISEE) program; (6) NESsT Social Enterprise Curriculum; (7) NESsT publications series; and (8) the International Venture Philanthropist Award.

NESsT Venture Fund (NVF) is the only philanthropic investment fund focused on emerging democracies. Launched in 2000, the Fund provides multi-year, tailored financial and technical support to social enterprises in Central Eastern Europe and Latin America. The NVF supports a portfolio of social enterprises at various stages of enterprise development, from start-up to expansion. The NVF does this by providing rigorous enterprise development support, direct financial and capacity-building assistance, and leveraging of other community resources to help "incubate" and mentor the social enterprises.

NESsT Consulting provides professional services in social enterprise and venture philanthropy development, including workshops, one-on-one consulting, research and assessment, and other expert services adapted to the needs of its wide array of clients, among them CSOs, international organizations, foundations, and government agencies. To date NESsT Consulting has completed over 30 consultancies for clients in more than 25 coutries.

NESsT works in countries that have recently undergone political and economic transition, where support for civil society is limited and CSOs often face particularly daunting financial challenges. NESsT currently operates out of its two regional offices in Santiago, Chile, and Budapest, Hungary.

NESsT Publications

"Profit" is often considered an inappropriate or unattainable concept in the "nonprofit" world. Business activities are said to take the attention and resources of nonprofits away from their core mission. However, some nonprofit, civil society organizations (CSOs) can actually further their mission and increase their long-term viability, efficiency and independence through "self-financing."

Publications designed for donors, nonprofit leaders, philanthropists and researchers worldwide to help foster the effective and responsible use of enterprise activities in the nonprofit sector.

Self-financing (e.g., social enterprise) refers to a number of entrepreneurial approaches to generating income. These methods include membership dues, fees for services, product sales, use of "hard" or "soft" assets, ancillary business ventures, and savings or other investment dividends. Self-financing strategies are currently used by many CSOs around the world. However, few resources and tools exist to help nonprofit practitioners use self-financing strategies more effectively and responsibly. Nor has there been sufficient critical examination of the impact and implications of such entrepreneurial activities on nonprofit organizations specifically or the nonprofit sector generally.

The NESsT Publications Series was designed to further the theory and practice of nonprofit self-financing by providing useful analyses and tools to donors, practitioners, researchers and students. The publications document experiences from around the world and examine the recurring challenges organizations face when attempting to use self-financing strategies. They also provide CSO practitioners the necessary tools to determine how or whether to implement self-financing strategies.

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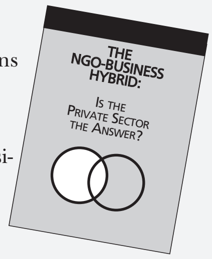
The NGO-Business Hybrid



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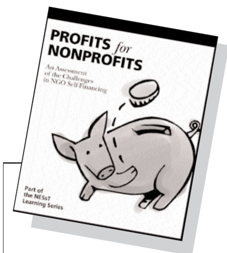

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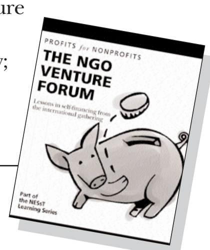

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Appendix A: Case Vignettes Community Vocational Enterprises (CVE)

SIX CASE VIGNETTES:

Vignette 1: Assessing Organizational Readiness

Vignette 2: Assessing Financial Readiness

Vignette 3: Selecting an Enterprise

Vignette 4: Getting Ready for Enterprise Start-up

Vignette 5: Planning for Enterprise

Vignette 6: Starting Up the Enterprise

Note: The case vignettes of Community Vocational Enterprises were prepared for *Get Ready, Get Set* by Cynthia Gair and Julia Jones of the Roberts Enterprise Development Fund (REDF) in San Francisco, California (USA) in association with Nicole Etchart of NESsT.

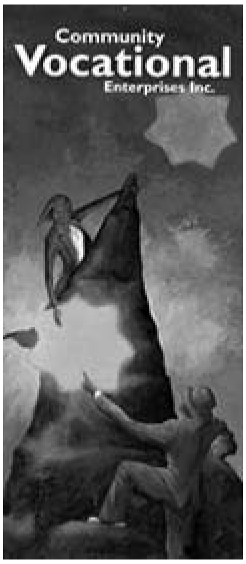
Vignette 1: Assessing organizational readiness

COMMUNITY VOCATIONAL ENTERPRISES (CVE)

(San Francisco, California)

CVE is a nonprofit organization established in 1986. CVE creates opportunities for individuals with psychiatric disabilities and other disenfranchised populations, living in San Francisco, to successfully integrate into the community through innovative employment training, placement and support services.

www.cve.org



This appendix is divided into six case vignettes each illustrative how a nonprofit organization – Community Vocational Enterprises (CVE) – moved from a high dependence on government contracts to the creation of profitable social enterprises. The vignettes are included here as an example of how a real-life organization implemented a similar pre-planning process as to that outlined in *Get Ready, Get Set,* albeit with some adaptation to the unique needs and realities of CVE The six vignettes document CVE's process through the steps of organizational and financial readiness, to choosing several enterprise ideas, to conducting pre-feasibility and feasibility studies, to finally settling on – and starting up – the enterprise. The lessons learned by CVE are numerous and they highlight the seriousness with which the organization approached its mission and financial goals during social enterprise development. The case is therefore a useful reference for organizations that are going through the *Get Ready, Get Set* process.

Background

CVE was created in 1986 as a program of the San Francisco Services Center (SFSC). Although CVE was not a government agency, it executed government contracts to provide training and employment services to San Francisco residents with psychiatric disabilities. Through assessment, training, transitional employment, community placement and follow-up, CVE helped its clients recognize and realize their potential. To carry out its mission, CVE works with a staff of more than 50 people. CVE staff are divided into two key areas - operations and businesses. The operational staff provides job development and support to people with disabilities (clients) as well as administrative support to the organization. The "business" side of the organization is comprised of business managers and supervisors for each enterprise, as well as enterprise employees, who are also clients of CVE.

Initially, CVE tried to find a pool of jobs into which they could place their clients. This process was very time-consuming and frustrating. Furthermore, many community-based employers were not able to provide the supportive environment that some clients needed. Many clients did not have successful mainstream employment experience. Furthermore, some of them had work limitations due to the psychiatric disability. Most clients came to CVE needing extensive vocational training and were able to work less

ABBREVIATIONS

COGS	= cost of goods sold
CVE	= Community Vocational Enterprises
DMS	= Department of Mental Services
ED	= Executive Director
IME	= Industrial Maintenance Engineers
MBA	= Masters of Business Administration
REDF	= Robert Enterprise Development Fund
SFSC	= San Francisco Services Center
sq.ft.	= square feet

than 10 hours per week. They needed to learn and practice very basic skills. As a result, appropriate placements were very hard to find for most clients.

In 1989, CVE hired a new executive director, John Brauer. Although Brauer did not have a formal business education, he had a strong background in business. Prior to joining CVE John had worked his way up from junior to senior management positions in several companies, including a restaurant, a video store, and a construction company. When he joined CVE, he soon assessed that the organization needed to change to be effective. "Our old way of job development was: When you're out at lunch and you see a "Help Wanted" sign, you ask about the position. This process was inefficient and did not match client and employer needs." Brauer decided to take a more entrepreneurial approach to job development.

"Our old way of job development was: When you're out at lunch and you see a 'Help Wanted' sign, you ask about the position. This process was inefficient and did not match client and employer needs."

Under Brauer's direction, CVE started to create jobs in-house. Brauer and his staff began to look for small jobs that clients could do. They found piecework craft and clerical projects. For example, one Christmas, CVE was contracted to glue bay leaves to Styrofoam balls; another season they were drilling holes in nutmegs and embedding dried roses and lavender in concrete blocks. Unfortunately, these projects did not fit with the skills and needs of the client base. Furthermore, the skills were not transferable to jobs in the permanent job market.

CVE clients were not getting permanent employment. And the little businesses CVE started were more of a drain on the organization than a support to the mission.

According to Brauer, "The last straw was the bird seed project." He refered to a contract CVE took on to make "stress balls" (i.e., soft rubber balls people can squeeze to relieve stress and tension). Stress balls are made by filling three layers of balloons with birdseed. The only space at CVE that could accommodate the buckets of birdseed, boxes of balloons and the air compressor required for the project was in Brauer's office. In theory, one person could make 30 balls per hour. However, the task turned out to be much more difficult than expected – CVE staff and clients were only able to make one stress ball per hour. CVE thus ended up having a few clients and the entire staff work all day on the stress ball project in order to complete the commitments of the contract.


CVE-run coffee bar

These approaches to job placement were not working out for CVE. The clients were not getting permanent employment. The temporary jobs did not serve as a path to longer-term employment. And the little businesses CVE started were more of a drain on the organization than a support to the mission. In the words of Brauer, "We've done a million projects, most of which required a lot of staff time just to break even." Brauer recognized the need to think more strategically about how CVE could accomplish its mission of providing vocational and rehabilitation services to the mentally ill.

Brauer recognized the need to think more strategically about how CVE could accomplish its mission of providing vocational and rehabilitation services to the mentally ill.

Developing a new enterprise strategy for CVE

These experiences were very important in shaping the future direction of CVE. CVE management recognized that creating employment-centered businesses could give them the flexibility to assess, hire and train clients to work and learn transferable skills. CVE also understood that its businesses had to fit with the skills/interests of its clients and lead to a livable wage.

Relying on government grants and contracts prevented CVE from responding quickly to business opportunities.

Finally, several months later, CVE stumbled across a business that fit. Brauer was looking for clients at a San Francisco government-sponsored day treatment center when the director told him that she needed someone to clean the site. Brauer bid for and won the contract to clean the site three times per week. At first, Brauer did most of the work himself. Over time, however, CVE trained clients to do the work. Within three months, eight clients were employed cleaning the site. CVE found that many clients were able and willing to do janitorial work. The jobs were available. Furthermore, janitorial work, especially in unionized situations, provided a good living wage.

San Francisco government workers became more and more impressed with CVE and the success of the cleaning business. They began to look for other opportunities to provide work for CVE clients. By 1996, CVE was operating two coffee bars, a clerical training and placement service, and a messenger/delivery program for the city while providing janitorial services at fifteen sites. CVE had become the largest employer of people with psychiatric disabilities in San Francisco. Most of CVE's contracts were with the city of San Francisco, which set aside contracts for people with disabilities. Each of the jobs available through these businesses was intended to be transitional in nature. At the end of a training period, CVE would work with clients to find placements in community-based businesses. Clients were able to hold a variety of positions within the companies - based on their skill levels and interests. Pay rates ranged from minimum wage ($4.25 per hour) all the way up to $10 per hour.

EXHIBIT 1:
OUTPUT FROM CVE INTERNAL ASSESSMENT PROCESS

STRENGTHS

- creates a positive, supportive, friendly, diverse, team-oriented work environment for staff and clients
- treats clients in a unique, caring, non-adversarial way
- good at running businesses
- good balance of business vs. support services
- good communication
- flexibility for staff and clients to explore and take initiative
- high level of staff investment in agency philosophies and vision for the future
- constantly adapts to changing environment in order to improve quality of agency
- history of success and innovation
- good reputation
- highly qualified and dedicated staff

WEAKNESSES

- doesn't have enough community placements
- need better ties with local business community to find placements
- doesn't have enough jobs with enough structure/ support for low-functioning clients
- does not provide enough training for low-functioning clients
- always in catch-up mode due to fast growth
- very dependent on city for funding/is at risk for budget cuts
- need work incentives/raises
- businesses do not prepare clients for the "real world" workforce
- tend to be more flexible with workers than is realistic
- not able to tell how businesses are doing financially due to lack of information
- businesses lack needed equipment like espresso machine and wax machine

Assessing strengths and weaknesses

CVE had been able to identify needs and opportunities and respond as an organization because its leadership and staff communicated regularly about what was working and what was not. In February of 1997, as Brauer led his staff in a self-assessment process, it became clear that CVE needed to make some major changes, once again. The staff articulated the strengths and weaknesses in Exhibit 1.

Many of CVE's weaknesses were due to its organizational status and financial structure. CVE was a program of the SFSC. This meant that all of CVE's financial transactions were filtered through the SFSC, its parent agency. The SFSC only shared limited financial information in return. As a result, it was very difficult for CVE to tell how its businesses were doing. CVE was also required to pay 10% of its revenue to the SFSC for administrative costs.

EXHIBIT 2: NEW GOALS FOR CVE ENTERPRISES
Based on an analysis of strengths and weaknesses, CVE's management established the following primary goals for the CVE enterprises:

- to expand the number of jobs offered through CVE-owned and operated enterprises
- to increase the number of jobs created from non-government-sponsored contracts
- to establish CVE as an independent nonprofit organization to run the businesses more effectively
- to build enterprises that are economically viable and that eventually provide a funding base to reduce CVE dependency on government contracts

CVE's businesses had been a means of providing jobs but the financial performance of these businesses had not been a focus of the organization.

This meant that CVE automatically lost 10% of its revenue on every job, regardless of what the job cost to do. This financial drain inhibited CVE's ability to respond to opportunities as they arose.

CVE's financial situation was even more limiting. Almost 90% of CVE's funding came from the City and County of San Francisco. CVE was highly respected and had received significant increases in funding in recent years. However, this funding was subject to politics. In 1996 health care reform was on the national agenda. The city and county were experiencing budget crises. These realities put CVE at risk. CVE also wanted to expand is programs in order to provide more jobs and to provide permanent jobs for clients who were likely to need a supportive work environment long-term. Relying on government grants and contracts prevented CVE from responding quickly to business opportunities. Furthermore, it limited what it was allowed to do as an organization.

Setting organizational and financial goals for enterprise

Based on an analysis of CVE's strengths, weaknesses and goals, CVE's management shifted its strategy (see Exhibit 2). Although CVE had been running businesses for years, the changes in strategy were significant. Its businesses had been a means of providing jobs, but the financial performance of these businesses had not been a focus of the organization. Furthermore, most of the business income had come from government contracts. Brauer wanted the businesses to secure contracts in the private sector where they would not be so subject to political change. For example, CVE's funding was at risk during every government budget cycle. In previous years, services to the mentally ill had been cut dramatically on a national level. A similar change in funding policy at the local level would be devastating for CVE. However, to obtain private sector contracts, CVE would be competing with professional businesses. Significant organizational changes would be required to compete successfully.

CVE staff started on this new path by creating a revised mission statement (see Exhibit 3) that reflected the shift to CVE owned and operated enterprises for the purposes of generating both employment for clients and revenues for mission related objectives.

EXHIBIT 3: CVE REVISED MISSION STATEMENT

CVE's businesses had been a means of providing jobs, but the financial performance of these businesses had not been a focus of the organization. The revised CVE mission statement reflected this change in strategy:

"Our mission is to provide outcome-oriented training, employment, support and educational opportunities for San Franciscans with psychiatric disabilities. We provide these services while maintaining sound business practices and owning and operating our own revenue-generating enterprises, thus promoting the long-term survival of the agency.

We believe that a continuum of paid work opportunities and dynamic, consumer-driven vocational services help the underserved in the community to lead independent, fulfilling lives."

Vignette 2: Assessing financial readiness

CVE's financial management was limited to an income statement-budget perspective. The revenue-expense budget could provide some insight into the financial health of the agency, but it had significant limitations for monitoring enterprise performance.

As Executive Director of CVE, one of John Brauer's greatest frustrations was his difficulty in getting a clear picture of CVE's financial situation. CVE's fiscal sponsor, the San Francisco Services Center (SFSC), received all revenue and paid all bills for CVE. It worked with CVE to create annual and monthly budgets and reported to CVE on progress to date against the budget. SFSC did not supply CVE with integrated income statements, balance sheets, and cash flow statements to show its performance. Instead, SFSC gave CVE reports showing budget versus actual revenues and expenses. Thus, CVE's financial management was limited to this income statement-budget perspective. The revenue-expense budget could provide some insight into the financial health of the agency, but it had significant limitations for monitoring enterprise performance. There were still many unknowns for Brauer to understand the real financial health of CVE (see Exhibit 4).

Assessing Financial Health

By comparing its 1995 and 1996 budgets (see Exhibit 5) CVE could see it was bringing in more money than it was spending. This suggested that its current programs were sustainable and that CVE was managing its financial situation reasonably well. Between 1995 and 1996 CVE was able to almost double its revenue. It nearly doubled the value of the City Contracts it serviced. More important to CVE's refocused strategy was its ability to bring in revenue through its businesses. CVE demonstrated strong performance by tripling its business income during that same period. This increase suggested that the organization had some capacity to fund its own growth.

Although revenues were increasing, the budget also signaled that there was a possible decrease in efficiency from one year to the next. CVE's expenses increased more dramatically than its revenues - revenues were up by 90% while expenses had doubled. This difference was not necessarily negative – there can be good reasons for expenses to increase more quickly than revenue. For example, it can be more expensive to start a new program (than to maintain it, once it is started). CVE's manage-

EXHIBIT 4: UNDERSTANDING THE FINANCIAL HEALTH OF CVE

Some of the key questions Brauer needed to answer to understand the real financial health of CVE.

1. Did CVE have sufficient resources to support current programs, maintain equipment, and grow as an organization?

2. What was the financial health of CVE's businesses?

3. Was CVE using its financial resources to support its mission in the most efficient and effective way possible?

4. Was CVE financing activities with the appropriate resources? For example, if CVE was paying off a loan over time, was it still receiving some benefit from the item purchased? Also, was CVE using restricted funds in appropriate ways?

5. How vulnerable was CVE financially - did CVE have control over its financial resources?

EXHIBIT 5: SAN FRANCISCO SERVICE CENTER (SFSC)

COMMUNITY VOCATIONAL ENTERPRISES (CVE)
Revenues and Expenses

	1996	1995
REVENUE		
City Contract (Department of Mental Services)	$965,711	$494,553
DMS Advance	61,428	91,356
Total DMS Revenue	**1,027,139**	**585,909**
Business Income	248,919	80,605
Grant	25,682	21,099
TOTAL REVENUE	**1,301,741**	**687,613**
EXPENSES		
Expenses Covered by DMS		
Payroll Taxes -- Client	9,890	-
Leased Equipment	18,980	4,756
Conferences and Seminars	7,921	2,772
Office Supplies	61,346	21,545
Local Travel -- Staff	6,234	2,261
Postage	744	296
Staff Salaries	481,025	203,837
Payroll and Audit Fees	4,883	2,117
Administrative Fee	112,677	51,566
Printing and Duplicating	2,300	1,157
Local Travel -- Client	3,783	1,907
Utilities and Telephone	5,317	2,800
Frinde Benefits	41,269	24,216
Office Rent	102,172	60,901
Payroll Taxes	51,726	32,466
Client Salaries	189,813	144,240
Repairs and Maintenance	435	573
Total Expenses Covered by DMS	**1,100,516**	**557,409**
Other Expenses		
Consultants	10,215	2,213
Fees, Licenses and Taxes	1,878	10
Dues and Subscriptions	3,402	2,741
Office Equipment	10,157	111
Food Service Supplies	26,137	14,883
Janitorial Supplies	542	627
TOTAL EXPENSES	**1,152,848**	**577,995**
NET INCOME	**148,892**	**109,618**

Contract Revenue CVE nearly doubled revenue from its DMS contracts between 1995 and 1996.

Business Income CVE tripled business income in this same period.

Total Revenue Overall, CVE was therefore able to double its total revenue in this period.

The income statement highlighted a substantial risk for CVE - revenues were very vulnerable to change. In 1996, more than 80% of CVE's revenue was coming from the DMS government contracts. CVE had decreased its dependence on DMS funding somewhat by generating its own business revenue. But losing a single customer (i.e., DMS) could have a significant effect on CVE's financial situation.

Expenses While revenues were up 90 percent, expenses doubled during the same period. Were these additional expenses necessary for expanding enterprise activity? or did the dramatic increases signal a possible decrease in CVE efficiency?

ment challenge was that they could not tell from the income statement / budget what the increased expenses were supporting. In this budget, there are substantial increases in postage, leased equipment, conferences, travel, and office equipment. It is not clear whether these expenditures support growth of the programs or if CVE is simply getting less efficient.

The budget did highlight one substantial risk for CVE - vulnerability to funding shifts. CVE could control its expenses to some degree, but its revenues were very vulnerable to change. In 1996, more than 80% of CVE's revenue was coming from the Department of Mental Health Services (DMS). Although CVE's dependence on DMS had decreased somewhat since 1995, CVE was still very dependent on it. Politicians set the budget for DMS. As a result, shifts in public policy and/or citywide budget shortfalls could result in substantially reduced funding. CVE success in generating some of its own business revenue was beneficial in diversifying its revenue base, but it also contained some risk. In 1996, CVE's businesses were providing services to a small number of customers and losing a single customer could have a significant effect on CVE's financial situation.

CVE's businesses were providing services to a small number of customers and losing a single customer could have a significant effect on CVE's financial situation.

Re-assessing the CVE financial statements

When CVE management decided to pursue a strategy of social enterprise development, they realized that they would need access to much better financial information. They decided to take the following steps to improve the quality of financial information for the social enterprises:

1. Separate CVE from parent agency: Since CVE's parent agency, SFSC, was only able to track financial information on a program level (i.e., CVE was a program of the SFSC) CVE could not attribute these figures to its individual enterprises. This reality, combined with the fact that CVE had to pay its parent agency 10% of revenue to cover "indirect" expenses, motivated CVE to separate from its fiscal sponsor and register as a seperate (IRS 501c3) nonprofit organization.

2. Develop enterprise-specific financial statements: A complete set of financial statements for each enterprise would give Bauer a better sense of the organization's financial position:

- *an enterprise-specific income statement would allow CVE to separate the social mission versus business-related revenues and expenses.* This would enable CVE to understand how well resources were being utilized for both purposes. Without separating business and mission revenues and expenses, it is difficult to understand an enterprise's performance, and if the funds for rehabilitation were being utilized effectively. For example, Exhibit 6, shows how in a traditional income statement an organization might appear to be financially strong. However, in the statement where the mission and business related funds are separated, it becomes apparent that though overall revenues are covering overall expenses, the business itself is actually "subsidizing" the social services.

An enterprise-specific income statement would allow CVE to separate the social mission versus business-related revenues and expenses.

- *a separate balance sheet would enable CVE to have a good picture of its assets and liabilities.* Assets include cash, accounts receivable, inventory, property,

EXHIBIT 6: RE-ASSESSING THE CVE FINANCIAL STATEMENTS
By separating social and enterprise revenues and expenses, it becomes apparent that the enterprise is actually "subsidizing" the social services of CVE.

CVE BEFORE: Traditional Nonprofit-Style Income Statement

	1996	
REVENUE		
City Contract (DMS)	1,027,139	Fee for service paid by contractors
Non-contract Business Income	248,919	Fee for service paid by private sources
Grants	25,682	Grants from foundations to fund mission
TOTAL REVENUE	**1,301,741**	
EXPENSES		
Expenses covered by DMS	**1,100,516**	Estimated at 25% of cost to cover extra support to clients &cost of providing services to DMS
Consultants	10,215	Consultants hired to help optimize business
Fees, Licenses and Taxes	1,878	Fees for required permits and licenses
Dues and Subscriptions	3,402	For relevant industry journals and organizations
Office Equipment	10,157	Copiers and other equipment
Food Service Supplies	26,137	Cost of food services for private customers
Janitorial Supplies	542	Cost of service for private customers
TOTAL EXPENSES	**1,152,848**	
NET INCOME	**148,892**	

From the "before" income statement, CVE appears to be making a profit of $148,892 per year. From the "after" statement, it is clear the enterprise is funding the social services: net income for the enterprise was $398,399; social costs were $275,129 per year and only $25,682 was covered by grants. The remainder of the social costs were covered by the enterprise profits (net income), leaving a final net income (after social costs and subsidies) of $148,892.

CVE AFTER: Social Enterprise-Style Income Statement

	1996	
ENTERPRISE REVENUE		
City Contract (DMS)	1,027,139	
Non-contract enterprise income	248,919	
Total enterprise income	**1,276,059**	Only enterprise-related revenue
Less cost of goods sold (COGS)	852,067	Estimated at 75% contract expense, janitorial & food service supplies
GROSS PROFIT	**423,992**	
OPERATIONAL EXPENSES		
Consultants	10,215	Assumes all other expenses are enterprise-related
Fees, Licenses and Taxes	1,878	but not tied to direct cost of providing the service
Dues and Subscriptions	3,402	
Office Equipment	10,157	
TOTAL OPERATIONAL EXPENSES	**25,652**	
NET INCOME	**398,339**	
PROGRAM EXPENSES	**275,129**	Estimated at 25% of contract expense
Subsidies	25,682	Grants & other non-enterprise-related revenue
NET INCOME (after social cost & subsidies)	**148,892**	

and the like. Liabilities include money owed to creditors, banks, and suppliers. The balance sheet would alert the organization of danger if liabilities outweighed assets. The balance sheet would also enable Brauer to see whether resources were being drained or increased over time and it would show how efficiently resources were being utilized. Finally, the balance sheet would show what resources were available to fund future projects.

- *a separate cash flow statement would show how cash is being used by each enterprise.* Most businesses fail because they run out of cash and yet still appear profitable according to their income statement. The cash flow statement tracks cash inflows and outflows, and predicts cash shortfalls. Typically businesses purchase inventory (e.g., food for the restaurant, cleaning supplies for the janitorial business) before they get paid. Even if a job is profitable, it is possible that the business could run out of cash before receiving payment for services rendered. Brauer needed to be able to track this for each individual enterprise.

3. Develop an internal accounting system: As an independent agency, with raw financial data, CVE management knew that they would need to develop an internal accounting system and that they did not have the internal expertise to do so. Brauer went to REDF with a detailed business plan describing how he would like CVE to change and grow, along with a request for financial and consulting support to achieve this growth. After his first meeting with REDF, Brauer said, "Jed Emerson [REDF's director at that time] laughed at me." It was clear that the numbers did not say enough about how the organization or its businesses were doing. However, the REDF did see the value in CVE's enterprise plan and agreed to support development of an internal accounting system.

"At first, I was keeping everything private about the numbers. It was like I was a big meanie and no one else cared about the costs. Now I give the business statements to everyone. When you tell people what you're doing and why, they're a lot more supportive."

4. Training staff on financial management: This shift to more actively manage the organization's finances was a major change for CVE staff. Suddenly, they had to start thinking about the organization more as a business than a social service agency. CVE asked Michelle Tatos, a staff person who was going to school at night to get her MBA, to be responsible for balancing the costs of doing the business with the costs of providing social services. This was definitely a challenge. Tatos said, "It was tricky. Staff didn't quite understand why I suddenly cared so much about numbers. At first, I was keeping everything private about the numbers. It was like I was a big meanie and no one else cared about the costs. Now I give the business statements to everyone. When you tell people what you're doing and why, they're a lot more supportive."CVE took several key steps in order to train CVE staff on financial management. Together, John Brauer and Michelle Tatos educated CVE staff about the importance of financial management. Gradually, they trained the staff to be disciplined about recording the additional financial information needed to track agency and business results.

5. Use external support: CVE also utilized external support to get its systems in order. Because social purpose enterprises are relatively unusual, it can be difficult to find outside consultants who understand the distinct financial needs of this type of organization. CVE talked to REDF to try to identify people with good reputations and an understanding of the special financial requirements of social purpose enterprises. First they hired Keystone Community Ventures to help design an accounting system that could both do the financial reporting required of a nonprofit and produce the reports they needed to manage their enterprise and programs.

6. Revise chart of accounts: The first step in the process to improve the CVE accounting system was to revise the CVE chart of accounts in order to track revenue and expenses both in terms of their fund status (for nonprofit tracking) and their business uses. The new chart of accounts (see sample in Exhibit 7) also helped CVE separate business expenditures from "social costs" - enabling them to compare their business operations to other businesses and their service provision costs to those of other social service agencies. They also contracted an accountant to do the detailed set-up and refinement of the new system and to do the on-going bookkeeping.

EXHIBIT 7 : EXAMPLE OF UPDATING CVE'S CHART OF ACCOUNTS *(updates in italics)*

OLD SYSTEM
Shows type of spending by funding source. For example, code D6110 shows how much DMS contract money (D) was spent on client salaries for all of CVE.

Creates CVE-level income statement where social cost cannot be separated.

Activity Source	Funding Source	Activity Code	
J	D	6100	Payroll Expense
J	D	6110	Client Salaries
J	D	6120	Staff Salaries
J	D	*6121*	*Social Service Staff Salary*
J	D	*6122*	*Business Staff Salary*
J	D	6130	Client Payroll Taxes
J	D	6140	Staff Payroll Taxes
J	D	*6141*	*Social Service Payroll Taxes*
J	D	*6142*	*Business Payroll Taxes*
J	D	6150	Payroll and Audit Fees
J	D	6160	Fringe Benefits

Funding Source Key	***Activity Source Key***
D = DMS Contract	*J = Janitorial Business*
P = Private Job	*C = Coffee Business*
U = Unrestricted Funds	*S = Direct Service*

NEW SYSTEM
Shows type of spending by funding source and business use. For example, code JD6120 shows how much DMS contract money (D) was spent on staff salaries for the janitorial business (J).

Adds sub-categories that separate social and business costs. For example, staff salaries are broken down by social service and business categories.

Creates business-level income statements where social costs can be distinguished from business costs.

Over the next several years, CVE was able to transform itself from an organization with little financial information into one that used financial reports to inform important decisions about the direction of the organization and the management of the businesses.

Vignette 3: Selecting an enterprise

Staff recognized that, in order to be successful, the business they chose would have to both provide appropriate jobs for their clients and be financially viable.

EXHIBIT 8: AGENDA OF CVE ENTERPRISE BRAINSTORMING MINI-RETREAT

Criteria (30 minutes)

1. Discuss, clarify, come to agreement on, and articulate CVE's purpose in starting a new enterprise -- or expanding on an existing enterprise.

2. Discuss, clarify, come to agreement on, and articulate CVE's criteria for starting a new enterprise -- or expanding on an existing enterprise.

Enterprise Ideas

1. Brainstorm (wildly, with abandon) and list possible new enterprises or expansions of existing enterprises (45 minutes).

2. Pick the 3-4 enterprise ideas that most closely meet CVE criteria (20 minutes).

Brainstorming enterprise ideas

In October 1996, CVE staff gathered for an important management retreat. This would be the day that they started the process of choosing a business (see Exhibit 8 for a summary of the session agenda). Although some of CVE's past businesses had been successful (e.g., the janitorial service), the organization had also experienced several business "failures." its fair share of fiascoes. Staff recognized that, in order to be successful, the business they chose would have to both provide appropriate jobs for their clients and be financially viable.

The group spent an hour brainstorming about the clients' and the agency's needs. CVE asked Cynthia Gair, of Keystone Community Ventures to be its outside facilitator, ensuring that staff was able to participate fully in the process. CVE staff and management then discussed what needs were going unmet. They revisited what had made them want to start a new business. Everyone in the room was an expert on the needs of their clients, so it made sense to start by setting enterprise idea evaluation criteria related to client needs. This process helped CVE staff ensure that its new business would be consistent with the mission of CVE (see enterprise criteria, Exhibit 9). CVE staff then evaluated the suggested criteria and came up with a list of business requirements describing what a new business must do in order to meet the needs they had articulated. Next, the group brainstormed potential business ideas (see enterprise ideas, Exhibit 9). During this process they were not judging the validity of each idea. Rather, they were trying to get a large number of ideas out. As more ideas went up on the board, they triggered other ideas, and soon there were more than ten ideas listed. During this process people suggested a variety of business ideas ranging from a laundry service to a manufacturing business. Once the group was satisfied that they were out of ideas, they began to evaluate the ideas against the criteria that they determined earlier in the day (see evaluation results, Exhibit 9). Based on their brainstorming session, CVE decided to investigate three businesses further - janitorial services, laundry services and a commercial copying business. These businesses seemed to work with CVE's enterprise-related goals. The next step was to evaluate the ideas in order to eliminate businesses that were unlikely to meet their mission goals and financial objectives. CVE found that janitorial and laundry businesses were likely to meet their goals, while a restaurant, would be more challenging.

Conducting pre-feasibility analysis

Following this staff retreat, CVE contracted with Cynthia Gair, at that time with Keystone Community Ventures, to coordinate and guide their development of a pre-feasibility analysis of the three promising ideas. The pur-

EXHIBIT 9: CVE ENTERPRISE CRITERIA, IDEAS, AND EVALUATION RESULTS

1. Enterprise Criteria: First, CVE staff established criteria for selecting enterprise ideas appropriate for CVE.

2. Enterprise Ideas: Second, CVE staff brainstormed as many potential enterprise ideas as possible.

3. Evaluating Enterprise Ideas against criteria: Third, CVE staff evaluted each enterprise idea on its ability to fulfill the enterprise criteria they had established:

-2 | -1 | 0 | +1 | +2

Definitely **will not** meet criteria — Definitely **will** meet criteria

ENTERPRISE CRITERIA	ENTERPRISE IDEAS					
	Janitorial Services	**Assembly Business**	**Laundry Services**	**Restaurant**	**Commercial Copy**	**Commercial Bakery**
Range of skill requirements (mostly low skill jobs)	+2	+1	+2	+1	+2	0
Range of full-time and part-time jobs (mostly part-time)	+2	+2	+2	+2	+2	0
Variety of tasks	+2	0	+1	+2	+1	+2
Hig proportion of repetitive, predictable tasks	+2	+2	+2	-1	+2	+1
Environment that management can control	+2	+2	+2	-1	+2	+1
Daylight-hours jobs	+1	+2	+2	0	+1	0
Monday-Saturday jobs	+1	+2	+1	0	+1	+1
Organized as supervised team/crew work	+2	+2	+2	0	+2	0
Room for quality checks and controls (i.e., time to correct mistakes)	+2	+1	+1	-2	+1	0
Minimal deadline stress	+2	0	+1	-2	0	0
Minimal seasonal layoffs	+2	0	+1	0	+1	-1
Leads to living wage work	+2	0	+1	0	+1	+2
TOTAL SCORE	**+22**	**+14**	**+18**	**-1**	**+16**	**+6**

After evaluating each idea against the established enterprise criteria, CVE decided to investigate the three enterprises with the highest scores: janitorial services, laundry services and a commercial copying enterprise.

pose of the pre-feasibility analysis was to get a general overview of what could be expected from each business enterprise. The goal was to identify weaknesses or "red flags" which might eliminate a enterprise from further consideration.

The pre-feasibility analysis was used to help CVE avoid jumping into an enterprise that fit with the mission but might drain the organization financially.

In order for the pre-feasibility study to be useful, the information had to be as precise as possible. Cynthia directed the pre-feasibility analysis. The analysis was based on the outline shown in Exhibit 11. These questions enabled CVE staff to gather information that helped them assess whether each business actually did fit with their enterprise related goals. The answers also helped CVE get a more accurate sense of what it would take to compete in the market and how long it would take to make a profit. This information was used to help CVE avoid jumping into a business that fit with the mission but might drain the organization financially. Given CVE's limited resources, it was crucial that they focus their efforts on a enterprise that was likely to be successful.

Cynthia Gair guided CVE staff, meeting with them regularly to suggest good information sources and approaches for getting needed data and information (see Exhibit 10). Basic statistics and industry background information was readily available at the library either in books or through various databases. In addition, CVE found that it was extremely valuable to talk to people with expertise in the business or with potential customers to get insight and help to evaluate statistics. CVE found people through contacts they already had, from REDF and from other allies.

EXHIBIT 10: SOURCES OF INFORMATION FOR PRE-FEASIBILITY STUDY

Be creative when doing research. People generally enjoy sharing their wisdom, so cultivate relationships and ask questions. Possible sources of information include:

- Industry experts
- Competitors
- Trade organizations
- Trade publications
- Observation in area where business is planned
- Directories (telephone book, industry directories, Internet directories)
- Suppliers
- Potential customers
- Experienced people in the business
- Conferences related to the business area
- Economic development organizations
- Bankers and lenders (who have dealt with your type of business)
- Investors with experience in business area
- Labor reports
- Economic indicator reports
- Census data
- Market research
- Library
- Internet

Pre-feasibility study results

Results of the pre-feasibility study (see Exhibits 12a-12b) enabled CVE management to prioritize enterprise ideas and determine an action plan:

1. Copy Shop: First, CVE staff was able to eliminate the copy shop. They discovered there was not a market that fit with both their enterprise and financial needs. Many customers did most of their copying work internally. The only potential major type of customer, law firms, needed around-the-clock service, operated on tight deadlines and needed very high levels of accuracy (all counter to the enterprise criteria established for CVE constituents).

2. Janitorial Service: CVE found that expanding the janitorial service was an option. However, the staff was somewhat tired of the business. Furthermore, there was a perception that CVE clients were not interested in doing janitorial work.

3. Commercial Laundry: The commercial laundry emerged as the business that seemed to have the greatest potential for CVE. During the course of their research they found Campus Laundry, a commercial laundry in Santa Cruz, California that had been in business for over ten years. CVE and Campus Laundry quickly began to talk about working together. Campus Laundry believed that partnering with CVE would provide greater access to capital and to government contracts. CVE appreciated the experience that Campus Laundry could bring into the enterprise. A partnership like this could potentially mitigate a great deal of the risk

EXHIBIT 11: OUTLINE OF THE CVE PRE-FEASIBILITY ANALYSIS

1. Description of products or services typical in that type of enterprise

2. Overview of the market and the competition
- Is the market growing? Shrinking? Is it large enough to support this enterprise?
- How easy is it for new enterprisees to start in this market?
- How large a market (area, number of customers) could this enterprise serve?
- Are there particular market niches that this enterprise could/should develop?
- Are there many competitors providing this product or service to the same market? Are they increasing or decreasing in number?
- How do competitors' sizes/ resources available compare to those of this proposed enterprise?

3. Operating requirements
- Are there production methods, special equipment or facilities or technical requirements associated with this enterprise?
- Are there special employee skills needed that would be hard for our target population to attain?
- Are there special liability issues associated with this enterprise?

4. Management requirements
- Does the enterprise require any specialized management skills?
- Is there a sufficient pool of available people who have the necessary management skills and experience (will recruiting appropriate management be difficult)?

5. Employment requirements
- Will the enterprise create enough jobs to fulfill our job-creating goals?
- Does the enterprise involve a high or low proportion of entry-level jobs?
- Is training a needed/desired component of this enterprise? Are we planning for this component (staff needed, effect on productivity, etc.)?
- What are the average wages, hours, benefits, and job conditions in similar enterprisees? How do these compare with our goals?

6. Financial requirements
- How much start-up capital will we need?
- What is our estimated break-even revenue for this enterprise (use specific break-even formula to derive this answer)?
- How long would it take us to reach this level of revenue?
- How long will we have to cover monthly losses, and what will our total investment in covering losses be?
- Is the cost of goods used in production prohibitively high?
- What are gross margins in this industry? Are they high enough to support decent wages?
- Does the enterprise involve any unusual overhead costs?

7. Special considerations
- Does our organization have a partnership with a enterprise, special contracts, in-house expertise, or other specific contacts that would give us an advantage in starting this enterprise?
- Are there any unusual risks associated with this enterprise?
- Are there any organizational issues that running this enterprise would raise?

8. Summary
- List the primary potential problem areas in this enterprise (i.e., weaknesses that could limit our success in starting or maintaining it)
- List the organization's strengths that will be particularly helpful in this enterprise

associated with starting a laundry business. A commercial laundry could employ hundreds of CVE clients in a controllable, supportive environment. The potential of this relationship motivated CVE to quickly undertake a more detailed feasibility study of this option.

CVE's janitorial pre-feasibility report was far more detailed than the report for the commercial laundry because staff already had experience with the business. For example, the start-up costs associated with the janitorial business were estimated to be "between $10,000 and $90,000 depending on the pace of expansion." Whereas start up costs for the commercial laundry were estimated to be "high." Ideally, CVE would have done more in-depth analysis of this idea. However, when an opportunity presents itself (e.g., the potential partnership with Campus Laundry),

Copy Shop:
CVE staff was able to eliminate the copy shop option when they discovered there was not a market that fit with both their enterprise needs and financial needs. Many organizations did most of their copying work internally. The only potential major type of customer -- law firms -- needed around-the-clock service, operated on tight deadlines and needed very high levels of accuracy (i.e., counter to CVE enterprise criteria)

Janitorial Service:
CVE found that expanding the janitorial service was an option. However, the staff was somewhat tired of the business. Furthermore, there was a perception that clients were not interested in doing janitorial work.

EXHIBIT 12A: SUMMARY OF CVE PRE-FEASIBILITY FINDINGS

ENTERPRISE IDEA 1: Copy Shop Start Up

- a sample market determined to be easily accessible to CVE (community-based organizations with which CVE has some connection) show virtually no demand for commercial copying services
- other markets research (insurance firms, medical/dental organizations and real estate firms) show virtually no demand for commercial copying services
- one possible market (law firms/legal services firms) have some demand for commercial copying services. However, the need for accuracy, meeting deadlines, and round-the-clock availability characterize this market
- copying services technology is getting progressively more sophisticated (i.e., jobs in the industry increasingly require some familiarity and comfort with computer technology)
- industry trends suggest that more and more expensive equipment is/will be needed to be competitive in providing copying services

ENTERPRISE IDEA 2: Janitorial Service Expansion

- CVE experience and its most promising janitorial connections are both concentrated in the San Francisco office building market (research has been confined to that market)
- the market for janitorial services is expanding
- barriers to entry are low and competition is heavy
- within CVE there is a lack of demand for these jobs among clients
- estimated investment needed for gradual expansion in city/county contracts is $10-$30,000. Expansion into the private sector office building market: $80- $90,000.
- gradual expansion yields 1 to 3 part-time jobs. Expansion into the private sector adds 8 to 11 part-time work crew positions
- in the private sector office building sector, pre-contract arrangements or discussions with unions/building owners are recommended. Higher union pay scale may make employee training and support less possible.
- maintenance of downtown San Francisco office buildings is often contracted out under contracts lasting at least one year.
- primary competition comes from several large janitorial service and property management firms

EXHIBIT 12B: SUMMARY OF CVE PRE-FEASIBILITY FINDINGS
(CONTINUED)

ENTERPRISE IDEA 3: Commercial Laundry Start Up

- demand exists for commercial quality laundry services in San Francisco and nearby areas in 4 main market segments
- heavy competition and price sensitivity, combined with low gross margins and high start-up costs make entering the industry risky
- a possible partnership or start-up assistance from Campus Laundry could offset risk
- the number and types of jobs found in a commercial laundry would be a good fit
- a plant located in San Francisco could have location as a competitive advantage
- a San Francisco-located plant serving SF customers could limit shipping costs
- sales levels needed to break even may vary greatly between existing example businesses and a San Francisco plant due to higher facility and other costs inside San Francisco
- there may be a niche in the market for high-quality, good service laundry services, and possibly for specialty laundering services
- market opportunities exist due to upcoming contract end-dates and low vendor loyalty related to low vendor customer service

RECOMMENDATIONS
- assess (via surveys or interviews) reasons for lack of demand for janitorial jobs within CVE
- evaluate potential for increasing CVE consumer demand and/or utilizing non-CVE labor options
- if workforce availability options can be outlined, and potential non-union private sector contracts can be identified, proceed with full feasibility study with a focus on in-depth research into existing competitor rates and contract terms
- assess costs/projected costs versus current and projected contract rates to ensure feasibility
- assess existing or possible CVE high-level contacts at Bay Area law firms or legal services forms: is there any potential for partnering in this market
- assess San Francisco City and County copying needs: is there a demand for services CVE might provide?
- if no law firm partnering prospects exist, and San Francisco City/County potential is minimal, stop research into copying services. DO NOT PROCEED with this option.
- pursue and further detail possible partnership with Campus Laundry· Proceed with a full feasibility study - this opportunity fits with goals and population
- complete integrated financial projections to determine minimum level of sales needed in years 1-3
- complete detailed research into existing and upcoming institutional contracts

Commercial Laundry:
The commercial laundry emerged as the enterprise that seemed to have the greatest financial and mission potential for CVE. A commercial laundry could employ hundreds of CVE clients in a controllable, supportive environment.

During the course of their research CVE identified a potenial partner -- Campus Laundry -- a local commercial laundry. A partnership like this could potentially mitigate a great deal of the risk associated with starting a laundry business.

The potential of this relationship motivated CVE to quickly undertake a more detailed feasibility study of this option.

CVE did not have an explicit target financial return or maximum start-up investment explicitly stated. If such criteria had been part of CVE's process, the organization might have been able to say "yes" or "no" to the commercial laundry idea sooner.

sometimes it is necessary to move quickly. CVE decided that it was worth following up on the immediate opportunity, but recognizing that it was possible that the project would turn out to be unfeasible. CVE also did not have an explicit target financial return or maximum start-up investment explicitly stated. CVE was looking for a good opportunity under the assumption that they would be able to raise money to fund such a enterprise. Not explicitly making a decision in this area may have afforded CVE a feeling of flexibility. However, if such criteria had been part of CVE's process, the organization might have been able to say "yes" or "no" to the commercial laundry idea sooner.

Conducting a feasibility study

In April of 1997, CVE hired an MBA student to conduct an in-depth feasibility study for the commercial laundry business. Normally a feasibility study is 15 to 20 pages long and can be completed in 2 to 12 weeks. However, because CVE was aware of a potential partnership and knew of several commercial laundries for sale, they decided to accelerate the feasibility study process and incorporate some of the detail typically reserved for a business plan. The final feasibility study/business plan was close to 50 pages long. The risk of this approach was that CVE might go farther down a path before knowing it was the wrong path – possibly wasting important human and financial resources. However, given the time-sensitive opportunities at hand (possible partnership and several commercial laundries for sale) the director and his staff decided to go forward with the in-depth study.

The purpose of the feasibility study was to pull together information that enabled the organization to make a go/no go decision. The study included in-depth analysis of the topics outlined in Exhibit 13.

EXHIBIT 13: CVE FEASIBILITY STUDY CONTENTS

The purpose of the feasibility study was to enable CVE to make a go/no go decision by pulling together information on the following:

1. Description of the product or service
2. Market analysis (trends & opportunities, industry standards, competition, target market, potential market share)
3. Management team
4. Break-even analysis
5. Critical risks & opportunities
6. Start-up costs
7. Financial plan (assumptions, scenario analysis, financial statements)
8. Recommendations

The feasibility study confirmed that the commercial laundry business fit well with CVE's enterprise criteria, but was less promising in terms of financial viability. CVE identified a commercial laundry in the state of Virginia that employed people with psychiatric disabilities. It seemed to work well with this population, and the Virginia laundry was willing to share their learnings with CVE. The financial viability of the business seemed less promising. The commercial laundry business is extremely capital intensive. CVE estimated start up costs of $1.9 million dollars. Even if the organization could afford the start-up costs, the market was not that attractive. The top six companies serviced approximately 65% of the market. The market had been steadily consolidating. Interviews with potential customers revealed that contracts were several years long and that switching was relatively uncommon. Therefore, the commercial laundry market was difficult to enter. Customers within the market were relatively price-sensitive. And, as larger commercial laundries had lower costs, it seemed difficult for a smaller company to compete on price.

Assuming the organization could overcome the barriers, this business had the potential to be very positive for CVE. It had the potential to employ almost 70 clients within its first months of operation. Under the best case scenario, CVE had the potential to be profitable in its first quarter. However, this assumed that CVE would have a solid customer base from the beginning. In order to make this enterprise work, CVE had to either: a) find a San Francisco partner company; b) acquire an existing laundry; or c) secure federal government "set-aside" contracts:

- **a) or b): patner with or purchase an existing laundry:** First, CVE could start with a ready-made customer base. For example, CVE could purchase an existing commercial laundry, such as Campus Laundry and benefit from its current customer base. This way, CVE would not have to get a number of new contracts at once and it would cost less for CVE to get customers.

- **c) secure government "set-aside" contracts:** Another approach would be to secure government contracts under the federal set-aside program which helped non-profits serving severely-disabled individuals to win federal contracts. The Virginia-based commercial laundry had secured two such federal contracts. It was likely that CVE would be eligible to bid for these contracts as well.

The feasibility study confirmed that the commercial laundry business fit well with CVE's enterprise criteria, but was less promising in terms of financial viability.

CVE immediately started investigating these options. CVE searched for several months and was unable to find a location. It turned out that commercial laundries in San Francisco were being sold. Since property values were rising quickly, it was far cheaper to operate a laundry outside of the city (where Campus Laundry, CVE's potential partner, was located). Local commercial laundries were closing their doors and selling facilities to the highest bidders – who were willing to pay far more than the value of the business in order to tear down the laundry and develop the land for other residential and commercial purposes. CVE believed that it could raise up to $1,000,000 to purchase a facility, unfortunately this value didn't come close to the going price of a parcel of undeveloped land and it certainly didn't cover the costs of purchasing land and building a commercial laundry. After six months of hard work, CVE realized that it had to abandon the commercial laundry idea. CVE could not find a viable San Francisco location, and CVE's clients did not have transportation to locations outside of the city. The feasibility study served its purpose – it allowed CVE to make an educated decision as to whether it should proceed with the business. Unfortunately, CVE had to spend months investigating this option in order to know clearly that should not pursue it.

The feasibility study allowed CVE to make an educated decision as to whether it should proceed with the enterprise.

Fortunately, during the pre-feasibility process, CVE had identified one other promising idea, the idea of expanding the janitorial business. It only took CVE staff a few weeks to conduct a feasibility study on the janitorial enterprise because of their existing experience and connections in this industry. Once the study was complete, CVE management decided to expand the janitorial enterprise. Because staff already understood some of the business' fundamental aspects, it was relatively simple to verify that this was a viable enterprise for CVE.

CVE decided to expand the janitorial enterprise since the staff already understood some of the enterprise's funamental aspects and it was relatively simple to verify that this was a viable enterprise for CVE.

Vignette 4: Getting ready for enterprise start-up

In order to focus on enterprise development, CVE had to undergo a major cultural shift - CVE needed to become more "business-like."

In 1996,when John Brauer, CVE's Executive Director, decided to focus on enterprise development as a way to better serve clients and fund programs, he realized that many things would have to change. As described in Vignette 2, Brauer recognized that CVE staff needed more control over their finances and that in order to focus on enterprise development, CVE had to undergo a major cultural shift - CVE needed to become more "business-like." CVE needed to pull together the resources to start or expand a business. Although these were not easy changes to make, CVE staff and management were up to the challenge. Over time, they built what many saw as "the most effective vocational training program for people with psychiatric disabilities in San Francisco."

Getting ready for enterprise start up required several key steps:

1. Finding a Director of Finance and Marketing: Brauer's first step was to find appropriate people to help shepherd the transformation process. Fortunately, CVE had a key candidate for this position inside the organization already: Michelle Tatos, a new CVE employee was working on her MBA at night. Her responsibilities included running its coffee bars and catering services. Brauer felt Tatos was a key person to help drive the transformation and made her Director of Finance and Marketing. He put Tatos in charge of figuring out the financial aspects of the transformation, balancing them against the organization's social mission, and creating a marketing plan for the "new" CVE.

2. Transitioning to independence: Next, Brauer and Tatos planned the transition to independence. They set an aggressive one-year timeline. CVE's parent agency (SFSC) acted as CVE's fiscal agent. This meant that it provided a range of financial services to CVE including payroll, receipt and disbursement of funds, financial reporting, tax reporting, and interim loans. As an independent agency, CVE had to build infrastructure to support these activities internally. CVE intended to outsource many of these activities. However, it had to identify good suppliers of these services. Some were relatively easy to find (e.g., employee payroll services) while others were more challenging to find.

3. Developing the new financial accounting system: One of the supports most desperately needed by CVE was a new financial accounting system. Tatos quickly started working on the creation of this system. REDF agreed to fund the development of a new system and suggested that Tatos work with Keystone Community Ventures to design the accounting system. Keystone had specific expertise with both nonprofit agencies and small business financial accounting. Once the design was complete, Tatos believed that CVE could implement the system on their own. However, she quickly found that more, very specific external expertise was needed.

Given the aggressive timeline, it was important that CVE implement its system as quickly as possible. CVE considered a variety of options for the implementation support including pro bono consulting from students or professionals and paid consultants. However, in the past CVE had found that it was difficult to control the quality and timing of projects undertaken by volunteers. Although CVE wanted to save money, its desire to meet a specific timeline was even stronger. It thus decided to pay a professional bookkeeper to implement the system. CVE talked to other agencies, to REDF, and to Keystone Community Ventures to get referrals for bookkeepers. After a short search, they found one for the job.

By July of 1996, CVE was testing its new system. Tatos tested the new system by comparing the information in the new set of books using a well-known off-the-shelf business accounting system, to the old-style reports from SFSC. However, it was difficult for Tatos to tell if its new system was accurate. The output was not entirely consistent with the reports received from SFSC. Some differences were expected, given that CVE chose to operate on a different fiscal year than its parent agency and to use a different accounting system. In spite of the discrepancies, CVE was receiving tremendous value from this new accounting system.

The new system created financial statements for each of CVE's four businesses. CVE business managers could finally use financial information to manage their businesses. For example, the small janitorial business finally had access to information on labor costs. The manager quickly saw that one restaurant contract was costing more in labor than it was generating in fees. Once the financial accounting system was in place, Tatos had to train staff how to collect the information and interpret the reports. These reports helped staff to more efficiently manage their businesses. One important lesson that CVE learned from the implementation of the accounting system was that although external consultants add value, they also require support and direction. There were a number of kinks in the system and each change or improvement required other companion adjustments. The project took longer than expected and required a significant proportion of Tatos' time. All in all, Tatos spent a full year working on the accounting system project - leaving many of her marketing-related responsibilities undone.

The new system created financial statements for each of CVE's four businesses. CVE business managers could finally us financial information to manage their businesses.

4. Building a Board of Directors: Another step toward CVE independence was recruiting a board of directors. Legally, all US-incorporated nonprofit organizations are required to have a board of directors. CVE recruited a board consisting of people familiar with issues related to vocational training as well as people with business expertise. It was critical that CVE have a board that would be able to understand all parts of its mission - providing vocational services and running sound businesses.

5. Accessing credit: One of CVE management's greatest priorities during this transition was ensuring the financial survival of the organization. The majority of CVE's funding came from government grants and contracts.

It was critical that CVE have a board that would be able to understand all parts of its mission - providing vocational services and running sound businesses.

Payments from the city and county were frequently delayed, sometimes by as much as four months. Prior to independence, this had not been a problem for CVE because it's parent agency had enough money to make short-term loans to CVE until the funding came through. In preparation for independence, CVE applied to the Northern California Community Loan Fund (NCCLF) for a line of credit to cover these delays in government funding. CVE would not have qualified for the line of credit, had it not implemented the new accounting system. NCCLF was not satisfied with the financial information received from CVE's parent organization. CVE's new system allowed it to create financial statements, which were audited, in order to qualify for the loan. CVE's loan application was approved in the same month that CVE gained its organizational independence.

6. Shifting organizational culture: The other major shift facing CVE was cultural. CVE had been operating its businesses with a social service orientation. This focus meant that CVE could get business customers who were sympathetic to its cause and were relatively patient. However, if it wanted to attract customers from the private sector, CVE needed to become more professional. Tatos explained,

> “When I used to work with clients in the coffee bars, I'd give them so many chances, but that's not realistic . . . We've worked on developing standards that work for the business and for the clients. We're not helping anyone by giving them 25 chances because no one in the work community is going to do that for them. We're going to lose a contract if the client is not displaying appropriate work behavior.”

The cultural shift did not just apply to the clients. It affected workers at all levels, and some staff were not happy with the changes. "We'd had the same staff for years and years," Tatos said. "When the shift happened, some people didn't last. We had to fire some people. That's not how we'd operated before. It was really hard for us." In spite of these bumps, CVE was able to foster a motivated loyal staff made up of people who shared the new vision of the organization.

"We'd had the same staff for years and years. When the shift happened, some people didn't last. We had to fire some people. That's not how we'd operated before. It was really hard for us."

7. Acquiring needed equipment: Finally, CVE had to prepare specifically to start the business. By this time, management had chosen to focus on expanding its janitorial business. They determined that the expanded business would be called Industrial Maintenance Engineers (IME). Fortunately, this business was not very capital intensive and CVE already had some equipment and internal expertise. In order to expand, CVE believed it needed a little more equipment. But most of the expense of the expansion was the cost of hiring someone to manage IME. The funds that CVE had already received from REDF, in combination with existing contract revenue, were sufficient to fund the expansion.

8. Recruiting an enterprise manager: An important part of the IME business plan was a description of the role its Enterprise Manager would plan. Brauer and Tatos reviewed the description and crafted a job description for the new manager of IME (see Exhibit 14). They then advertised for the position. After an exhaustive search, which resulted in few appropriate candidates, CVE found Arthur Trenton, a man who was a chaplain of a small community church and had run his own janitorial business. He seemed to fit very well with the mission and business of IME.

By the end of 1997, CVE had come a long way. It was now an independent nonprofit organization. It had a financial accounting system in place and staff was using the system's output to manage its businesses. CVE was demonstrating new levels of professionalism in its existing businesses. And finally, CVE had found an enterprise manager to drive the expansion of IME.

EXHIBIT 14: CVE JOB DESCRIPTION FOR IME ENTERPRISE MANAGER

Position: General Enterprise, Industrial Maintenance Engineers (IME)

Primary Purpose: Under the guidance of the Executive Director (ED), the Enterprise Manager IME is responsible for planning, implementing and managing the IME janitorial business.

Supervision: Direct reports include employees of the janitorial business, supervisors, on-site supervisors and lead supervisor.

Job Performance Standards:
- consistently exhibit behaviors in CVE Core Values statement
- in collaboration with the ED, periodically review and update the IME janitorial business plan, including specific timelines for marketing, hiring of employees and business operations
- responsible for bidding and acquiring of janitorial contracts at least $190,000 in year three, and $330,000 in year four
- in collaboration with Lead Supervisor, developing an extensive classroom training program for IME employees and facilitating a smooth flow of clients from training to employee status
- responsible for hiring and firing regular status employees

Requirements: Extensive experience in starting and running a janitorial business with over 30 full-time employees. Strong marketing experience, contract negotiation and fiscal management required. Ability to work with a diverse population. Excellent communication skills required.

Preferred Qualities: Candidate with direct experience in working with psychiatrically-disabled community, and/or other under-employed populations in the San Francisco Bay Area. Persons of color, mental health consumers, and other disenfranchised populations are strongly encouraged to apply.

Vignette 5: Planning the enterprise

Because CVE had been providing janitorial services for several years, management felt that they were ready to undertake this business without undertaking a full business plan.

By July of 1997, CVE had a waiting list of job-seeking clients and it was anxious to get its business started. Between January and July, CVE had conducted three pre-feasibility studies, developed a detailed feasibility study for the laundry business, had taken some first steps toward starting a laundry business, rejected the laundry business idea, and finally had developed a feasibility study for IME. Although CVE management found the analysis very useful, its management was feeling some pressure to get a business started, having just become an independent organization.

The Janitorial Services feasibility report recommended that CVE expand its janitorial program into a business with an emphasis on high quality and reasonable prices. Because CVE had been providing janitorial services for several years, management felt that they were ready to undertake this business without undertaking a full business plan.

Gaps in the CVE business plan

Typically, a feasibility study forms the core of a business plan, so many of the key pieces of information were available. However, some key issues that are covered in a business plan are excluded from feasibility studies. Therefore, when CVE adopted the feasibility study as its "business plan" it had a business plan with some gaps in it (see Exhibit 15):

1. Mission and goals: Some gaps in the business plan were not all that serious to CVE. For example, CVE did not create a special plan section where the mission and goals are explicitly stated. However, the agency had a very clear sense of its mission and goals, and the creation of the businesses was directly related to the mission. CVE also discussed its social and financial goals in other parts of the feasibility study. If CVE were less sure about its focus or if it were using the document for fundraising it would have been useful to articulate its goals and mission up front.

2. Marketing plan: Marketing was one area where CVE would have benefited from having more information. The feasibility study confirmed that the market for janitorial services could support a new entrant. By talking to existing janitorial companies, CVE determined that the most attractive target market for IME was large buildings. CVE's research helped it to understand the needs of its target customer, the market size and trends, typical industry marketing practices, industry dynamics, the competitive environment, and overall industry attractiveness. CVE used this information to set the goal of servicing an additional 100,000 square feet of property each year. This estimate seemed reasonable because it represented less than 1% of the market.

However, the feasibility study/business plan did not include a market-

EXHIBIT 15: FROM FEASIBILITY PLAN TO BUSINESS PLAN

Typically, a feasibility study forms the core of a business plan. However, some key issues that are covered in a business plan are excluded from feasibility studies.

CVE IME JANITORIAL SERVICES
Feasibility Analysis

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1. Executive Summary
2. Current Status
3. Description of Product or Service
4. Market analysis
   - trends & opportunities
   - industry standards
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   - target market
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TYPICAL BUSINESS PLAN COMPONENTS

1. Executive Summary
2. Vision and Mission Statements
3. Objectives
4. Description of Product or Service
5. Market analysis
6. Marketing Plan
7. Human Resources Plan
8. Operating Plan
9. Development Plan
10. Financial plan
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12. Appendices
    - Resumes of Key Management
    - Agency Financial Statements
    - Equipment List

When CVE adopted its feasibility study for IME as its "business plan" it had a plan with some gaps in it:

Missing from IME feasibility study

Missing from IME feasibility study

Missing from IME feasibility study

ing plan. Such a plan (or a more comprehensive market research) would have pointed out limitations on winning bids for large buildings. CVE's market strategy was to target private properties that were very large (larger than all of its existing contracts combined). Clearly, this was not a market with which CVE had experience. A thorough marketing plan would have involved contacting potential customers and understanding how they make buying decisions. It was probably not enough to know that other vendors won contracts through word-of-mouth and the Yellow Pages of the telephone book. More in-depth research would have helped CVE determine if they could compete in this marketplace.

A thorough marketing plan would have involved contacting potential customers and understanding how they make buying decisions. More in-depth research would have helped CVE determine if they could compete in the marketplace.

3. Human Resources plan: CVE did develop a human resources plan (in the Management Team section of the feasibility study), outlining what its staffing needs would be for all levels of IME. During this process, CVE determined that it did not have enough qualified clients to fully staff the business. It decided to target qualified welfare-to-work people to fill the staffing gap. CVE also discussed the management structure of IME. The plan included descriptions of the responsibilities/qualifications of existing management. In cases where the staff person was not on board, these descriptions could easily be converted to a job description. Finally, CVE's human resource plan described the timing of new hires. This section demonstrated that CVE had clearly thought through its staffing needs.

EXHIBIT 16: IME FINANCIAL ASSUMPTIONS

The CVE financial plan for IME contained four pages of detailed assumptions on which break-even analysis, start-up budget and income statement and cash flow were projected:

1. Baseline charge per square foot is $1.25. This is the low end of industry scale.
2. Repairs and maintenance and office supplies will increase at 3% over time.
3. Payroll tax liability is 10.8%.
4. Training costs then are borne primarily by the training business. The training cost is embeded in supervisor salaries as they are the ones that conduct on-site training. The amount is about 30% of supervisor's salaries, equating to an aggregate of roughly $10,800 per year.
5. Wages (per hour) for janitorial employees increase over time as follows:
   - Year 1: $6.50
   - Year 2: $7.00
   - Year 3: $7.50
6. Wages (per hour) for janitorial supervisors increase over time as follows:
   - Year 1: $9.00
   - Year 2: $9.00
   - Year 3: $9.50
7. Wages in Year 2 represent a doubling of staff and an additional supervisor. Year 3 shows the addition of one-half or a full staff and half-time supervisor for a total of 2.5 full-time supervisors. All employees and supervisors working more than 20 hours in a week receive benefits on a pro-rated scale beginning at 40 hours a week.
8. Wages in the training program are projected to remain at their current rates, with the exception of the minimum wage increase in 1998.

4. Operating plan: CVE did not create an operating plan for IME. Such a plan usually describes how the business will operate efficiently and effectively on a day-to-day basis. It gives an overview of the capacity constraints and productivity requirements of the business and demonstrates that the organization will be able to meet the goals set in the marketing plan. CVE included an analysis of its current productivity level and productivity goals in the appendix. However, CVE did not discuss the economics of servicing small buildings, compared to larger buildings. Given CVE's proposed strategy shift to servicing large buildings, it would have been useful to understand the operational implications of this switch (including the impact on equipment and supervision needed). The operations plan should also have described the planned tactics to ensure the high levels of service that CVE proposed in the marketing strategy.

5. Financial plan: CVE's financial plan for IME included a break-even analysis, a start-up budget, an income statement with three years of projected activity, and a cash flow statement reflecting the first five years of enterprise activity. These financial statements were based on four pages of detailed assumptions (see sample in Exhibit 16). CVE developed the assumptions using its internal knowledge of the janitorial business, industry reports, competitor information and available financial industry studies.

5.1 Revenue: CVE's first step in creating an estimated income statement was to project IME revenue. CVE decided to calculate the revenue based on the number of square feet (to be) cleaned, multiplied by the average price per square foot (sq. ft.). The number of square feet serviced was based on marketing assumptions from the marketing section of the report. To determine the cost per square foot, CVE first looked at its past experience. CVE had historically received $2.53

per square foot. However, CVE had only serviced government set-aside contracts that were somewhat inflated to support the social mission. CVE then looked at industry average prices. CVE found that the prices ranged from $1.30 to $1.40 per square foot. CVE decided that it would start by charging the low-end price. As they proved their quality and reputation, they would move up to the high end pricing. This resulted in the revenue projections shown in Exhibit 17:

EXHIBIT 17: IME REVENUE PROJECTIONS

	Year 1	Year 2	Year 3
Number of square feet	125,000	250,000	300,000
Price per square feet	$1.30	$1.35	$1.40
SALES REVENUE	**$162,500**	**$337,500**	**$420,000**

5.2 Cost of sales: CVE went through a similar process to determine the cost of sales. For example, CVE determined how many staff and supervisors were needed per square foot, what the wage was per person and calculated wage costs (see Income Statement in Exhibit 20). Again, this information was based on a combination of industry research and CVE experience.

5.3 Start Up Costs: Another key part of the financial plan was the description of start-up (i.e., “seed”) capital needed for the enterprise (see Exhibit 18). CVE first determined what equipment was needed. CVE knew that it would need additional floor cleaning equipment and a van to run this larger scale business. CVE contacted suppliers and determined that these items would total $30,000. The Janitorial Services Business Plan Guide suggested that CVE alot $1,500 for starting cleaning supplies. Finally, CVE's research indicated that customers tended to take approximately 60 days to pay their bills. Therefore, CVE needed $8,500 to cover approximately 60 days of salaries. After calculating its expected revenues and costs, CVE saw that it could expect to lose $31,000 in year one. Totaling all of its estimates, CVE estimated it would require $71,000 to start IME.

EXHIBIT 18: IME START-UP COSTS

Description of Item	Cost
Floor cleaning equipment	$10,000
Van purchase and maintenance	20,000
Beginning supplies inventory	1,500
Salaries prior to payment	8,500
Total start-up cost	**40,000**
Year 1 losses to be covered	31,000
TOTAL FINANCING NEEDS	**71,000**

5.4 Operating expenses: Next, CVE had to calculate the operating expenses associated with IME. All of CVE's operating expenses were fixed costs (that is, not resulting from a one-to-one relation with sales). These fixed costs included those outlined in Exhibit 19.

Because fixed costs do not necessarily increase as sales increase, CVE was able to base some costs (e.g., like rent, utilities, etc.) on its existing business. These numbers were simply adjusted for inflation. In other cases, the numbers were explained in detailed assumptions. The assumptions explain that there are no employee benefits listed in year 1 because employees will not receive benefits until they have one year of tenure, and that the volumes anticipated in year 3 will require that the Enterprise Manager get a Management Assistant. New fixed costs, like the Enterprise Manager's salary, were based on market-rate salaries for managers at other companies. CVE's initial projected income statement is shown in Exhibit 20.

EXHIBIT 19: IME FIXED COSTS

All of IME’s operating expenses were fixed costs:

- Rent
- Utilities
- Telephone
- Management salaries
- Insurance
- Workers compensation
- Licenses
- Transportation
- Equipment

SALES:
See Exhibit 17 to see how CVE calculated IME revenue projections.

COST OF SALES:
To calculate cost of sales, CVE determined how many staff and supervisors were needed per square foot, what the wage was per person and calculated wage costs, etc.

No benefits are listed in Year 1 as employees receive this benefit only after one year of tenure.

OPERATING EXPENSES:
All of IME operating expenses were "fixed costs" which were adjusted here for inflation. A Management Assistant was also added in Year 3.

YEAR 1 LOSS:
The loss calculated by CVE in Year 1 was added to the start-up costs required for IME (see Exhibit 18).

EXHIBIT 20: INCOME STATEMENT -- IME JANETORIAL SERVICES

PROJECTIONS	**Year 1**	**Year 2**	**Year 3**
Sales	162,500	337,500	420,000
Cost of Sales			
Wages			
Employees	85,852	172,973	207,168
Supervisors	18,720	37,440	49,400
Taxes	11,346	22,830	27,838
Benefits	-	8,068	10,119
Training	3,000	3,000	3,000
Supplies	2,060	4,120	5,150
Transportation	1,000	2,000	2,500
Repairs and Maintenance	800	1,000	1,000
Total Cost of Sales	**122,778**	**251,431**	**306,175**
GROSS PROFIT	**39,722**	**86,069**	**113,825**
OPERATING EXPENSES			
Enterprise Manager Salary	50,000	50,000	50,000
Management Assistant	-	-	15,000
Payroll Tax	5,031	5,957	7,421
Rent and Utilities	4,914	5,040	5,040
Phone	398	410	422
Insurance and Workers Compensation	6,410	10,114	12,255
License and Bonding	184	211	218
Office Supplies	567	583	601
Advertising and Promos	3,250	6,750	8,400
Total	**70,754**	**79,065**	**99,357**
Net Income before Support Services and Subsidies	(31,032)	7,004	14,468
Profit Margin	-19.10%	2.08%	3.44%
Support Services Expense			
Administrative Support	8,000	8,000	8,000
Additional Support	3,000	3,000	3,000
Total	**11,000**	**11,000**	**11,000**
Grants and Subsidies			
C&C/DR Contract	8,000	8,000	8,000
REDF	50,000	25,000	25,000
Total	**58,000**	**33,000**	**33,000**
NET INCOME	**15,968**	**29,004**	**36,468**
PROFIT MARGIN	**9.83%**	**8.59%**	**8.68%**

"SENSITIVITY ANALYSIS":
The income statement shows that viability of the IME enterprise is much more dependent on managing labor costs than supply costs (since employee costs are proportionally much higher than supply costs, for example). Therefore, it would be very important for CVE to monitor IME labor costs closely (see section 5.8).

5.5 Break-even point: Another key metric that CVE needed to understand was their break-even point (i.e., the number of units they would need to sell to cover their costs) (see Exhibit 21).

EXHIBIT 21: CALCULATING IME BREAK-EVEN

To calculate the break-even point for IME, CVE went through the following steps:

(sq.ft. = square feet)

STEP 1: Calculate the Sales Price per Unit
CVE used the sales projections on their income statement to determine annual sales. To find out the sales per unit, they divided the total sales by the number of square feet cleaned. Because they expected inflation, the sales price per unit increased from $1.30 in year 1 to $1.40 in year 3.

1	Year 1	Year 2	Year 1
No. of sq.ft. cleaned	125,000	250,000	300,000
Total Sales	162,500	337,500	420,000
Sales price per sq.ft.	1.30	1.35	1.40

STEP 2: Calculate the Variable Cost per Unit
Next, CVE had to determine its variable costs. These are the costs that change depending on the amount of square feet cleaned. All of IME's cost of sales were variable. For example, the more square feet cleaned, the labor, training, and supplies are required. To calculate the variable cost per unit, you must divide the total cost of sales (which is the total variable cost) by the number of square feet cleaned. Like the sales price, the variable cost per unit increases with inflation.

2	Year 1	Year 2	Year 1
No. of sq.ft. cleaned	125,000	250,000	300,000
Total Cost of Sales (variable costs)	$122,778	$251,431	$306,175
Variable cost per sq.ft.	$0.98	$1.01	$1.02

STEP 3: Calculate the Contribution Margin
Sales revenue that is not used to cover variable costs contributes to fixed costs, and eventually profit. To calculate the contribution margin, CVE subtracted the variable cost per unit from the sales price per unit.

3	Year 1	Year 2	Year 1
Sales price per sq.ft.	$1.30	$1.35	$1.40
Variable cost per sq.ft.	$0.98	$1.01	$1.02
Contribution margin per unit	$0.32	$0.34	$0.38

STEP 4: Calculate the Break-Even Point
Finally, CVE had all the information necessary to calculate the break-even point -- the number that must be sold in order to cover fixed costs. CVE's fixed costs are its operational costs, none of which are dependent on the number of units sold. If CVE cleaned 300,000 square feet of floor or zero square feet of floor, they still had costs like manager salaries and utilities. To calculate the break-even point, CVE simply divided the fixed costs by the contribution margin per unit. CVE found that in year 1, they would not cover costs. However, in years 2 & 3, they more than covered cost.

4	Year 1	Year 2	Year 1
Total Fixed Costs	$70,754	$79,065	$99,357
Contribution margin per unit	$0.32	$0.34	$0.38
Break-Even Point (sq.ft.)	222,654	229,656	261,868
Square feet expected	125,000	250,000	300,000
BREAK-EVEN	**NO**	**YES**	**YES**

5.6 Cash flow projections: CVE also created a cash flow projection for IME (see Exhibit 22). This statement enabled CVE to project and plan cash inflows and outflows in order to ensure that IME would have sufficient cash to pay employees and purchase cleaning materials, plan equipment purchases, and understand their financing needs. Many businesses fail because they run out of cash. CVE wanted to ensure that this did not happen to IME.

EXHIBIT 22: CASH FLOW STATEMENT -- INDUSTRIAL MAINTENANCE ENGINEERS (IME)

(in US$)	Start-up	Year 1	Year 2	Year 3	Year 4	Year 5
Equipment and supplies	(31,500)					
Increase in working capital	(31,000)					
Sales revenue	-	162,500	337,500	420,000	595,000	797,500
Variable costs	-	119,778	248,431	303,175	404,000	519,750
Fixed costs	-	76,595	69,701	86,203	172,550	231,275
Salaries	(8,500)	-				
Depreciation	-	4,410	7,875	5,355	4,095	2,835
Net income	**(71,000)**	**(38,283)**	**11,493**	**25,267**	**14,355**	**43,640**
Add back depreciation	-	4,410	7,875	5,355	4,095	2,835
Cash flow from operations	(71,000)	(33,873)	19,368	30,622	18,450	46,475
Return of working capital	-	-	-	31,028	-	-
Net cash flow	**(71,000)**	**(33,873)**	**19,368**	**61,650**	**18,450**	**46,475**
Grants and subsidies	71,000	50,000	25,000	40,000	15,000	-
Net cash flow after subsidies	**-**	**16,127**	**44,368**	**101,650**	**33,450**	**46,475**

5.7 Projected balance sheet: CVE did not include a projected balance sheet in its plan. The balance sheet is one key view of an organization's financial status, and is used to show a snapshot of the organization's financial position. The liabilities show what the business owes to creditors and vendors and the assets indicate resources available to the business. Finally, the net worth shows the total earnings the organization has generated, and kept, over time. Since CVE was structuring IME as a new business, it had no assets or liabilities. The balance sheet reflects financial categories that are intricately connected to those on the related income statement and cash flow statement. Though CVE's initial balance sheet might have shown only zeros, its situation would change over time. Therefore, it would have been in CVE's best interest to predict future balance sheets upon starting IME.

CVE's view of how its assets and liabilities would change with its changing earnings or losses was not predicted. Therefore, CVE did not have a plan against which to measure its actual performance.

While CVE included most of the critical financial statements, the financial plan was not complete. CVE's view of how its assets and liabilities would change with its changing earnings or losses was not predicted. Therefore, CVE did not have a plan against which to measure its actual performance.

One technique that CVE could have used to understand the strength of its financial position was sensitivity analysis. CVE could have tested different assumptions of its financial model to see the impact on its financial performance (see Exhibit 23). For example, a look at the income statement (see Exhibit 20) shows that labor is a very high proportion of the costs and janitorial supplies are a relatively low proportion of the costs. If one were to conduct a sensitivity analysis, one would find that the viability of this business is much more dependent on managing labor costs than supply costs. Therefore it would be very important to monitor labor costs closely.

5.8 Implementation plan: Finally, CVE's document lacked a clear implementation plan. One way to make sure that implementation is on track is to create a plan with dates, milestones and evaluation criteria. Having this information on hand enables managers to quickly identify problems as they arise. Sometimes diagnosing a problem early can prevent the organization from wasting precious resources. Exhibit 24 shows a sample of what could have been a format for the implementation plan. The implementation plan can be significantly more detailed than this. However, it is very important to build in evaluation metrics that will help to identify when readjustments to a plan are necessary.

EXHIBIT 24: SAMPLE IMPLEMENTATION PLAN (FORMAT)

Task	Owner	Date due	How to measure
Recruit enterprise manager	Executive Director	Dec 1997	Manager hired
Secure 1 major cleaning project	Enterprise Manager	Mar 1998	Contract to clean at least 50,000 sq.ft.
Contract bid at a rate that allows projected margins; secure additional contracts to reach Year 1 target of 125,000 square feet	Enterprise Manager	Jun 1998	Contract on file; rates must be high enought to achieve projected margins; projected levels of clients are employed in the venture

In spite of the shortcomings of CVE's business plan for IM, it was able to build a successful business. In some cases, the gaps in the plan forced CVE to shift strategies mid-stream. In many cases, management made the generalities of the business plan more specific as the business progressed. For example, the annual and monthly sales plan was turned into weekly sales objectives. CVE's experience in the industry helped it to avoid making costly mistakes. By year 2, CVE was on target with its financial and mission-related targets.

EXHIBIT 23: SENSITIVITY ANALYSIS

Some example of questions tested with sensitivity analysis include:

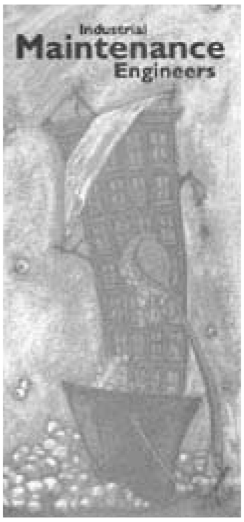
What if IME's customers will not pay $1.30 per square foot in the first year? IME would keep the number of units sold the same, but lower the sales revenue generated from these units.

What if workers are less productive than expected? Increase the labor costs without changing the sales revenue.

What if costs are higher than expected? Increase the cost of janitorial supplies.

What if IME can't get as much work as it expects? Decrease the number of square feet, but keep the price the same. Also lower Cost of Goods Sold to reflect the decreased volume.

Vignette 6: Starting up the enterprise



In January of 1998, CVE hired Arthur Trenton to be the Enterprise Manager for Industrial Maintenance Engineers (IME). John Brauer, CVE Executive Director, and Michele Tatos, CVE Director of Finance and Marketing, were both excited about Trenton, who had run janitorial businesses in the past and who also seemed quite committed to the mission of CVE. Trenton seemed to be a perfect fit with the IME business. Brauer and Tatos expected that Trenton would be able to bid and win a major contract by March of 1998. Then IME would start its planned aggressive growth.

However, by March of 1998, Brauer and Tatos were concerned. The business was not progressing as planned. IME did not appear to be in the running for any major contracts. It looked like Trenton was hard at work, yet he had little to show for his effort. Brauer asked Tatos to help Trenton design a work-plan with clear deliverables and to support him in getting the business started. Tatos provided support, but she did not see any progress. She began to worry - was the business plan wrong, or was Arthur the wrong man for the job?

Managing second quarter losses

In June of 1998, CVE management couldn't avoid the problem any longer. It was the end of their fiscal year and the financials indicated that not only was IME not meeting its revenue projections, the expenses were also significantly above the projections (see Exhibit 25). CVE sustained a loss of $17,253 after only three months of operation. CVE had only budgeted a loss of $56 for this period. Most of the loss was due to an increase in "Contract Bid Expense." Trenton decided to significantly under-bid to get a job. He allocated the ongoing losses to the "Contract Bid" category (see Exhibit 25). Tatos was very concerned - CVE did not have an extra $17,000 to cover unanticipated losses. Tatos was beginning to lose confidence in Trenton - she discovered that he had not started several things that he had said were complete. For example, he had done nothing to promote the IME business. He had a budget of $5,000 for this purpose and had spent only $156. This helped explain why IME was not getting any contracts. Tatos was spending more and more of her time supervising and coaching Trenton, but continued to see no results. CVE management decided to let Trenton go and make several additional adjustments to the business strategy:

It was the end of their fiscal year and the financials indicated that not only was IME not meeting its revenue projections, the expenses were also significantly above the projections

EXHIBIT 25: INDUSTRIAL MAINTENANCE ENGINEERS (IME)
INCOME STATEMENT (FOR THE QUARTER ENDING JUNE 30, 1998)

	Actual	Budget
SALES REVENUE	**20,987**	**20,700**
Cost of sales		
Direct salary and burden	16,739	7,344
Staff training	-	332
Supplies	1,596	700
Contract bid expense	16,800	-
Total cost of sales	**35,135**	**8,376**
GROSS PROFIT	**(14,148)**	**12,324**
OPERATING EXPENSES		
Management salary and burden	19,813	21,312
General and administrative	3,281	5,115
Advertising and promotions	157	5,000
License & bonding	-	113
Rent	1,654	1,640
Total operating expenses	**24,905**	**33,180**
Net Income before Support Services and Subsidies	**(39,053)**	**(20,856)**
Support Services	3,176	4,176
Grants and Subsidies	24,976	24,976
NET INCOME	**(17,253)**	**(56)**

CVE sustained a loss of $17,253 in the quarter -- far more than the $56 loss they had budgeted for.

Enterprise Manager:
The enterprise manager appeared to be working hard and drawing a salary, so what was causing the significant net loss? A few key items on the income statement helped to explain the discrepency:

Contract bid expense:
Most of the loss was due to an increase in the cost of sales for "contract bid expense." The CVE enterprise manager had decided to significantly under-bid to get a contract and had allocated the on-going losses to this line item.

Advertising:
Also, very little (only $157) of the budgeted $5,000 for advertising and promotions had been spent to promote the IME enterprise. This helped explain why no new contracts for IME had been identified.

1. New Enterprise Manager: Luckily, CVE quickly found a replacement for Trenton. JoJo Sanchez joined CVE in July as the new IME Enterprise Manager. She quickly started working and discovered several significant flaws in the business plan. IME's strategy was to win one new large contract to clean a building (approximately 100,000 square feet) each year. However, the managers of these buildings were not seriously considering IME for their janitorial needs. These buildings hired janitorial services with a proven track record of success. They had no reason to trust IME.

Rather than continuing to focus primarily on these large buildings, Sanchez started bidding on medium and small janitorial contracts. She energetically initiated mailings of IME brochures, followed by personal phone calls. She determinedly pursued any leads she was given, generated her own leads, and went on countless sales calls. She took on the business as if it was her own, and she had a great deal of success. The company started bidding on and winning contracts. By November of 1998, Sanchez had nearly brought IME back on target with its financial projections. IME's net income year-to-date was only $1,205 below plan.

Rather than continuing to focus primarily on these large buildings, IME started bidding on medium and small janitorial contracts.

EXHIBIT 26: INDUSTRIAL MAINTENANCE ENGINEERS (IME)
INCOME STATEMENT (AS OF JANUARY 31, 2000)
(JULY - JAN, APPROXIMATELY 7 MONTHS)

	YTD Actual	YTD Budget	Total Budget
REVENUE			
City and county contracts	34,011	34,011	58,306
Private contracts	168,159	117,955	270,530
Total revenue	**202,170**	**151,966**	**328,836**
Cost of sales			
Direct salary and burden	123,860	94,693	214,289
Supplies	13,834	16,716	36,172
Equipment depreciation	2,324	2,547	5,322
Equipment repair and maintenance	-	280	480
Uniforms and laundry	1,640	3,504	6,864
Total cost of sales	**141,658**	**117,740**	**263,127**
GROSS PROFIT	**60,512**	**34,226**	**65,709**
OPERATING EXPENSES			
Management salary and burden	60,276	59,331	106,052
General and administrative	15,077	15,081	30,244
Advertising and promotions	6,282	800	1,800
Rent	2,967	2,968	5,088
Consultants	865	2,500	2,500
Van depreciation	1,750	2,750	5,667
Total operating expenses	**87,217**	**83,430**	**151,351**
Net Income before Support Services and Subsidies	**(26,705)**	**(49,204)**	**(85,642)**
Support Services	48,028	79,556	154,310
Grants and Subsidies			
REDF	52,145	60,833	104,999
MOCD	22,669	24,000	41,144
C&C	42,279	42,280	72,480
D R contract	20,778	3,200	19,200
NCSL contract	6,849	5,600	7,600
Total grants and subsidies	**144,720**	**135,913**	**245,423**
NET INCOME	**69,987**	**7,153**	**5,471**

Although the IME business was not yet profitable, it was considerably ahead of schedule:

Losses: IME's loss of $26,705 for the period was well below the expected loss of $49,200.

Net Income: IME's net income (including subsidies) was more than $60,000 above plan. In 20 months, IME grew from cleaning 25,000 sq.ft. to 266,457 sq.ft. and was on target to break-even by Dec 2000.

2. Professional business/industry advise: While Sanchez was bidding on new jobs, she discussed the challenges of bidding for large contracts with Brauer and Tatos. They brought the problem to the Roberts Enterprise Development Fund (REDF) and it was agreed that CVE would meet with the REDF's "Partners for Profit." The Partners for Profit is a group of top business people with connections in a wide-variety of industries. CVE management expected to get names of contacts for big building contracts from the partners. However, after meeting, the Partners advised IME to target sales to mid-sized buildings, rather than large buildings. They believed that IME was not ready for large building contracts and were not comfortable providing contacts to such buildings until IME had had more successful experience within the mid-size range.

Although REDF's introduction to its business advisors' group hadn't produced new leads, another introduction it made resulted in immediate assistance to IME. REDF initiated discussions between IME staff and executives from one of the largest U.S. janitorial supplies and services firms, a company whose corporate mission includes helping disadvantaged people. Over the next several months, IME developed a strong relationship with this company, from whom it received training, products, time and employee management information and general systems reviews.

IME developed a strong relationship with the largest U.S. janitorial supplies and services firm from whom it received training, products, time and employee management information and general systems reviews.

3. Market, pricing and salary changes: Over time, CVE instituted several changes from the initial IME business plan. First, it shifted the target market from 100,000 square foot buildings to medium sized (25,000 sq.ft. to 50,000 sq.ft.), privately owned buildings. Next, CVE decided to increase prices more quickly than it had originally anticipated. CVE found that quality was much more important than price to its customers. Lastly, CVE discovered that it could not hire and retain qualified supervisors for the planned pay rate. Given the local economy, hourly rates for supervisors were in the range of $9 to $12, instead of the $7 to $9 originally budgeted.

Conclusion

The IME business has been extremely successful. By January of 2000, CVE has made great progress towards achieving its goals. First, CVE has diversified its revenue stream. Back in 1996, CVE was almost entirely dependent on government contracts for funding. In January of 2000, CVE received funding from a variety of sources including grants, private contracts and government funds. CVE's proven model and track record began to pay off.

Second, although the IME business was not profitable at the time of writing this case, it was considerably ahead of schedule. IME experienced a loss of $26,705 for the first 7 months of its fiscal year while it had expected to lose $49,200. As shown in CVE's income statement as of January 31, 2000 (see Exhibit 26), CVE's net income (including subsidies) was more than $60,000 above plan. In 20 months, CVE grew from cleaning 25,000 sq.ft. to 266,457 sq.ft.. Finally, IME was on target to break-even by December of 2000. More importantly, the IME business has enabled CVE to achieve its mission in a powerful way. By December of 1999, IME was employing 16 full-time employees, which is consistent with the original targets. IME is now able to both provide revenue for CVE and provide supportive jobs for people with psychiatric disabilities.

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