

Managing Key Relationships with the Rest of the World: Lessons Learned (The Hard Way) by Social Purpose Enterprises

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Introduction

Traditionally, nonprofit social service agencies have been oriented toward the funder as the main external stakeholder. Funders monitor the quality of their investment¹ by the social impact achieved but do not typically receive the services themselves. By launching a social purpose enterprise, a nonprofit immediately takes on a new set of relationships outside of its own organization – relationships not anchored by a social mission but by the imperatives of running a successful business. For example, social purpose enterprises work with customers they must convince to buy their products or services, suppliers who provide essential raw materials, competitors and peers in the industry and outside sources of valuable expertise.

At the same time, even external relationships based on a shared social mission take on a new character in the context of a social purpose enterprise. Funders, volunteers, even partners driven by a shared social mission often must be approached in a different way within a social purpose enterprise. In this chapter, we share our learnings about how to create the most value from each of these types of relationships. To illustrate our points, we have used examples from our own experiences, Kristin at The City Store and Carrie at Rubicon Programs, and examples we gathered from our colleagues at other groups in the Roberts Enterprise Development Fund (REDF) portfolio.

We outline principles that practitioners in the field have learned about how to most effectively manage the above relationships with the outside world. Bear in mind that the parties described here are not social purpose enterprises' only stakeholders and that traditional nonprofit stakeholders, such as clients,

community, and investors in purely social service organizations, are central and critical to a nonprofit's operation. However, they will not be addressed in this chapter to allow us to focus on social purpose enterprises' interactions with actors that are both outside their organizations and integral to their businesses.

We will be using the following terms throughout our discussion:

- ◆ **Customers:** Those who purchase the product or service that the social purpose enterprise sells
- ◆ **Clients:** Recipients of a social purpose enterprise's social mission benefit, including employees from the target population
- ◆ **Suppliers:** Vendors who supply the raw and finished materials used in the business
- ◆ **Competitors:** Businesses offering similar products or services in the marketplace
- ◆ **Consultants:** Third-party advisors focused on specific projects or topics
- ◆ **Funders:** Investors who provide money to the organization without the expectation of receiving the business' products or services in exchange
- ◆ **Volunteers:** Individuals who contribute their time to helping the social purpose enterprise without the expectation of compensation
- ◆ **Third-party partners:** Organizations with whom the social purpose enterprise has a collaborative professional relationship

Business Relationships

Social purpose enterprises interact with the same stakeholders as traditional businesses; this discussion assumes an understanding of commonly accepted business principles. We will focus on strategies for responding to

the specific challenges that social purpose enterprises are likely to face because of their social mission and their roots in more traditional nonprofit organizations.

Customers

A business only succeeds when customers perceive that it consistently provides them superior value.

One of the greatest challenges facing a social purpose enterprise is becoming a customer-driven as well as mission-driven organization. Internalizing the reality that business decisions must be guided first and foremost by customer behavior can be very difficult in organizations founded for the purpose of helping clients meet goals such as employment or self-sufficiency. The social mission is typically the personal priority for the social purpose enterprise’s founders and for many of its staff. Client employees who are used to receiving social service assistance focused on meeting their own needs also often need a strong push to internalize a focus on the customer.

Despite these obstacles, however, social purpose enterprises can apply three proven for-profit techniques:

- ◆ create a compelling value proposition
- ◆ use customer-focused sales strategies
- ◆ deliver on the value proposition

Social purpose enterprises can also employ one technique that is uniquely their own:

- ◆ communicate their mission

Create a compelling customer value proposition

Social purpose enterprises are often attracted to a potential business because of the employment possibilities that it presents for their target population. However, feasibility studies and business plans must first determine “Can we realistically offer a product or service that customers will purchase in sufficient amounts to cover our costs of running the business?” Answering this question means objectively assessing the basis on which potential customers make their purchase decision.

A company’s social mission is usually way down the list of priorities when a customer buys a product or service. This is one of the hardest, yet one of the most important,

realities for social purpose enterprises to accept.

At the City Store we see our mission influence the consumer’s decision to buy a product only if they first find it attractive, reasonably priced and convenient to purchase. If we’re not competitive on any one of those three factors the mission doesn’t help at all.

“Business customers very rarely buy because it’s ‘the right thing to do’ They buy if what you offer improves their company’s bottom line.”

Michele Tatos

DIRECTOR OF BUSINESS AND FINANCE
COMMUNITY VOCATIONAL ENTERPRISES, INC. (CVE)

Again and again, research has found that social mission is only a competitive advantage on the margin, when customers already find high value in the product or service they want to purchase. At each stage of growth, social purpose enterprises should listen to the results of objective market research and resist the temptation to assume that customers will value their mission as much as they do.

At Rubicon Bakery, we ask potential customers who have not purchased from us, as well as those who have purchased, what they like about our products, what they don’t and what they would like. In the course of the conversation we often do inform customers about our social mission as we describe our company. For some this has a positive impact, for some it has a negative impact, for the vast majority it has no impact.

On occasion, meeting customer needs may conflict with the business’ social mission. For example, being responsive or flexible may require extending store hours, promising next day delivery or replacing a trainee with a more experienced employee. Getting a clear understanding of the business’ operational requirements as you plan your business gives you the opportunity to anticipate potential conflicts with meeting customer priorities. Before proceeding you should either find a solution to this conflict, potentially by meeting other important customer needs, or adjust your strategy to create a business that will be a better fit.

Use customer-focused sales strategies

This same objective assessment of customer priorities must inform the sales strategies of a social purpose enterprise. Good salespeople tailor their pitches to what motivates the potential customer, not what motivates them or their management. For many customers, the rationale of “repair your bicycle here because you’ll help homeless youth” would be no more compelling than “buy this television because I will make a \$50 commission.” In contrast, “your bicycle will be fixed in three days or fewer at a competitive price with a year’s guarantee on both parts and labor” responds to customers’ desire for a quick, fairly priced and risk-free way to get their bikes working again.

Because of their cultural heritage, social purpose enterprises may have to concentrate particularly hard on creating a workforce that is also a “salesforce” that always keeps the final customer’s perspective in mind. Communicate to all management and staff, as well as to all client employees, that they are responsible for sales. In return, let them know how the business is performing, how they have contributed to its success and what more they could do to increase revenues – then tie it all back to how it impacts the mission.

Social purpose enterprises should evaluate the cost-benefit of bringing in professional salespeople for key positions. Not only do salespeople have a specialized skill, but they are also much more likely to sell the product or service rather than the social mission of the organization. Of course, a salesperson must still fit with the culture of the organization and genuinely believe in its mission.

At Rubicon Bakery the work culture conveys a tremendous amount of genuine enthusiasm for the business’ social outcomes. However, what we need to convey to our customers is an unparalleled excitement for our cakes; our salesperson knows that is our external message.

Deliver on your value proposition

Once they’ve made the sale, social purpose enterprises often face even greater pressure to deliver than do their competitors. Because of

negative assumptions about nonprofits, customers are often quick to let one mistake confirm their negative expectations. Unlike their for-profit competitors, social purpose enterprises may not get another chance to prove themselves. Being aware of the importance of a good first impression and only promising what you know you can deliver – no matter how tempting it is to say yes to a potential customer – is essential. To reduce this risk it is also important to be conservative and invest in the additional resources that may be necessary to do the first job well.

Potential customers are also likely to assume they will be paying a premium if they buy from a nonprofit. Social purpose enterprises are well advised to carefully watch and match competitors’ pricing as much as possible while still meeting the business’ financial needs unless they have evidence that customers place a premium on some aspect of their product or service.

Communicate your mission

Yes, there still is value in communicating your mission to your customers. First, as described above, a social mission does prompt some customers to purchase a product, all other conditions being met. Second, once you have demonstrated the worth of your product, your social mission provides one more reason for your customers to be loyal to you. Finally, communicating the social outcomes of your social purpose enterprise may perform a valuable educational function. For example, having a satisfied customer learn that their work was performed by an individual in recovery from mental illness may start to break down some of the stigmas attached to that condition.

The strategy you design for communicating the social component of your business should be based on your customer research. Here are a few examples of what social purpose enterprises have learned.

“We identified potential customers whom we felt would be intrigued by the social component of our business – companies with a reputation for supporting the community, student organizations, other nonprofits, etc. – and pointed to our employees as a positive point of differentiation above and beyond

our high quality and competitive pricing.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

At the City Store we had customers who started looking around the store for more things to buy when they find why we exist, so now we are trying to communicate its message more effectively. We’ve learned the hard way that retail consumers don’t tend to read small signs, so we’re working on more attention-getting signage as well as having our employees tell the story.

“Sometimes we will wait until we’ve been cleaning a building very successfully for six months before we really highlight our mission to the customer. At that point, the fact that our employees are recovering from mental illness is more likely to be seen as a plus. Any earlier, the same information might be seen as a potential weakness.”

John Brauer

EXECUTIVE DIRECTOR, CVE

Suppliers

Traditional nonprofits are often not as dependent as businesses on suppliers to ensure the smooth running of their operations and to be kept up to date on changes within their industry. Social purpose enterprises have to adopt business practices to ensure they receive materials in a timely manner so that they can meet customer demand. This includes presenting themselves to vendors as high value potential customers rather than charities, carefully choosing their key suppliers and managing those relationships attentively.

To obtain the best service and terms from commercial suppliers, a social purpose enterprise should present itself as a business, a professional operation that has the potential to grow and become a valuable customer of the supplier. This means developing an industry standard credit application, monitoring accounts payables and communicating with the supplier if payment issues arise. Social purpose enterprises should also be aware of the value that supplier sales representatives can provide at no cost. Sales reps have a vested interest in selling you a product which will help your business succeed, a repeat versus a one-time sale, so take advantage of their

expertise and ask for their opinions when making your selections.

“We learned an incredible amount from a laundry equipment manufacturer’s representative. He even evaluated potential sites for us – all at no cost. He invested his time in the hope that our potential business would become an important customer”

Michele Tatos

DIRECTOR OF BUSINESS AND DEVELOPMENT, CVE

At the City Store we have gotten lots of good advice – and have avoided several expensive mistakes – since we started to trust our sales reps and to take advantage of their accumulated knowledge.

Social purpose enterprises must identify their most critical suppliers and pay close attention to managing them. Not only comparing prices, but also researching potential suppliers and checking reputations with other customers is a first step that can save on product costs and even more expensive quality and timeliness issues. Because of the time-sensitive nature of business, social purpose enterprises will likely also need to establish back-up suppliers, as well to keep up on product trends and consider new suppliers as they enter the market.

Once key supplier relationships have been set-up, they must receive priority among accounts payable. This often presents a special challenge for social purpose enterprises because their accounting systems are frequently integrated into a parent organization’s system, systems designed for different priorities and response times. However, slipping on payables can cripple your ability to offer your product or meet your customers’ deadlines, in addition to triggering expensive finance charges. In contrast, good credit is more likely to make you eligible for discounts and emergency “favors” and can facilitate your overall cash flow.

“We have developed a reputation for two things with our suppliers: being a little late in our payments, and being honest about our payments – when we say the check’s in the mail, it really is. Because of this honesty and pro-active communication, vendors have helped us out in a pinch by letting us go beyond our credit limit based on our word

that payment would come on a certain day.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

Competitors

While nonprofit organizations often engage in their own form of competition, businesses compete openly and aggressively for customers and for profits. Successful social purpose enterprises embrace this reality and simultaneously watch their competitors closely and attempt to create mutually beneficial relationships with them. As new entrants to the industry, social purpose enterprises can learn much by simply observing their competitors. On the flip side, missing the latest trend or not matching competitors’ offerings can be life-threatening. A competitive analysis must be part of all business plans and updated regularly.

Social purpose enterprises can also gain valuable insights by creating connections with others in their industry. Industry or chamber of commerce associations, trade shows and networking events all provide opportunities to keep up on what’s happening in the industry and to get to know industry colleagues. As you establish credibility, it will be useful to present yourself as a player in the industry, rather than focusing primarily on your novel nonprofit status. While all businesses consider some information proprietary, most businesses are slightly different and many for-profit managers will be willing to share some ideas and references with others in the industry.

Competitors are more likely to share information with you if they perceive you have something to offer them than simply because they feel they should do a good deed – after all, you are a competitor. Creating permanent placement opportunities for social purpose enterprise employees at competitors can be one very powerful win-win collaboration. Sitting down with these colleagues to understand their expectations for a new hire can provide tremendous insights for your workforce development program and help ensure true job readiness.

“Ashbury Images routinely places its employees with other screen printers based on both personal contacts and the company’s reputation. AI has also developed a

particularly strong working relationship with a “semi-competitor”; a screen printing company that focuses on much higher-volume orders, who is eager to hire our trained graduates.”

Marc Coudeyre

ENTERPRISE DIRECTOR, ASHBURY IMAGES

An additional benefit of creating a friendly working relationship with competitors is the opportunity to head off any concern about your nonprofit status. As increasing numbers of nonprofit organizations engage in various forms of commercial activity and as more for-profit corporations move to take market share away from traditionally nonprofit organizations, individuals are talking about the question of competition between for-profit and nonprofit corporations. A full discussion of this question may be found in “The Competitive (Dis)Advantage of Nonprofit Enterprise,” a chapter in *New Social Entrepreneurs*.² However, for our purposes, a few points should be kept in mind by the nonprofit manager:

- ◆ Be sure to have meaningful and honest responses ready to competitors’ questions about your social mission and tax status
- ◆ Be familiar with IRS policies on unrelated business income tax and state clearly that your organization pays all taxes and other appropriate fees
- ◆ Be prepared to explain that you run your business very similarly to everyone else in the industry, you pay the same costs for supplies and you charge prices based on industry standards
- ◆ Remind them that when they cash out on their business venture, they will personally benefit from the financial return on their investment of time and money, while you will walk away from your social purpose enterprise with no personal equity or benefit
- ◆ Make the point that because of your social mission you incur much higher labor costs than the industry average due to the more in-depth initial training and support of your employees – employees who would likely not be available to the indus-

try if your organization had not made this investment

- ◆ You may also want to point out that while some people assume a marketing advantage comes from your social mission, in point of fact initial customer assumptions of lower quality must be overcome because of your nonprofit status
- ◆ If the questioner still feels there is such a great advantage to being a nonprofit business employing disadvantaged individuals, you can suggest he/she convert all their assets to a nonprofit and you will be happy to advise them on the process of establishing a nonprofit, social purpose enterprise

Consultants

Outside consultants can offer excellent value to savvy social purpose enterprises that prepare carefully and judiciously buy their services. Social purpose enterprises are more likely to pay for expert advice than the average nonprofit – and the experts they call are typically used to working for for-profit businesses. Because nonprofit agencies often fill the role of advisors with their Board of Directors, social purpose enterprises also have the additional job of defining the organizational role of consultants who may be perceived as “outsiders.” Social purpose enterprises must learn when to call an outside consultant, how to work most effectively with them and how to get services at the best price.

It is critical to remember that using an outside consultant represents an excellent strategy for building the internal capacity of the social purpose enterprise. However, keep in mind that one cannot outsource capacity building! If you contract with a consultant, make sure you engage them in “knowledge transfer” to improve your own organization’s skills and ability to manage your venture. Do not work with any consultant who is only interested in taking on your project, writing up a report, submitting their report and then departing. Use this as an opportunity to engage individuals with particular expertise in assisting you or your staff in learning more about how to manage your venture.

Organizations within the REDF portfolio have used for-profit consultants at a variety of

points in their business’ lifecycles and for a range of topics. The following examples illustrate points at which consultants have been helpful.

Focused attention

CVE brought in Keystone Community Ventures to help them decide whether to enter the commercial laundry business. CVE’s goal was to understand the economics and operations of the business well enough to decide whether it was a good fit with their organization. Keystone answered a series of increasingly in-depth questions about the business, which assisted CVE with its thorough decision-making process. According to CVE, the primary benefits of Keystone’s involvement were the quality of product that resulted from having individuals dedicated full-time to the project and the consultants’ experience at analyzing potential businesses.

Industry expertise

The City Store had already been in business for two years when it hired two outside consultants with in-depth industry experience. One, an established retail consultant, provided one-day’s worth of advice on store layout, design, product placement, etc. The second consultant was a successful local retail business owner who did product buying, hands-on display and merchandising on contract over a two-month period. The City Store approached these consultants because it identified major areas for improvement and did not have access to retail expertise in-house. They gave management the confidence, as well as the insights, to successfully make major changes to the business.

However, simply bringing in an outside private sector “expert” in no way guarantees the results you want. Carefully defining the goals of the project, selecting the right consultant, negotiating a specific work plan and timeline for deliverables and managing the project attentively all help ensure the consultant’s work will be effective. The social purpose enterprise must first define and then communicate the outcome that is needed (a decision, the specifications of a new system, gaining industry knowledge, etc.) and give them a budget for the project. Then, both the potential consultants and the organization must understand their respective roles and the resources, and agree and sign-off on the

terms of the engagement in writing.

At least three factors should be considered when selecting a consultant.

1. The consultant must truly grasp what the social purpose enterprise needs them to deliver.
2. The consultant must understand and accept any budget constraints of the social purpose enterprise.
3. Finally, because the organizational cultures of social purpose enterprises are often different from those of their for-profit counterparts, it is important to consider the fit between the personalities of the consultant team and the internal team members.

To manage a consultant engagement constructively, at a minimum you need an internal point person who is responsible for coordinating the consultants, accessing internal information, ensuring internal buy-in as the project advances and for implementing the recommendations. To get maximum value from the consultant, that person should understand enough about the topic to give the consultant clear direction and ensure their output meets the organization's needs. That basic internal understanding of the topic gives the organization the basis for making an informed decision that takes into account the consultant's recommendations. Social purpose enterprises should treat the "experts" with as much skepticism as faith and should take into consideration the specific features of their business model or culture before blindly following their advice.

"We once made the mistake of using consultants in an area where we did not have the internal expertise to guide them effectively. We found out that it is very difficult to get the outcome you need and to make a wise decision for the company in that situation."

Maurice Lim Miller
EXECUTIVE DIRECTOR, ASIAN NEIGHBORHOOD
DESIGN (AND)

At Rubicon we work with a variety of consultants on all different aspects of our business and typically find it a successful strate-

gy. Examples include: having the principals of a homecare business fill key staff roles as we implemented our homecare business; pastry chefs helping with product development in our bakery; and an accounting firm that has worked with us for six months to develop a financial system that can do financial and nonprofit accounting. Besides being professionally qualified to do the work, our consultants understand that they are taking on a teaching role and helping us improve our skills capacity.

It should also be remembered that there are a host of different types of consultants, with various skills, experience and focus. Some consultants are more generalists and others have very specific expertise in a given industry. Furthermore, recent years have seen an inflow of "new" consultants into the field. Some individuals who used to engage in organizational development consulting or general nonprofit management are now marketing themselves as "social entrepreneur" or social purpose business development consultants – buyer beware! Check references carefully, make sure candidates have a demonstrated track record of success and include "exit points" in your contract in case you realize after the first month that you are not getting what you wanted and need to terminate the relationship.

With these thoughts in mind, although expensive at first glance, consultants may accomplish a task more cheaply and quickly than if a person without the specific mix of skills and experience were hired to do it in-house. At the same time, the high price of a consultant's time may prompt management to define the project's goals and scope more carefully up-front and to actually implement the results. While some consultants will work as volunteers, it is usually best to pay for services. This ensures your project is given priority and quality service. In addition, seeking free services limits your choices since the best consultants often have limited time to give. However, social purpose enterprises may still be able to get a discount rate or superior service, reflecting a consultant's interest in the social mission. Working with a nonprofit is often also a good business opportunity for industry consultants because it exposes them to a new sector and allows them to network with a new field of potential customers.³

Social Mission Relationships

Certain external stakeholders distinct from those typically involved with a business will be drawn to the social purpose business venture because of its mission. In this newly emerging field, the roles and expectations of the different players are still evolving. The following discussion focuses on managing relationships with funders, volunteers and third-party partners given the special characteristics that set social purpose enterprises apart from other nonprofits.

Funders

Obtaining funding for any new business venture is hard; the hybrid nature of social purpose enterprises and the new territory they represent makes securing financing, whether from traditional nonprofit funders or private sector investors, even more difficult. Understanding the specific challenges social purpose enterprises face in seeking funding from different sources is a first step toward applying two recommended funding strategies: identifying funders with which your venture has a strong “fit” and creating open and honest relationships with your funders.

The primary funding sources for most nonprofits are rarely set up to provide the kind of funding social purpose enterprises need. Both foundations and governments usually distribute their money as grants tied to providing social services. Unfortunately, the social impact of an investment in a social purpose enterprise may not occur until after the grant is spent, as the business develops, grows and hires and trains more people. This longer timeframe does not fit within a typical program period. Nor, generally speaking, will foundations or governments commit to the multiple-year funding that businesses need to make it through the cash-strapped start-up phase before they start to turn a profit. Foundations often look more favorably at “new and innovative” programs than at ongoing, albeit successful, programs. Although social purpose enterprises are currently very popular as a concept, some foundations are hesitant to take a financial risk and so obtaining funding past the business development or initial implementation stages can be difficult. Nor are community development resources

always oriented toward the capital requirements of building a business to scale. Government money is sometimes available but is often not responsive enough to business opportunities that arise because of longer lead times and it is more political to obtain. The potential paperwork in most government funding – which a business is usually not set up to do- makes it essential to do a cost-benefit analysis before going after these funds.

The expectations of investors in for-profit start-up businesses, such as private investors and community loan funds, typically do not fit with social purpose enterprises. First and foremost, private investors want a financial return on their investment. However, the law prohibits nonprofits from giving an equity stake or otherwise distributing profits for any reason other than furthering their mission. The private and community loan funds that are available to nonprofits for community development may offer discounted interest rates but are often initially set up for housing development and so may require negotiation and adjustments on both sides. Standard business loans will be available, typically at market interest rates. However, they will have collateral requirements that may be hard for nonprofits to meet because most organizations typically have few assets or significant cash holdings.

“Venture philanthropy” is a growing field and often an excellent fit with funding a social purpose enterprise. However, because this term is interpreted in many ways, you should first understand the expectations and mode of operations of the specific funder. An excellent resource for understanding venture philanthropy is “Implementing Venture Philanthropy: The Roberts Enterprise Development Fund,” a business case published by Stanford University’s Graduate School of Business.

Social purpose enterprises should concentrate their efforts on funders who want to work with this kind of organization, and with whom the relationship can effectively meet the goals of both parties. This means first defining what you’re offering in terms of target social outcomes, the timing of expected results and funding requirements. Basic questions to be addressed include:

- ◆ How many years will you need funding before breaking even as a business?

- ◆ How much money do you anticipate needing over this period? (It's always more than you think!)
- ◆ How many people do you expect to employ over time?
- ◆ How much can you accept in the form of loans vs. grants?

While defining your own needs, you must also become familiar with the needs of the funder and evaluate the costs and benefits of what they offer your organization:

- ◆ Do they view social purpose enterprises as a viable concept and are they familiar with the ups and downs of business development?
- ◆ Can they participate in a multi-year relationship?
- ◆ Do they have access to the necessary capital or help leverage their investment with other funders?
- ◆ Do they have access to other resources beyond capital that are necessary for the social purpose enterprise's success?
- ◆ Are they mandated to serve a certain population with certain services?
- ◆ What are their reporting requirements?

"With a government funder I tend to talk a lot about the return on their investment. For example, I emphasize that because of the leverage and funding our business generates we can create twenty-five jobs with the same amount of money they would normally spend to get five of the same people off entitlement programs."

John Brauer
EXECUTIVE DIRECTOR, CVE

Having a clear vision of your business model and social mission will also make it much easier to say "No" to tempting funds whose social outcome requirements may require you to make decisions that are not ultimately in the best interests of the business.

The most effective relationship between a social purpose enterprise and a "good fit" funder is very different from the typical nonprofit to grantmaker relationship. Rather than presenting a "dog & pony show" in which the nonprofit portrays itself as "perfectly ready and ideally suited to execute a program" once it receives the desired funds, a good social purpose enterprise seeks to present itself to funders as accurately as possible.

"You need to be able to take a long-term view of the relationship and create a sense of trust built on honest communication, cooperation and involvement. While being upfront with your investors you also have to understand this is a professional relationship and commit yourselves to fulfilling their needs as you hope they are fulfilling yours."

Rick Aubry
EXECUTIVE DIRECTOR, RUBICON PROGRAMS

"We talk about our warts – what didn't work and why – as well as about our triumphs. If you can talk openly about your deficiencies, a funder committed to your social outcomes will help you overcome those deficiencies, whether directly or by helping you find other resources."

Michele Tatos
DIRECTOR OF BUSINESS AND FINANCE, CVE

Again, unlike many grant recipients, a social purpose enterprise will be held accountable to its budgets and outcome projections. Putting together a tight, realistic business plan that details your financial needs and has believable pro-forma financial statements for at least five years makes this process easier.

"It's hard, but you have to resist the non profit temptation to say 'sure we'll be able to do that' when you know that it's only wishful thinking."

Dianne Flannery
EXECUTIVE DIRECTOR, JUMA VENTURES

At the City Store we have numbers we could honestly stand by which makes it much easier to ask for what you believe the business needs to succeed – even if it's a lot of money.

Volunteers

Another very visible external stakeholder in many traditional nonprofits is the volunteer, an asset usually not available to for-profit ventures. Savvy social purpose enterprises understand the opportunity costs of working with volunteers and focus on creating relationships that are “high value-added.”

The classic role of using volunteers for labor intensive tasks rarely fits in the schema of a social purpose enterprise, where that work is reserved for trainees or employees. Indeed, fair competition considerations mean volunteers can not be directly involved in providing the product or service being sold. However, social purpose enterprises benefit from individuals who act as advisors to the business without compensation, just as for-profit companies take on volunteer interns and receive business advice without charge through their professional networks.

Because of its mission, a social purpose enterprise is likely to receive many offers of free business assistance. However, this assistance is never truly “free.” All business assistance, whether “free” or for fee, requires at least a minimum of management time and may require additional scarce resources such as a computer, office space, access to other employee time, etc. A wise social purpose enterprise carefully evaluates the trade-offs between the likely results of the volunteer’s project and the management time that will be diverted from other aspects of the business to make it happen.

“We used a huge number of volunteer hours to do a build-out for a new shop. They were awesome and skilled volunteers, but I would never do it again. The coordination required was tremendous and took me away from my more important job – running the business.”

Marc Coudeyre
ENTERPRISE DIRECTOR, ASHBURY IMAGES

A good rule of thumb is that taking on a volunteer is the same management commitment as hiring another employee. If that person would play a role you would ordinarily fill if you could afford it, it’s likely to be a good use of your time to make the commitment. On the contrary, finding a task simply because you have an eager volunteer is rarely a good idea.

“We turned down several very qualified interns who wanted to help with our businesses because we did not have the time to dedicate to making it worthwhile for them or to make sure the project would be useful for us.”

Michele Tatos
DIRECTOR OF BUSINESS AND FINANCE, CVE

Asking eager volunteers to be good friends to the social purpose enterprise by promoting the company’s product or service to their acquaintances can be a graceful way to maintain their enthusiasm and accept their offer of assistance to help grow the business.

At Rubicon Bakery when people ask how they can help grow our bakery we tell them to buy our cakes, tell their friends to buy our cakes and thank the grocery store for stocking our cakes. At first they laugh, then they get it and hopefully they go out and make a purchase.

A social purpose enterprise does have the advantage of being able to attract high-powered business advisors who will volunteer their time because of their belief in the social mission. Your business advisors, like a Board, should represent the different facets of your venture, including legal, accounting, strategy and industry experience.

Recruiting business advisors from the private sector is different than reaching the contacts responsible for corporate donations; you must understand and work within the culture of the business world, not the giving world. The business advisor group for the REDF portfolio, Partners-for-Profit, began when one key business leader committed to the idea and assisted in recruiting the other members. In addition to offering their individual expertise, business advisors can be an invaluable way to access the high-level business networks to which nonprofits do not easily get access.

In developing businesses at Rubicon we find it effective to create a network of advisors and use them as resources in gaining key customer accounts, industry information or bouncing ideas around. You don’t necessarily need to meet as a group. We have a Rolodex and when we need something we make a phone call. Our supporters often

have a lifetime of experience and skills, but limited time.

Remember that business advisors are a professional resource and must be treated as such. They will likely need an introduction to the concept and characteristics of a social purpose enterprise as well as a general overview of your business. Your relationship will be most effective if you then ask them to assist on targeted projects, give them background information and follow-up with them on the results. Keeping business advisors in the loop as the project advances, rather than assuming their help will be a one-time shot, gives them more ownership in securing the ultimate goal and makes it much easier to bring them back in at later stages should that be necessary. Since many advisors are attracted to the social venture because of its mission, it is also important to keep them informed about the social impact of your work.

Third-Party Partners

An integral part of the private sector, strategic partnerships can also be very valuable for social purpose enterprises. Partnerships both with for-profit companies, particularly when they support your social mission, and with other nonprofit organizations should be guided by identifying what is important to each partner and then carefully structuring the relationship to obtain those results.

Identifying the potential value that the right partner could bring to your social purpose enterprise – actually recognizing you do not have to do everything yourself – is the first step in creating a partnership. A logical next step is to identify what you could offer a partner, beginning with what you already do well.

“As soon as we began talking to a potential private sector partner, a national janitorial business, we asked what they were looking for. It turned out that expanding community partnerships was a corporate-wide goal for them. To our surprise as we kept talking, it also emerged that CVE’s strength in “soft skills” training complemented their technical skill development expertise, so we had even more to work with.”

John Brauer
EXECUTIVE DIRECTOR, CVE

“We develop win-wins by stating with our own core competencies and looking for complementary ones. For example, we landscape large properties and provide jobs to the economically disadvantaged. It was a natural fit to partner with a local housing authority. They pay us to maintain their grounds, we hire their residents and they provide our employees with housing.”

Rick Aubry
EXECUTIVE DIRECTOR, RUBICON PROGRAMS

Also keep a close watch on your partner’s unspoken priorities, such as public recognition for their contribution to your social outcomes. Responding to these cues can build real commitment from the partner at a very low cost.

The power realized from a partnership often depends on how carefully it is constructed. Particularly when beginning a relationship with such a different entity as a large for-profit corporation, a social purpose enterprise should research its partner, learn some of the specific industry lingo and try to anticipate any cultural differences. This can enable you to hone in on which areas of the partnership may be most helpful – and which are unlikely to be useful. Talking about process, mechanics, roles and parameters of the relationship from the beginning can ensure everyone has what they need to do their job and can head off later misunderstandings, misinterpretations and errors.

“Make sure you have the same expectations of who is doing what – and how they are doing it. In one instance with Rubicon Buildings and Grounds, one of our partners was already handling intake and had begun forwarding inappropriate job training candidates to us before we realized that we had never really discussed the profile of viable candidates.”

Rick Aubry
EXECUTIVE DIRECTOR, RUBICON PROGRAMS

Even if both partners are already working on the same social goals with a common understanding of how to do it, agreeing upon a specific action plan can also go a long way to ensure that a partnership moves from paper to reality.

Finally, identifying a partnership “champion” with your partner organization can dramatically improve its chances for success, par-

ticularly if the partner organization is many times larger than the social purpose enterprise.

At the City Store, our liaison with the City and County of San Francisco has been

incredibly valuable to us. She has a very strong commitment to our success, sees the benefits we provide to the City and has an incredible Rolodex that she never hesitates to use.

Fitting into the Business World

To be a nonprofit social entrepreneur requires you to blaze new trails, and the trails that most need to be blazed for your business to succeed are in the traditional business sector. It is critical your business be attuned to your industry and responsive to its changes and opportunities. As you become more involved in your industry and business community, your own contributions to it will also demystify your nonprofit status. Becoming more involved in your industry will help you keep your training program current and assist in placing people from your business in the private sector.

Participating in trade associations, subscribing to industry magazines and going to industry trade shows are excellent ways to know more about the field. It is very easy to connect with these types of larger organizations. While their activities are often more oriented toward larger companies, they will give you a good sense of industry trends, governmental issues, industry-wide suppliers, technical assistance available, best practices and how your business can grow. Costs of these activities can vary from no charge to

thousands of dollars, so talk to peers in your field for membership and subscription recommendations.

Rubicon HomeCare participates in the homecare provider community because it helps the industry and our business. For example, we list our services in a directory we help to publish and hand deliver to local hospitals. This is a way that we market our business and build our professional network.

Locally there are typically a variety of business networks to participate in including Chambers of Commerce, small business associations and informal business networking groups. Larger groups allow you to interact with potential customers. Although harder to find, the more informal groups are a way to meet peers and will allow you to develop better networks and be more candid about the local business environment. When participating in these groups remember that you are there as a member, not as a charity, and that you are viewed as a business, not a nonprofit.

Conclusion

In this chapter we have given an overview of some of the key external actors with whom managers of social purpose enterprises need to develop effective relationships and we have drawn lessons on managing these relationships from our own and other social purpose enterprises' experiences. We have also focused on some of the key points that you will need to understand when operating a social purpose enterprise and engaging in the business world:

- ◆ Deliver a strong value proposition to your customers
- ◆ Be able to educate your industry about your nonprofit status
- ◆ Build your own capacity when hiring consultants
- ◆ Develop clear, deliverable goals and communicate openly with your funders

- ◆ Connect as a businessperson to peers and advisors in your industry and the business community

When running a social purpose enterprise, you are in a unique position of often having to educate your organization and external audiences that you are not a typical nonprofit. This means not only orienting

your operations, staff and Board to the requirements of the business world, but also approaching your investors, volunteers and partners with this mindset. Succeeding as a social purpose enterprise requires presenting yourself to customers, competitors, suppliers and others as a viable, serious enterprise and integrating yourself into the business community.

Footnotes:

- 1 While most funders make grants, which are not historically viewed as investments, we feel all funds received by nonprofit organizations are a form of investment. Please see “The U.S. Nonprofit Capital Market” in the companion book to this volume, *Investor Perspectives* for more on this perspective.
- 2 This and other REDF publications are available at www.redf.org
- 3 An excellent resource for learning how to work with consultants is the book, “Succeeding With Consultants: Self-Assessment for the Changing Nonprofit,” by Barbara Kibbe and Fred Setterberg.