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Social Entrepreneurship Awards Toolkit

Stage #1: Initial Idea and Vision

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What are my motivations?

There are many reasons why someone might consider becoming an entrepreneur and starting business. Some of the more common ones are:

- Can’t think of anything better to do
- Avoiding a corporate career
- Being your own boss
- Becoming rich
- Exploiting an opportunity
- Meeting a need
- Doing something better/ improving an existing provision
- Changing the world

The popularity of TV shows such as the BBC’s Dragon’s Den and the Apprentice has popularised if not glamorised entrepreneurship, attracting even more people to starting a business. What popular myth doesn’t tell you is that starting and managing an enterprise is incredibly hard work – often much harder than working your way up the corporate ladder. Choosing to be a social entrepreneur is even more demanding, due mainly to the complex nature of your objectives (including social, environmental and financial outcomes) and, very often, the range and diversity of your stakeholders.

To date many of your goals, or measures of success, will have been set by others, or at least developed with the close support of others. Starting on an enterprise requires that you need to decide for yourself what you want to achieve, what you consider to be a success and what it is you hope to achieve in the short as well as the long term. This applies to both you and the enterprise that you are thinking of starting.

Success is never assured. Often it takes a number of attempts to get to what you define as success. You need to be very sure about what you are proposing to do and the demands that this choice will make on you.

If you are considering becoming an entrepreneur just because you can’t think of anything better – don’t. This is not sufficient motivation to make a success.

Fortunes can be made out of enterprise. But most entrepreneurs do not become millionaires. Money alone should not be the motivating factor for any form of entrepreneurship, it is rarely enough. This is especially true if you are considering social enterprise, where personal financial reward is, at best, a peripheral motivation. Successful social entrepreneurs can be well rewarded but not as well as those who are only operating in the commercial sector. You should choose social enterprise only if you are motivated with creating positive change (social change, environmental change) through the agency of enterprise.

Successful social entrepreneurs are more likely to be motivated by innovation, creating change, doing good, improving existing services more than by money.

Many people believe that social enterprise is an easier option than starting a commercial business. This is completely wrong. As a social entrepreneur you will be expected to generate profits, prove that you are
creating measurable positive change and improving the planet, or at least not damaging it – otherwise known as the 3 P’s:

- Profit
- People
- Planet

So a social entrepreneur is measured on three counts (sometimes referred to as the social enterprise triple bottom line) whereas commercial entrepreneurs need only prove their ability to make profit.

You need to be certain that you are prepared to work harder for less monetary reward, but immensely greater emotional reward.

You will also need to be aware that since social enterprise tends not to be highly profitable, it is harder to fund the business and harder to attract investment. You need to operate with greater agility and learn how to attract support by means other than monetary reward – this applies to investors as well as employees.

Other social entrepreneurs have the same challenges and so tend to be very supportive of each other. There is the feeling that social entrepreneurs are creating a new order and a more sustainable world which is another great motivation for entering this sector.
Is social enterprise the right model?

Introduction
As your plans emerge from initial ideas and thinking towards a more complete project concept and potentially on to a fully operational enterprise, you will increasingly need to think about your business model. Essentially, your business model breaks down into a number of elements:

- Headline purpose, (social impact) objectives and moral / ethical compass – Vision, Mission and Values
- Your strategy: how what you do fits together into a coherent whole; and how that helps you deliver your objectives
- Your offer: what product / service are you offering your customers and / or beneficiaries

It is never too early to start thinking about these elements. Look at your business model as a continuously evolving concept – ideally it will become more robust and more detailed over time as you go from idea to project to organisation.

The function of business planning is related to designing and documenting your business model; however, full business planning will define the business model and then do a deep dive into much more detailed aspects of operations, governance, finance, social impact, etc. – that is, pretty much every other theme covered in this toolkit. We will start considering full business planning later in the project’s lifecycle.

When you are in the Initial Idea and Vision stage of your project’s lifecycle, the focus is on determining whether social enterprise is the right business model for you and, if so, starting to develop some early building blocks to help you design your business model.

Start by asking yourself two questions...

Question 1: Does your concept translate into a viable enterprise model?
Let’s ignore the ‘social’ part for a moment and consider whether your idea really translates into a potential enterprise. At this early stage, have a think about 3 different aspects of your idea:

a) Can you define your market and how confident are you that there is a real demand for what you want to offer? When thinking about demand, it will pay to think early on not just about who might want your product or service but also how likely is it that they will be willing to pay for it. In a social enterprise context, an important issue to consider early on is that those that benefit from your product or service may not actually be the one that might be willing to pay for it. Social care and healthcare-focused social enterprises are a classic example of this, where contracts may exist with local authorities or PCTs to deliver a service to eligible people within the community.

b) How realistic is it that you can successfully deliver the product or service? Although your idea may have an amazing potential, the practicalities of delivery may be a barrier. Further down the line, this area of planning will focus on the internal operations of your project or organisation, i.e. how you deliver your offer to the market. At this stage, it’s worth developing a sense of 2 things: firstly, do a little investigation
into in the market(s) that you’re looking to operate in and start to understand how potential competitors, partners and other stakeholders are operating. Starting to build relationships with people working in the area will be invaluable later down the line, but at this stage will give you great insight into the operational and competitive landscape of your market(s), and help you understand which operational models might work for your idea. Second, start having a think about what your own strengths and skills are that are relevant to the realisation of your idea, and where there are gaps. Being honest about where you need help, either by bringing others on board or working with third parties such as your higher education institution / university or other partners, is critical; few entrepreneurs, social or otherwise, are able to realise their vision without support; the most successful are often those who are clear from an early stage about where, when and how to secure the right type(s) of skills, capabilities and knowledge from other sources.

c) **How sustainable do you think your idea is?** The issue of sustainability is critical to any business, and social enterprise is no exception. In its most basic sense, it translates into whether or not you think you can sell your product / service for more than you sell it and whether you think demand will grow in the medium to long term (e.g. after your completed an initial pilot and are looking to scale up). Note that in the social enterprise setting, revenue may also be augmented by grants and other sources, depending on the nature of the organisation (see below), and so sustainability considerations will need to take into account all sources of income. Another point worth making is that some social projects and social enterprises may have a finite life; in this case, the same considerations of sustainability apply, but within a discrete timeframe. This area of thinking and analysis is, ultimately, the door to financial planning and management; it is worth bearing in mind that many good ideas have been brought to market in the past but have failed because, ultimately, the economics of the business were not sustainable. This is true for the social enterprise space as much as it is true for the commercial world. As you begin developing your idea and concept, as well as investigating areas addressed in (a) and (b) above, include cost and revenue implications as part of your analysis and start recording this data – you will need it later on when you start to consider financial planning.

**Question 2: Why is social enterprise the right way forward?**

You think your enterprise idea is viable; so what makes it a social enterprise? You will find a variety of definitions of social enterprise and plenty of heated discussion about whether a particular organisation is a true social enterprise or not. A good place to start is the Department of Trade and Industry’s definition:

“A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for the purpose in the business or in the community.”

It’s also useful to think about the motivations and objectives of a typical social entrepreneur. Put simply, social entrepreneurs are people who act to make the world a better place. That doesn’t mean they necessarily develop complex, global solutions to large-scale issues; often social entrepreneurs simply take a problem in their own community and make a commitment to tackle it.

A social enterprise is the ‘vehicle’ that a social entrepreneur uses to deliver his / her solution to a social problem. At its most informal level this may be the entrepreneur themselves, working on an individual, self-employed basis. Many social enterprises, however, eventually become a separate legal entity to any one individual or individuals, with its own vision, mission and values. Legal structuring considerations is a major topic in the field of social enterprise, mainly because there are a wide variety of legal forms that a social enterprise can take; this subject is addressed elsewhere in this toolkit [Link Stage 3, Theme 7].
Let’s go back to the DTI definition. You’ll see that a social enterprise must have primarily social objectives, and profits should be principally reinvested in the business or community. What this means is that, in some cases, social enterprises can aim to turn a profit and some of that profit can be used to pay back investors. This is the social enterprise notion of a blended return: being in business to deliver a social return as well as (in some cases) an economic return.

It is this feature of social enterprise that distinguishes it from charities, which are by definition non-profit organisations. It also means that the funding / investment landscape for social enterprise effectively spans both the charities and the commercial sectors – i.e. social enterprises can attract both grant-making / philanthropic sources of funds and / or more commercial-looking investment such as debt and equity.

It is useful to think about social enterprise as occupying the ‘space’ between charities at one extreme and commercial business at the other. When developing your business model, it is useful to think from an early stage where your project / organisation is likely to sit on that spectrum – this will influence many aspects of how you are legally structured, how you operate and, perhaps most importantly, what are your most likely opportunities for funding.

Two hypothetical examples will illustrate the point. Social enterprise A sources large scale waste materials and re-cycles them to enable the manufacture of new products for sale to consumers. Its social objective is at the centre of what it does; the organisation’s business model is focused on being 100% sustainable through its product sales. Its operations are typical of an organisation involved in the manufacture, marketing and sale of consumer products. It aims to turn a profit on its activities and this is expected to provide an attractive opportunity for social equity investors in order to secure long term growth finance once the pilot phase is complete.

Social enterprise B aims to promote ethical cotton supply chains in the UK textile and fashion industries. It works through a range of public and other events, partnering with various organisations to help get its message across to consumers and industry players. In order to support its campaign activity, it manufactures an ethically sourced ‘signature’ cotton product which is sold at these events and through other channels, including online. The organisation is geared up to be an event organising, campaigning / advocacy organisation, with all aspects of product manufacture and logistics outsourced to partners. Whilst product sales do generate some income, the organisation expects 90% of its funds to come from grant-makers for the foreseeable future.

Both organisations fit the social enterprise mould, but are likely to have very different business models, operating / legal structures and funding opportunities.

What is a business model?

Your business model is an integrated view of your entire organisation, bringing together your social model, strategy and operational plans. These components form the ‘engine’ of your organisation, with your vision and mission providing the context of what you do. The diagram below summarises this concept:
Note that this complete framework is, strictly speaking, your business model; in this theme of the toolkit, we will be focusing on your Vision and Mission statements, your strategy and link into your operational / organisational model (that covers multiple areas such as staffing, infrastructure, marketing, legal structures, etc.). The Social Model component is discussed elsewhere in this toolkit. Also, see the Organisation, Operations and Infrastructure theme of the toolkit for a more detailed dive into the internal workings of your organisations.

Recommended first steps in developing your business model

Now that we have introduced the foundations of business modelling in a social enterprise context, it’s time to take the initial steps in developing your business model for your idea. At this early stage, start at the highest, most strategic, level. As you develop your idea and project further, you will get more granular and detailed in your thinking.

Try working through the following steps:

- Capture the key components of your business model in a simple diagram that will consider:
  - Inputs (i.e. what goes into your organisation)
  - Internal process / actions (i.e. the major elements of what you want to do)
  - Outputs (i.e. the impact of your actions / operations).
  
  This diagram should be a reflection of your strategy and – at the very highest level – the operational components of your project / organisation.

- Link your outputs to your social impact and other objectives.

- Identify which elements of your internal process are critical to your success and which are peripheral or best outsourced to someone else.

- (The business model for social enterprise B above might look something like this:)

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Considering your business model diagram, identify the areas that are most unclear in your mind and what research you could do / relationships you could develop to help test your assumptions and build more certainty into the model. At this stage, it’s likely that most, if not all, areas of your business model will require some further analysis and consideration.

Finally, based on the issues identified in the previous bullet, develop an action plan and timetable for next steps in developing your business model thinking.