<u>March 5, 2007 Conference Call: Earned Income Venturing: The Art of Making Money for Your Mission—Transcript</u>

Erica: "Welcome to the first conference call of Earned Income Venturing. From the DOL perspective, there are lots of opportunities for nonprofits to create small businesses, or for profit ventures, and use them to make money for their non profits and prepare people for work. Without further adieu, Ms. Bernice Sanders Smoot."

Bernice: "Good Afternoon and thank you Erica. This is fascinating way to increase support for your nonprofit without begging, borrowing, or stealing. I am also pleased to announce that we have Joseph Shatton from the Center for Faith-based and Community Initiatives Small Business Administration. His business development wisdom will be very valuable to you. Today we will be exploring Earned Income Venturing: what it is, why it is an increasingly popular way of generating income, and how it's working. You will also be able to assess whether venturing is right for your organization. As long as we can remember people have been trying to figure out an easy way to get money. There is a saying, if you're going to climb, grab the branches not the blossoms. Blossoms may be more appealing, but will not support you. For those of you that may be part of faith-based organizations, you can appreciate the phrase, that prosperity is the reward of the righteous. There is a right way to get things done. The right way to get more money for your nonprofit program requires reaching to the branches, putting in that extra effort towards relationships that pay. The prosperous relationship we will talk about today is one between your nonprofit and its potential for profit venture. With that being said, I would like to welcome you to Earned Income Venturing: The Art of Making Money for Your Mission."

"Earned Income Venturing is about going beyond giving a man a fish for a day, beyond teaching him how to fish for a life time, to actually owning the fishing industry. If you take a look at this first slide, you will see how earned income venturing is defined. Formally, it is considered the for profit activity engaged to support a nonprofit venture. We like to think of it as the new frontier for fundraising. It is also a sustainable way to capitalize on the value of your organization. It is also know in the philanthropic community as social entrepreneurship, social enterprise, mission-based venturing, and also venture-preneurship. In 1997, venturing nonprofits pulled in 4.2 billion dollars. Today, that amount is a lot more. This is serious business and it is here to stay."

"The next slide you will see an example, it is a wonderful example called the Enterprising Kitchen. The Enterprising Kitchen makes packages and natural soaps and sends them across the U.S. This venture raises money and enhances workforce development for low income women in Chicago's Ravenswood area. Now the interesting part of the Enterprising Kitchen is that they say they make soap to employ women, they do not employ women to make soap. This idea sets it apart as an earned income venture for a nonprofit, and not you're traditional for profit venture that is out just to make money. In other words, the Enterprising Kitchen is sticking very much to its mission. In three years, the sales have tripled for the Enterprising Kitchen, into about $600,000. It recently got its biggest order ever, about $250,000, which is about a half a years take. This order will allow them to double their employment of women to 75. This gives you an idea of how successful earned income venturing can be."

"The next slide we are looking at what earned income venturing is not. Earned income venturing is not a get rich quick scheme; it is not a cash cow, typically the net profits are around 12%; it is not a betrayal of mission, you do not have to abandon your service mission to engage in earned income venturing, in fact it can be a compliment to your mission. There is no legal compromise as well. Also, earned income venturing is not for the vulnerable organizations or for the faint of heart. It is again very serious business. Earned income venturing has a cycle, it usually starts with an organization that has a very strong commitment to mission, and has accumulated a number of assets that strengthen that mission in a unique way. I like to think of them as cashable assets. These assets are used to launch a venture. The venture produces income and that money is sent back to the mission of the organization. So a nice cycle is engaged from mission to venture to money, which feeds back into mission, back into venture, and back into money."

"Let's take a look at why earned income venturing is on the rise. For most it is definitely needed. According to the IRS, there are 1.4 million nonprofits. There is something in the neighborhood of about 690,000 faith based organizations. So the competition for the philanthropic dollar is quite tough these days. There are about 40,000 new nonprofits every year. In addition, there is a tremendous need for the increase in the human need for nonprofits. It is estimated that about 30 million people are living in poverty, which is an astronomical number of people who need all sorts of services. So there is a significant need to generate income to fulfill these human needs. In addition, traditional funding sources have become more challenging. Fund-ers want a bigger bang for their buck. If you are going to be a successful nonprofit, you will need to generate money from more creative ways. The other gain for earned income venturing is that it truly pays. According to a few surveys by charitable trusts, 73% of the nonprofits had budgets of about \$5-\$25 million. For faith based organizations, about 45% had budgets of about \$2 million. In addition, the benefits of earned income venturing extend beyond money to what can be called a sort of "Halo effect." This effect is about an 80% bettering of their reputation, as well as a 73% bettering of their service delivery."

"The benefits even extend a bit more so. It includes that you will be able to generate new, unrestricted funds through direct and indirect means. The direct means is the for profit sale of products or services, whereas indirect means are becoming better known in the community, and therefore, you may be able to attract more donors or volunteers. Major funding is available for underwriting. Foundations are increasingly more supportive of venturing, as well as new natural business plan competitions to foster venturing. Earned income venturing also enables a decrease reliance on traditional fundraising activities. It sets your nonprofit program apart from your peers. It strengthens your relationships with supporters. It achieves greater mission effectiveness. It improves service delivery and workforce development, as well as it aids long term sustainability and growth. This is a big challenge for nonprofits, which this shows to be a unique way of overcoming this."

"Typical venturing organizations look like older, more experienced organizations. They are large in size and well staffed. They also have networks with other social associations and a narrow mission program focus. The entrepreneurial leadership, mentioned here, is typically where venturing is kicked off. I think of it as making the distinction between a missionary and a mission leader. A missionary will typically rely on others for support, but through earned income venturing the mission leader actually inspires others, and one of the ways they do so is through earned income venturing."

“Now, let’s take a closer look at earned income venturing. There were 42% venturing nonprofits out of a survey of 519. This is part of a survey funded by two charitable trusts. Of those venturing, 60% were arts/culture organizations; 47% of them had health missions, 33% of them were educational organizations, and 26% of them were religious organizations. Now what type of venturing were they engages in, well, 74% of them were service-related, 47% of them had product sales, 26% of them were engaging in leasing or renting property, and 15% were engaging in cause-related marketing. It is important to note also that 37% of those surveyed say venturing also provides employment, training, and therapeutic opportunities that are beneficial to the community. So again, earned income venturing extends way beyond just generating money.”

“Among the faith based organizations that provide social service ventures, 37% of them were venturing out of 265 surveyed. These organizations provides services such as counseling, which was 41%, emergency relief, 39%, elderly services, 36%, health care, 35%, youth education, 28%, job training, 25%, and affordable housing, 22%. Of all of those venturing, 43% of them were engaged in fee for service activities, 33% were product sales, and 13% of them were engaging in leasing or renting property.”

“The Sample Types of Ventures include, commercial theater production company, school curriculum and software, bakery and catering, housing rental/leasing, landscaping/gardening, and equipment/furniture brokerage. On the faith based social service side, there were thrift stores or “restores” (like Habitat for Humanity), those that provided staff services as stadiums, high tech job training, leadership development training, refurbishing or reselling cars, and leasing space to small businesses.”

“We will now look at common traits of earned income venturing organizations. They have a leader with an entrepreneurial spirit. They are an organization with sufficient resources and relationships. They have discipline to relate, not violate their nonprofit mission, to relate, not violate for profit best practices, and to relate, not violate cultural and spiritual integrity. Cultural and spiritual integrity is important because you don’t want this to change by becoming for profit. Most of the successful venturing organizations wrote successful business plans. This is important to success because you need a business plan that will ensure this success. Also, most of those that were venturing had outcomes that were beneficial to the prosperity of the community.”

“Now we will look at some common mistakes with earned income venturing. These include, the failure to develop a thorough business plan, also the imitating business ideas that don’t fit nonprofit missions. This is another big problem because one organization might hear some other organization doing something successfully, and think they can do it in our neighborhood, and it will work. The necessary conditions might not be there in your community, so imitating the business plans of others might not necessarily work for you. Third, disputes between nonprofit and for profit management. When you start a for profit venture, you will have a different mentality, such as one to make money, which may not fit with the nonprofit mission from time to time. Then the nonprofit mission has a difficult time adapting to the for profit mentality. There is also a tendency to not define minimum thresholds to be reached in the earned income venture. You need to know when to hold’em and when to fold’em. Then there is the failure to allocate true costs and undervaluing the worth of your organization. You have people working in your organization that are volunteering hours, this cannot be expected on the for profit side. The people who are participating in the for profit venture will need to be paid. You do not have volunteers in a for profit entity. So it is important to allocate all the costs for operating the venture. Next, seeking to drain the for profit for the nonprofit's gain. A for profit venture also has operating expenses, it is important to know what these are going to be so the for profit can continue to produce profit. There is also a lack of flexibility to retool in response to lessons learned. Then there is the loss of focus on the purpose of the venture. Remember, in the example of the Enterprising Kitchen, they did employ women to make soaps, but making soaps to employ women. You want to make sure you're not conflicting with the reason why you entered the business. Then there is the issue of inadequate funding. Starting a business does have upfront costs that you must be able to deal with. So if you're getting money from a foundation, but you are going to need additional funding, you will have to make sure to go the extra step to get that funding. Often times nonprofits start up because of commitment to helping people, and a belief that somehow the money will come. This may work for a nonprofit mission, but does not work in a for profit business. In fact 80% of small businesses fail within their first five years. These businesses run right into the failure because of their poor planning. Another thing I like saying is, you can tell Americans believe in God by the way they drive. For nonprofit organizations, such recklessness is a rush to death, not a rush to wealth. So we want to make sure your organization has the upfront wisdom to plan your routes along known roads, and you avoid running into what I call the 3 deadly M's: managing, marketing, and money mistakes. Those are the things that typically kill businesses. Number ten, on our top ten mistakes, is avoiding poor marketing."

"On the next slide we are looking at the impact of the venture from your business plan. 86% of the improvement in a business's reputation came from writing a good business plan, compare this to the 81% reputation of those that did not write a business plan. There was 84% improvement in service/program delivery, 81% improvement in the mission, compared to the 69% that did not write a business plan. This is quite a difference. There was a 66% improvement in the self sufficiency of the organization, compared to only 59%. As you can see there are a number of improvements that are created when you write a business plan, including board leadership. There was a 58% improvement in board leadership versus 43% for those who did not write a business plan. There was a 56% improvement in the ability to attract and retain staff, compared to 46%."

"Ok, now we will look at challenges for venturing organizations. These include, business planning, access to capital, market research (a little surprising because it is very important to do market research to determine that you're venture will be profitable), peer support (because there are not many venturing organizations sharing their success story with others, which makes this teleconference so great), and then there is a request for mentoring. Organizational leaders want someone that has been there, done that, so they can hold their hands through the process. Faith based organizations also want grant writers, more information, training, office space, and low capitalization venture options."

"Now, we will look at the low capitalization ventures slide. These include cause-related marketing, which we will talk more about later, also if you have a leader that has extraordinary expertise, you may consider writing how-to books. There are also curriculum and training sales that can be offered, paid speaking engagements, consultancy/workplace chaplaincy (for faith-based organizations); you can also consider launching a proven model, kind of like a franchise, if there is a program that fits your mission, then perhaps you can discuss with them opening up a model in your community; You can also launch a joint venture or consider buying a an existing business."

“Now we will take a look at cause-related marketing. What is this? It is basically no cost venturing. The formal definition of cause-related marketing is the public association of a for profit company with a nonprofit organization, intended to promote the company’s product/service and raise money for the nonprofit. This is a big definition but will be very clear to you in a moment. The projected cause-related marketing business investment for 2007 is $1.44 billion. This tells you that it is a pretty significant engagement. What are the benefits of cause-related marketing? It has an impact on your mission; increases revenue; enhances visibility of the cause or the nonprofits message; it facilitates access to new audiences; it also forges connections to the corporation’s network of employees, suppliers, distributors, and other contacts; and can even help you to connect to expertise in marketing, strategy development, and other corporate experience. What is cause-related marketing all about, or what are typical kinds of cause-related marketing? Well in 1983, American Express one cent to the Statue of Liberty restoration each time its credit card was used. This produced a 45% increase in new card users, as well as a 28% increase in card use across the board. It produced 1.7 million for the fundraising venture. Yoplait Yogurt linked with Susan G. Komen Breast Cancer Foundation and raised 11.5 million dollars. In 2004, the Cause Marketing Halo Award Winner, who was the Boys and Girls Club, launched a Club Tech, which got $100 million dollars in cash and in-kind support from Microsoft. If the Enterprising Kitchen were to do cause-related marketing, with an organization that dealt with skin cancer, since they are making natural soap products, it could be a compliment to this type of business.”

“Now we will go back to earned income venturing in its general sense. What is involved in doing an earned income venture, on a step by step basis? All of these are pre-business planning steps. This is a lot of work and not for the faint of heart. First, it is important to organize a venture team and select a leader. You want to do this because your nonprofit board may not have the right mentality for the for profit venture. You want to audit your organization for venture potential. You want to scrub your organization for everything that makes it special and unique to do what it does. Then you want to do brainstorming. You want to look at all the ways you can capitalize on those assets. Then settle on the best three ideas. Once you know what those ideas are, you will want to perform some quick market tests to assess the viability of those ideas. Then you will want do some serious research into the feasibility of those ideas which passes those quick market tests. Next, narrow it down to which venture idea you like the best. Then prepare a budget and assess the returns and risks. After that it is decision time, and when you make your decision, you will need to begin writing a business plan.”

“To summarize, earned income venturing is indeed the new frontier for fundraising. It is a very great way to increase your income for the long haul. Venturing strengthens your mission. Venturing capitalizes on nonprofit value, which creates a better appearance to others in the community, which could result in more donors. Venturing is a business. Venturing is not fast, cheap, or easy. It is not a get rich quick scheme. It takes serious time and serious investment. Venturing is best for strong organizations, organizations that are performing programs, have unique skills, and a capacity to think big and act on it. It does consist of significant investment, and you must ask the question, how much are you willing to spend now to get back that and more in the future? How much can you spend to do that? There are two types of business killers—the worker who doesn’t think and the thinker who doesn’t work. As venturers, you will need to do the prep work to avoid the costly mistakes.”

“Coming into the close now, we will look at venture coaching. You are very likely to need a venture coach with for profit experience to help you navigate through the process and help you answer these three questions. First, should we venture? There is a professional auditing process that can determine this. What venture suits you? You will want to engage is some very effective brainstorming from real market information to inspire really marketable ideas. You will want to look at sample models run by similar organizations. Thirdly, how should you proceed once you find the venture that suits you? The preliminary research will be critical at this stage—you will want to get the analytical data to ensure an informed decision; you will want expertise to shape a fundable venture and business plan; and you will want to identify potential funding sources. Nothing ventured smartly, is nothing gained. If you’re going to do this, bring together your venture committee, hire a venture coach, and then plan to do this very carefully. Thank you Erica.”

Erica: Thank you Bernice. We would like to give the floor to Mr. Joe Shattan, Director of the Center for Faith-Based and Community Initiatives at the U.S. Small Business Administration.

Joe Shattan: “Thank you Erica. My remarks are going to be much shorter than Bernice’s. Basically, I want to talk about two things. First, I will tell you a little bit about the Small Business Administration, what we do, what we are all about, and second of all, I want to talk to you about how for profit subsidiaries of nonprofits can get SBA loans. Let me give you my personal email, it is joseph.shattan@sba.gov . As I am sure many of you know, the Small Business Administration (SBA) is the leading government agency established to help small businesses. It does this through loan guarantees, technical assistance, and counseling. Since 1953, when the SBA was established, we have given out more than 1.4 million loans to small businesses amounting to $236 billion in capital. More than 12.5 million people have sought counseling and training, and more than 5 million people have gotten help from SCORE, which is a group of small business executives who actually mentor small businesses and work closely with the SBA. By the way, these resource partners are not free; you have already paid for them through your tax dollars. They are cost free, so if you want training you just have to contact us. I am a political appointee, but I look at the folks around me who have made their careers in the SBA and I think of them as secular missionaries. They word missionary fits SBA because our mission as defined by the President in 2005, when he said that SBA’s role in is to make the entrepreneurial spirit reach every part of America. All 68 SBA district directors try to fulfill this American dream of ownership to become a reality for every America. A key way for folks to realize the American dream is through economic development. Broadly speaking, there are two ways to go about this. First, there is the top down approach. This is where governors and mayors try to use corporations to fuel cities as a means for economic development. I think this approach is great, but is not enough because sometimes corporations downsize, then it does not work as well. So this is where the SBA comes in. We have a different approach to community economic development—from the bottom up. We think that economic development and job creation take place at the grassroots level in cities, communities, and neighborhoods to be spearheaded by small businesses. All the SBA district directors are parts of their communities, and really know them. In fact, one of nice things about working at SBA is that I can occasionally leave D.C. and visit the district directors. What I notice is that they will give me a tour of the neighborhood, and they will say, see that grocery store, we helped finance that! So SBA is all about promoting economic growth at the grassroots level.”

“To achieve its goals, SBA has two sets of tools—loan guarantees and training (entrepreneurial development programs). The main loan guarantee program is called the 7(a) loan guarantee program. It is also the most flexible. To qualify for it, a small business must be small, and the lender needs to prove that it cannot provide adequate funding unless with a SBA loan guarantee. SBA loan guarantees guarantee up to 85% of a $50,000 loan or less, and 75% of a loan greater than $150,000. If you qualify for a SBA loan guarantee and you want to borrow less than $150,000, SBA can guarantee up to 85% of that, which means that the bank is much more likely to give you a loan for the small business. If you need to borrow more than $150,000, the guarantee will by up to 75%. Last year, SBA delivered almost 90,000 loans under the 7(a) loan guarantee program amounting to about 14 billion dollars. There are other loan programs. If anyone is really interested, it is all on our website, www.sba.gov/financing . As far as entrepreneurial development programs go, we have three major programs—small business centers, SCORE, and women centers. Small business centers are university based with longer type courses. They teach people how to run a business. SCORE is a very interesting program. These ex-business executives mentor people who want to start small businesses, one on one, showing them the ropes. SCORE has gotten very much involved in helping nonprofits becoming more efficient and more business like. The third one, women centers are geared at starting up small businesses owned by women. This is a very brief and incomplete summary of SBA’s programs.”

“Now here is the interesting thing. In recent years, faith based and community organizations have come to recognize that importance of economic development, and have started to look for partners economically, so they have come to SBA. I love to say that during my time here that loans to faith based and community organizations have shot up greatly, they have not. This is due to the simple reason, the SBA is prohibited by law to guarantee loans to nonprofit organizations. In general, a business must be for profit to be eligible for an SBA loan guarantee. However, SBA can provide loan guarantees to for profit subsidiaries of nonprofits. What businesses are ineligible for SBA loans? Nonprofit businesses (for profit subsidiaries are eligible) It is a bit more complicated than that though. We have a legal department here at SBA, and when I ask them can SBA provide loans to for profit subsidiaries for nonprofits? They tell me it is a case by case basis. Suppose you’re a nonprofit, SBA cannot provide you with a loan guarantee, if however, your nonprofit starts up a small business, then there is no problem, and SBA will provide loans. SBA can treat them like any other small business. Now suppose your connected to the Catholic Church, but you start a for profit business that sells religious articles, suddenly that is questionable. Suppose you’re a faith based organization that starts up a child care business, you are more likely to get a loan guarantee for this because it is open to the entire public. The lawyers say they need to pass judgment on every case individually. If anyone plans on setting up a for-profit subsidiary for a nonprofit and wants a SBA loan, please provide me with a detailed description of what you want to do. I will pass it on to the legal people, and they will be in the position to say yes it does meet the eligibility requirements. Once you know you’re eligible, you can contact your local SBA office. Thank you for your attention.”

Bernice: “The next call we will be discussing the best practices for earned income venturing.”

Erica: “Thank you to Bernice and Joe for sharing with us all this useful information.”