

March 12, 2007 Conference Call: Earned Income Models and Best Practices— Transcript

Erica: “Welcome. Our moderator will be Bernice Sanders Smoot, of Saint Wall Street. We will also have a few speakers today, Lauri Alpern of the Enterprising Kitchen, Rev. Benny Sanders, founder/director of Reach Across Houston, and Brendan Hurley, VP-marketing of Goodwill of Greater Washington.”

Bernice: “Good afternoon, I am glad to be here to share information in our second conference call. I am President of Saint Wall Street, which specializes in generating income for faith-based nonprofits. Today we will explore earned income venture models and best practices that actually work, particularly those that focus on workforce development. We will start with a recap of earned income venturing, and then we will discover what are the best practices of earned income venturing. We will hear from three leaders in workforce development. Among the many emails I received from last time, one of which said if excellence is possible, good enough is not enough. In this session, we will share what excellence requires. We will have speakers, Lauri Alpern, Rev. Benny Sanders, and Brendan Hurley joining us today.”

“What is earned income venturing? It is a for-profit activity engaged to support a non-profit mission; it can be seen as the new frontier for fundraising. It is a sustainable way to capitalize on the value of your organization. It is also called social entrepreneurship, social enterprise, mission-based venturing, or “venture-preneurship.” \$4.2 billion dollars were pulled in by nonprofits through venturing. This however is not a ticket out of debt for desperate nonprofits. Just as farming was America’s first business industry, you can consider earned income venturing the first business industry for nonprofits. Note that the produce from farmers did not just feed the farmer’s family, but also helped the community and country thrive. As a nonprofit venturer with workforce development focus, you are like a farmer because you are trying to grow money and you too will strength the community and America. Your seed will be a viable business idea. Your soil will be the marketplace. If you plant the seed correctly, a little green will appear. If you keep away the pests that take away the profit, the green will multiply. We will be using a farming analogy throughout this presentation. Right seed for the right soil will produce a bountiful harvest.”

“We will now look at the benefits for earned income venturing. It certainly generates new, unrestricted funds, directly and indirectly; directly of course through the sale of the products or services and indirectly by attracting new business donors. There is major funding available for underwriting. Venturing also decreases reliance on traditional fundraising activities and sets nonprofit program apart from peers, as well as strengthening relationships with supporters, achieving greater mission effectiveness, improves service deliver and work force development. Indeed earned income venturing can make dollars and certainly makes great sense.”

“Some of the challenges to earned income venturing include developing sounds concept and low-cap ventures (the good seed for your venture), crafting a viable business plan, determining and securing adequate financing, avoiding nonprofit and for-profit confusion (very important to keep each separated); also, hiring the right managers and marketers, finding peer support and mentors, ramping up (dealing with the legalities), and thinking/acting like a business (one of the biggest challenges). The whole idea of earned income venturing is to think and act like a business.”

“Best practices: These five steps are common with most successful ventures. You will form a separate, committed leadership, develop a solid venture concept, prepare a viable business plan, engage clients, markets and manages to achieve financial and social return on investment (SROI). Under the notion of operating under a separate, committed leadership, you should form a venture committee, comprised of business minded individuals. Your project leader should have an entrepreneurially spirit. In farming, you don’t want a hungry leader, but a leader that can see beyond the short term. You also want to have critical resource partners or stakeholders, other people that will benefit from the venture, and together you will have clarity of purpose for the venture.”

“Now under the second item of a solid venture concept, leveraging your constituent value in line with other organizational assets. Your clients are the constituents you serve. The idea is to generate dollars that will help you serve your clients better. Well, all of your organization’s assets are focused around your clients. Similarly your venture will want to leverage the value of the clients your serving, so they can be engaged, so they can insert themselves in the community. In farming, the farmer clients are his family and he needs his family to help work on the farm, and then of course there is the end user consumer. Consumer strength is obtained over the years, in farming corn, it used to be used to feed hogs, but now is used for cosmetics and even to fuel cars. In charity you focus on weakness, in business you focus on strength. To build this strength, you will build cross community leadership support. This is where you bridge the nonprofit and business interests. In your cross community leadership you will have business leaders. In farming, farmers may have advisors in equipment technology. The concept under inspiring social transformation, it is about changing the way people thing, live, and act. Corn, today is not just a food, but also a life aid. It is doing a lot more for our overall health. Now we will look at a viable business plan and how you create that. The viable business plan for corn is research, a lot of feasibility analysis—feasibility of the business model, given the market opportunity and the venture’s specific operations. Also, marketability—what is the evidence of demand for the venture in the marketplace? A word to nonprofits, so often we write proposals that sounds good, but business plans must be supported by solid data. This is important when looking for financing. And then there is the financial return on investment—the rigor and feasibility of the venture’s financial models and goals. This requires a lot of diligence and looking at what kind of money will be required, even considering salary for the leader of your venture. He or she’s value will need to be factored in the for profit business plan. It is very hard to get volunteers in a for profit venture. Another part of your viable business plan, is the social return on investment or the venture’s potential to reach its social goals, the venture’s social impact. What is the venture’s return to society? Perhaps, your venture will create less people in poverty and now contributing to the tax base. Next item, fundability—the potential for the venture to receive financial support from additional investors. Simply, fundability is tied to profitability. The more profitable, the more it will be attractive to a potential business supporter. Unlike nonprofits where people give money out of a sense of charity, investors invest in what will make money. The management team should include members from the venture committee team that have the skills to make your venture prosper. They must have a sense of readiness and capacity to manage the venture. Another part of a viable business plan, is the integration of the venture’s social and financial missions—alignment of the financial and social goals of both the venture and nonprofit organization. You want to make sure both are complementary, you don’t have to be selling cigars if your organization is concerned about healthcare.

Performance Benchmarks. This is the development of systems to track, monitor, and assess the performance milestones that you articulate in the business plan. Then there is risk assessment and contingency plans. You will want to find the risk factors associated with the organization, enterprise, external environment, and plan for mitigating them. You will even want to look at assessment planning if your managers or key personnel leave.”

“Next slide, Market and Manage Professionally. For those of you with us last time, there are 3 M’s that kill 80% of small businesses—those are money, management, and marketing. Money is something that has to be continuous. A good management style and marketing is critical for continued profitability. In a for profit venture through earned income venturing, the financial profits generally average about a 12% return. So you’re not necessarily doing this to make lots of money, but to keep your broader mission in mind. In this sense your mission and cause are greatly enhanced, as well as the creation of new strengthened relationships. Now to do all of this you might decide you need a venture coach. In farming, farmers might seek out pest control experts. Don’t be afraid to admit you need some help. We will now hear from our guests regarding our models. Our first speaker will be Lauri Alpern of the Enterprising Kitchen.”

Lauri: “Good Afternoon. I have received two questions: How did we get started? What are the keys to success? The Enterprising Kitchen was started 10 years ago by two women who were looking for a way to better prepare women in Chicago to lead self efficient lives. At the time, the social enterprise field was really in its infancy. There were only a handful of organizations doing this. A lot of the research was based on a model from the Women’s Bean project, they started out packaging grain, which after the first year turned out to not be a viable business. They wanted to make a product from start to finish, so they learned how to make soap. So that is really the origin of the organization. As to the second question about success, the first really six years we were a very small cottage industry and we didn’t have a firm financial return. I would say that the key to moving from a small cottage industry to a professional profitable business has been the ability to balance the social and economic goals, and to pursue the business strategy more effectively.”

Bernice: “We will now hear from Rev. Benny Sanders of Reach Across Houston.”

Rev. Sanders: “About 12 years ago, we were teaching literacy and getting GEDs; however, this did not provide a good enough means to support one self. We came up with an idea; we worked with Cisco systems, to become a reasonable academy that taught design, the building, and maintenance of internet networking systems. We were able to get into that, which began our road to this venture. It allowed the clients from all walks of life, to be trained, and they could now make about \$40000 per year. This skill was very essential, and a successful piece to our venture. We brought it to the high schools (juniors and seniors) and outside of high school. We intended to enable individuals to support themselves and their families. It worked until we could not get additional funding. Our management was not what it should have been. We did get some grants, but you can’t make a big impact with 30-50 people in a year’s period of time. There just weren’t enough customers coming through the doors. We did not have an aggressive marketing campaign. Without the funding, we probably were not charging enough, and eventually we could not breakeven. We were also pulled from nonprofit side to the for profit side without the necessary skills. The for-profit took on a life of its own; it was good while it lasted; we had a mixture of paying customers and nonpaying

customers. Of course, the nonpaying customers cost us a lot of money and took a long time to train. There was not any risk analysis done.”

Bernice: “I really appreciate Rev. Sanders sharing his model with us because it shows that this faith-based venture had great support, but it lacked the internal structure. Thank you Reverend. We will now welcome Brendan Hurley, VP of marketing at Goodwill of Greater Washington.”

Brendan: “Thank you for allowing me to speak about Goodwill today. The first question is what is your mission and how does it relate to your venture? I am sure all of you are familiar with Goodwill’s retail stores, items are donated to us and we resell them across the country. We also have a contracting division, where we provide landscaping, pest control and janitorial services for various Federal divisions. Our contract services also provide jobs to those who are disabled, the government requires that 75% of your contracts division be made up with people with disabilities. Our retail operations, the costs are very low because merchandise is donated. The nature of the retail operation goes back to the foundation of Goodwill by Rev. Helms in Boston. We operate on the premise that if you give a man a fish he eats for a day, but if you teach a man to fish he will eat for a life time. We offer a variety of training services to place them in jobs at Goodwill or in outside jobs. What is unique about Goodwill is that this is our primary source of funding. Less than 7% of our revenue comes from fundraisers; the majority comes from our business operations. We focus a lot of our efforts on our business operations. I can’t emphasize the point that you need people running your organization that understand business. An effect market plan is critical. As you launch that business you want to have people in place that understand that business. We are trying to grow our fundraising efforts, as well as to spread our mission. 9 out of 10 people have heard of Goodwill have that same 10 could not tell you what the mission of Goodwill is. A lot of people don’t understand how the items donated translate into jobs for the community. Congress threatened to pass a bill that would have completely taken away our business operations division aspect, which opened a lot of people’s eyes to see that our fundraising efforts must be increased. The best source of fundraising is education on our mission, and then asking them for money if needed. The people running our business operations all have business backgrounds. The people that donate to Goodwill are not the same people that shop at Goodwill. So you have to be very strategic about how you brand your operations. What remains consistent throughout is our mission. You must understand the population you are serving. The people who donate to us, come to us because we are the most convenient. It is challenging to convert these people into shoppers. If you decide to get into this line of business, you must take into account how much trash you will get, and how much will it cost to get rid of this trash. Not everything donated to you is usable.”

Bernice: “Thank you Brendan, your perspective demonstrates what good marketing and professionals on your management team can do for your venture. As we move towards closing, we look at whether your earned income venture will be the next model. If so, you will you will need to do some assessing of readiness, such as, will your nonprofit “family” support a for profit venture? Will business conflict with mission? Does your organization have the “muscle” to venture? There is a downloadable assessment form at my website, www.saintwallstreet.net .”

“We will now move to your summary points. First of all, you should right this down; I did not include it on the slides because I want you to write it down—Potential; venturing is a

business for capable organizations; your organization must have enough potential to venture. Second, venturing requires thorough planning. Third, venturing runs on the 3M power—money, management, and marketing. Fourth, venturing is an investment in long-term sustainability, not a solution for long term debt. You should have a focus of long range profitability. Fifth, is purpose. Venturing prospers community more than it profits the organization. Potential. Plan. Power. Profitability. Purpose. Use the downloadable forms to assess your potential for venturing.”

Questions:

Erica: “Lauri, your goal was something to make something start to finish, what did this look like?”

Lauri: “The Enterprising Kitchen is one of many smaller organizations that produce products on site, it is a labor intensive process; however, we like this because our mission is self efficiency and economic independence for women. Most of these women have little work history and are living way under the poverty line. We can provide women with transitional employment, a stepping stone to full time employment. Women are here from 6 months at a time. The goal is to use this enterprise as a means for strengthening their own personal assets and job skills that will allow them to get jobs elsewhere. Most of the women get entry level jobs once they leave, some as assistants at other nonprofits. A great deal of women pursue furthering their educational experiences after working at the enterprise.”

Bernice: “How do you separate the profits from the nonprofit and for profit organizations? You will need a separate accounting system. How do you measure the quality of your social return on investment? The qualifiable aspects relate to how well something is doing—is it making people feel better about themselves? All of the presentations are available at my website www.saintwallstreet.net . How long should a nonprofit be operating before a for profit venture is started up? How long your nonprofit has been around does not always tell us how strong the nonprofit is. Studies show nonprofits that have been around for some time tend to do better.”

Erica: “Thank you to all of our speakers.”