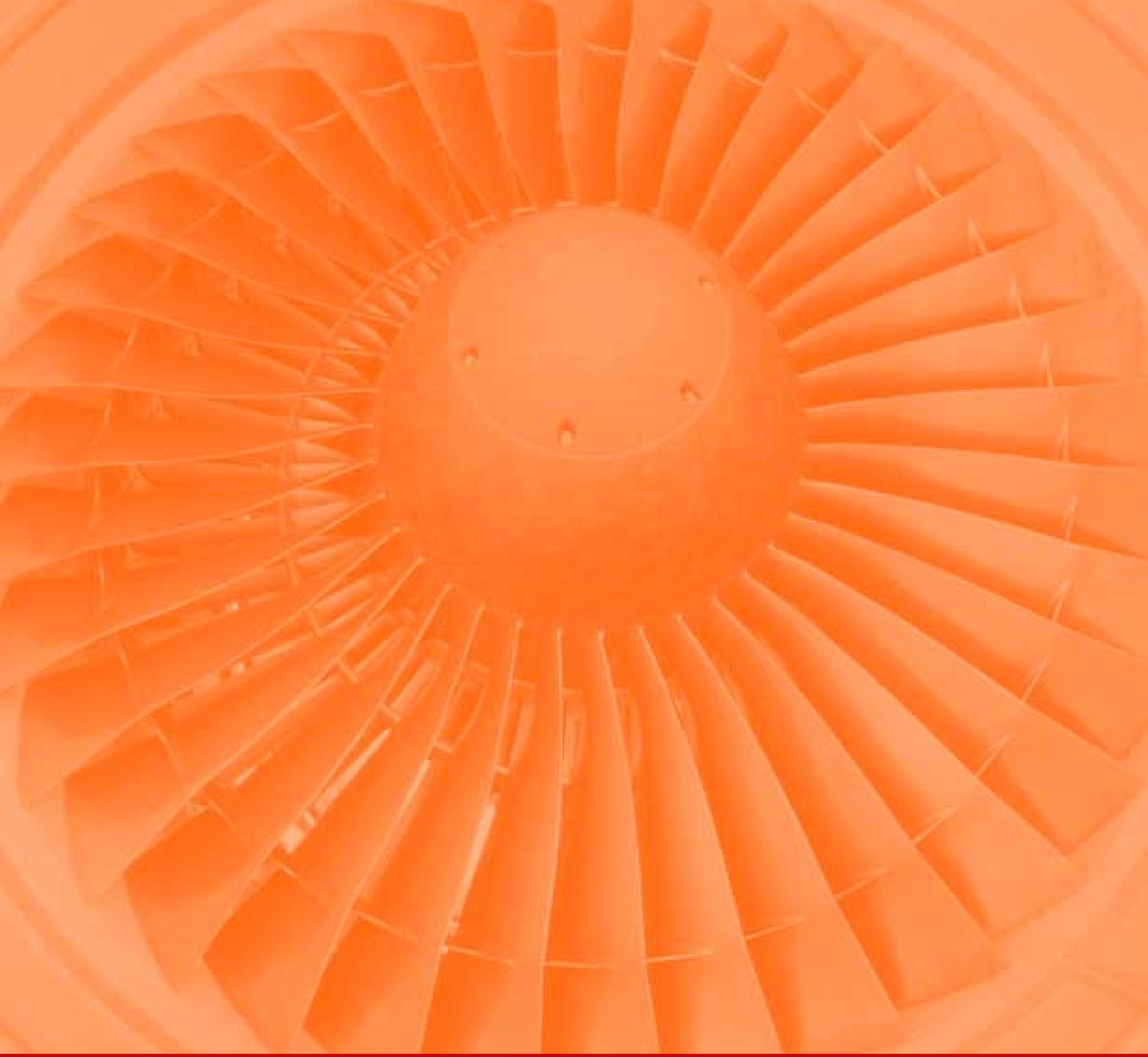

Powering Social Change

Lessons on Community Wealth Generation for Nonprofit Sustainability

Community Wealth Ventures, Inc.

"Whether or not organizations succeed in creating community wealth (i.e., resources generated through profitable enterprise to promote social change) depends on their ability to think in new ways about assets they may have previously taken for granted or not initially recognized as such.... It all begins by believing and understanding that you are worth more than you think."

—Bill Shore, *The Cathedral Within*

Community Wealth Ventures is a consulting firm that assists:

- Nonprofit organizations in becoming more self-sustainable by generating revenue through business ventures and corporate partnerships.
- Corporations in improving the bottom line through the design and implementation of community investment strategies.

As a for-profit subsidiary of Share Our Strength, a leading anti-hunger and antipoverty organization, Community Wealth Ventures demonstrates one approach to nonprofit sustainability. Community Wealth Ventures operates on the premise that every organization can increase its social impact by building on its internal assets, rather than relying on support from external organizations.

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Introduction

Many of the country's most innovative nonprofit leaders are transforming their organizations by creating new, unrestricted sources of funding. Through business ventures, cause-related marketing partnerships, and licensing agreements, nonprofits are generating revenue to support their services and grow to scale. While a handful of organizations has historically been entrepreneurial in how they use assets to generate revenues—ranging from Girl Scout cookie sales to Goodwill thrift stores—nonprofits are increasingly supplementing charitable donations with earned revenues to support and expand their missions. From child care providers and homeless shelters to charter schools and youth development organizations, innovative nonprofits are running businesses that create jobs and revenues, or they are engaging in corporate partnerships that generate new funding. Having developed products and services that transform lives and communities but do not reach everyone in need, many nonprofits are beginning to realize they have a moral obligation to create the wealth that will enable them to do so.

This new kind of wealth can be called *community wealth* because it is reinvested into the communities that nonprofits serve. There are numerous examples, such as the Nation's Capital Child and Family Development in Washington, D.C., which leveraged its capacity to provide 500,000 meals a year to its day care centers into a food service business that today has several contracts with charter schools and other child care organizations. Or the COMPASS School in Boston, which generates annual revenues of $900,000 by consulting with other school districts on the most effective way to teach and discipline youth who have been in trouble with the law.

Creating community wealth is not right for every nonprofit, but it is right for more than are doing it now. Often the biggest stumbling block is cultural: a reluctance to engage in commerce that ranges from lack of interest to suspicion and downright disdain. One of the most frequently asked questions is "Are we at risk of selling out our values and losing our soul if we begin to engage in commerce?" Some nonprofit leaders don't have the appetite or inclination to create business ventures. Or, they may not have the skills or the capital to launch wealth-generating ventures on their own.

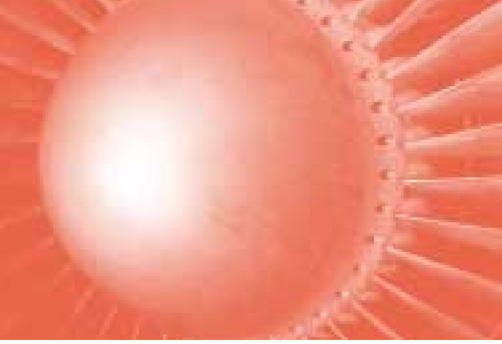
But as government and foundation funding diminishes, nonprofits are increasingly looking for ways to generate revenue. Whether through businesses, marketing partnerships, or other innovative practices, nonprofit organizations can learn from pioneers in the field who successfully choose to shape their own destiny rather than accept the priorities of outside funders.

Most nonprofit organizations face similar challenges, particularly when building new business ventures or developing strategic partnerships. And without a forum to share lessons learned, many nonprofits are forced to reinvent the wheel. This report not only provides such a forum, but it also equips nonprofits with the information and models they need to build successful, sustainable, revenue-generating enterprises or partnerships.

This report includes an overview of practices, and it aims to advance the field through lessons and analysis. We hope that this report will be more than interesting reading by providing actionable insights for those involved in or interested in community wealth enterprises or partnerships

While we attempt to detail a broad range of examples and lessons from the field, the range of nonprofit organizations that are engaged in enterprising activities makes it difficult to provide a comprehensive listing of enterprises and partnerships. We have consciously omitted entire categories of nonprofit organizations, primarily hospitals and museums, as they have both a strong history of generating revenues and other resources that are more specialized to their needs.

We invite your comments, suggestions, and additions. We are interested in learning about what in this report is useful to you and what could be improved upon. Please write us at Community Wealth Ventures, 733 15th Street, Suite 600, Washington, DC 20005, or via email at poweringchange@communitywealth.com.



Powering Social Change

by Bill Shore, Chairman, Community Wealth Ventures

When Community Wealth Ventures first set out to compile this report on community wealth enterprises, our intention was to publish the definitive, comprehensive directory of revenue-generating businesses spawned by entrepreneurial nonprofits across the country. We believed that through diligent phone surveys, web research, interviews and peer review we would leave no stone unturned. We were convinced that we could compile, in one place, everything that could be known about and learned from those nonprofit pioneers daring to start new ventures. We were wrong.

Now, months past our originally scheduled publication date, we have reluctantly concluded that fulfilling such an ambition is neither possible nor wise. But at the base of this conclusion lies the most exciting of reasons: too many new social enterprises are being created too quickly in too many places to count. Every time our team members came back from a conference, meeting, or business trip, they had evidence of not one or two ventures we'd missed, but five or ten! The pile of stones we could not leave unturned grew to resemble a landslide.

Ironically, our inability to publish a definitive compendium affirms precisely what we expected the compendium itself would reveal: Business enterprise by nonprofit organizations is one of the least noticed but fastest growing areas of small business today.

The field of community wealth creation, what we define as generating resources through profitable enterprise to promote social change, has expanded far beyond what has previously been reported, or could even be imagined. Nonprofits with multi-million dollar budgets as well as those with only four or five staff members are trying their hand at selling products and services to support their missions. Environmental organizations, literacy efforts, services for seniors, affordable housing advocates, and others are all experimenting with social enterprise. Their ventures range from food service to childcare, sawmills to sailboats, retail shops to research services. Though the widespread success of the concept is far from guaranteed, many are embracing social enterprise for its potential to transform the nonprofit sector's quest for sustainability and scale.

A few familiar success stories that inspire and instruct have been told and retold. The work of Greyston Bakeries to produce brownies for Ben & Jerry's ice creams, and Pioneer Human Services' cafés and manufacturing contracts with Boeing have become part of nonprofit lore. So is the work of Bill Strickland at the Manchester Craftsmen's Guild, which has grown from offering food service and producing an Emmy-award winning series of jazz CDs to the verge of opening a greenhouse that will sell orchids and other flowers to a large local grocery chain.

But community wealth creation flourishes outside the limelight as well. A wide variety of other, often smaller nonprofits have also begun to recognize that they are worth more than they thought. They are discovering that they have created assets with marketplace value, and they are using them to their advantage. They can be found in Boston, Austin, Fort Lauderdale, San Diego, South Bend, and countless other places where entrepreneurs refuse to accept the constraints implicit in depending on charitable dollars alone to accomplish their mission.

It has become increasingly clear that revenue generation and community wealth strategies are even more important in lean economic times. Although leaders like Richard Steckel of AddVenture Network and Ed Skloot at the Surdna Foundation were practitioners and compelling advocates more than two decades ago, the concept gained currency during the economic boom times of the late 1990s, when tech stocks soared and the economy roared. Those of us in the resource-constrained nonprofit sector felt like the only ones not invited to the party. If there was ever a time to seek capital and support for the launch of new and potentially risky business ventures, it seemed to be then.

But in slower, less robust economic times, when nonprofits are most vulnerable and when the uninterrupted delivery of their services is most at risk, the diversified revenues that these enterprises generate are essential if nonprofits are to protect themselves from changes in foundation fortunes and the fickle winds of philanthropic trends. The quality of life for too many children and families in need depends on the consistency of nonprofit service delivery.

After the terrorist attacks of September 11, 2001, many nonprofits felt more vulnerable than ever. Numerous community-based organizations saw philanthropic dollars diverted to more visible efforts centered on the victims of terrorism. In the economic downturn that followed, corporate support and corporate sponsorships also diminished. The asset base of many large and established grantmaking institutions shrank dramatically.

Accordingly, the accelerated growth of community wealth creation documented in this report comes at a particularly critical time. The entire nation—not only the individual organizations involved—has a stake in its success. America finds itself navigating an increasingly dangerous world with an economic engine that has slowed if not faltered. In the aftermath of the war in Iraq and the ongoing state of conflict, it is reasonable to anticipate a wartime economy that further diverts resources from domestic human needs. Sustaining the fabric of social services that keeps America strong and united may depend on the ability to create new wealth.

A nation rent by deep divisions between black and white, or rich and poor, is not sufficiently united. A nation defending its borders cannot afford to have dilapidated housing, dangerous schools, or children weakened by malnutrition or missed immunizations. During peace and prosperity, such conditions challenge our notion of justice. During war they threaten our very security.

Periods of international tension and economic uncertainty require the leadership of the nonprofit sector to face the same challenges that we face as a society. Now more than ever we must not only provide efficient and effective services, but we must also ask how we can develop the tools that will enhance our competitive strengths and ensure that we win the battles we choose to fight—battles against hunger, poverty, racism, and crime. One of these tools can be the community wealth creation that makes nonprofit service delivery sustainable.

The purpose of this report is not to cheerlead for community wealth or paint a portrait of the field as seen through rose-colored glasses. The field is still young and success is uncertain. The path may be more familiar, but it is no less steep. However, the report does illustrate and affirm the wide variety of enterprises currently underway, and it shares some of the knowledge of those who have trodden the path.

Yet the field remains embryonic and, in some ways, unproven. There are as many failures as successes. For too many ventures, the path to profitability cannot yet be clearly ascertained. Sufficient support services do not exist to provide the capital and technical assistance that nonprofits need. Most of all, the cultures of many nonprofits have not adapted to meet their ambition to create wealth. These are the challenges of growth that the leaders of the nonprofit sector must face.

One of the many challenges facing nonprofit organizations, whether or not they are trying to create wealth for themselves, is to grapple with this paradox: the solutions to the problems nonprofits address are long-term, but the culture of nonprofit organizations discourages investments beyond those that pay off in the short-term. This "compassion paradox" is a result of being constantly torn between compassionate instincts to serve immediate needs and the strategic imperative of investing resources for longer-term solutions.

A favorite cartoon, taped to the wall above my desk, is a frame from the Peanuts strip that shows Charlie Brown on the pitching mound with his forlorn looking baseball team lined up behind him. The caption says, "I don't see how we always lose when we're so sincere."

If nonprofits are like Charlie Brown's team, there are many reasons why. First and foremost, the problems they address are incredibly difficult to solve. Some, like poverty, have been with us since the time of the Bible and, according to the Bible, always will be. Where solutions do exist, they are expensive, and they are far beyond the means of organizations that depend on donations, poorly paid staff, and volunteers. Problems like these don't lend themselves to solutions based on an ever changing parade of part-time volunteers employing whatever resources might have been donated.

The compassion paradox is intensified when investments in staff salaries, training, performance incentives, organizational learning, and other essential capacity building strategies are criticized by the press, misunderstood by the public, and penalized by funders for coming at the expense of service delivery. As a result, nonprofit leaders are conditioned to focus their resources on externally measurable outcomes, slicing their expenditures on improvements in internal capacity as finely as possible.

Community wealth enterprises are the beginning of a solution to the compassion paradox. As generators of new, unrestricted revenues, they allow nonprofit leaders to focus attention and resources on the organizational functions that need it most. Like batting practice or fielding drills for Charlie Brown's team, these ventures help nonprofits deliver better on their missions.

Courageous leadership is the most critical ingredient in overcoming the compassion paradox, because the leader's job is to help stakeholders see how social enterprise that creates community wealth translates into social impact. The task is one of rallying staff, board and supporters around a vision and identifying the rational steps that are necessary to achieve it. The leader's job is to help keep everyone's eyes on the prize and to articulate how staff bonuses, a technology upgrade, or training seminars ultimately translate into more children being fed, housed, schooled, immunized, or served more effectively in any of countless ways. If there was ever a time when our nation needed such leadership from all of us, it is now.

Nonprofit organizations trying to create community wealth find themselves living in a borderland. Straddling the for-profit and nonprofit cultures, they inhabit a world not officially recognized, where roadmaps do not exist. It is reminiscent of the Rio Grande Valley, where tens of thousands of Americans, suspended between the poverty of Mexico and the opportunity of America live in unincorporated neighborhoods called *colonias* that are part of no city and have no official services or supports. No water or paved roads, no streetlights or street numbers. No police or post office, either.

Like the *colonias*, the nonprofit ventures have few of the traditional supports that are available to other types of organizations. They lack sources of capital, technical assistance is available but financially out of reach, and promotion is uncommon. They are subject to ambiguous tax treatment and sometimes-wary customers. Life on the thin strip between one land and another is always a precarious existence, full of trials and tribulations, but also charged with opportunity. It is often a crucible of sorts, where new ideas, new ways, and even new institutions are forged. Through trial and error, experimentation and entrepreneurship, one generation after another stakes its claim until a distinct new territory emerges.

This report provides some snapshots of life on that border. It is neither the whole picture, nor the only possible picture, but it is a varied enough view to give you, the reader, an idea of what life there is like: the hardships, the opportunities, the successes and failures, the obstacles, and the promises of overcoming those obstacles.

We hope you will help us add to the indisputable evidence that a field of practice is emerging around community wealth creation. This evidence includes the growing number of MBA graduates who head directly for the nonprofit sector and congressional interest in supporting nonprofit business ventures through the Small Business Administration. New business ventures, as manifestations of the practice, are material to the case. We extend an open invitation to the readers of this report to join us in gathering a record of these ventures. As you learn about social enterprises, please feel free to pass them along to us so that we may include them in our online database. This record, as it grows, will help us to understand what happens in this borderland, so that every day we can paint a better picture of life there.

Insights on the Field

from Community Wealth Ventures

Throughout this report, you will find examples of successful strategies and lessons learned by nonprofit groups that have launched earned income enterprises. The case studies, survey results, and essays provide valuable insights supported by data and anecdotal evidence.

In this section, we allowed ourselves more liberty. Over the course of several sessions, we challenged our staff to identify key lessons from our first five years of consulting to over 50 nonprofit organizations. Some of what we share are not necessarily original insights of CWV. Rather, the following perspectives are insights that our experience has validated.

Insight #1: Earned income is everywhere — it is not a fad.

If you ask a roomful of nonprofit executives whether they are practitioners of social enterprise or community wealth, you will most likely get little response. However, if you ask the same group whether their organizations earn any income from the sale of a product or service, most hands will rise.

A lot of nonprofits leverage their assets to generate wealth. They sell their materials, charge for their consulting advice, rent their space, market the products created in their job training programs, and operate businesses such as franchises, thrift shops, and food service companies.

Many organizations engage in business transactions, but not necessarily in a "business." That is, they may sell a product or service but have not formalized the activity with a business plan.

Perhaps the labels "social entrepreneur" and "community wealth practitioner" are too limiting. The practice of nonprofits generating income is indeed widespread, long-standing, and of great significance in the sector.

Insight #2: Nonprofit business ventures often use the organization's existing assets rather than embarking on a totally new path.

When we speak to a nonprofit that is new to this field, we are careful to explain that starting a venture is not as easy as doing market research to see if the community needs a new ice cream shop or landscaping business. The process also involves examining an organization's assets to determine whether they can be used in an earned income endeavor.

A great example of this is Nation's Capital Child and Family Development (NCCFD), an organization in Washington, DC, run by Travis Hardmon. NCCFD operates 25 daycare facilities and produces 500,000 nutritious meals a year for the children in its facilities. To meet this need, NCCFD built an impressive institutional kitchen and hired professional culinary staff. After some analysis, Hardmon learned that the kitchen had the capacity to generate 1.2 million meals a year. Hardmon recognized a business opportunity, and the organization is now also an institutional caterer, producing and delivering meals for other child care and eldercare facilities. The profits from its contracts support NCCFD's mission.

There are, of course, a number of examples of talented and entrepreneurial nonprofit leaders recognizing strong business opportunities unrelated to the group's mission. However, the vast majority of earned income is generated from nonprofits that understand they are sitting on assets that have not been optimized and, with the appropriate development and marketing, can lead to earned income.

Insight #3: Earned income generation is creating new positions and job responsibilities in nonprofit organizations leading to influx of talent.

The ability to manage earned income ventures is increasingly becoming a required skill for development directors and executive directors. While it is critical to hire a business manager with the relevant expertise, these ventures often fall under the oversight of the development director or executive director. Just as nonprofit leaders need expertise to oversee direct mail efforts and major events, they must have a working knowledge of business concepts. Groups with several ventures often create a director of social ventures position with full-time responsibility to pursue and oversee earned income opportunities.

The ability to use business skills to promote social causes is attracting many new and talented people to careers in the nonprofit sector. This talent includes seasoned professionals who want to lend their expertise to a nonprofit business venture as well as MBA graduates committed to using their education for social good. Currently, the supply of talented, skilled businesspeople wanting to work in this field appears far greater than demand.

Insight #4: Organizations with ventures need to collect more data.

Perhaps the least mature aspect of this field is measurement. For-profit business managers are on a constant quest to analyze as much data about their businesses as possible to help them make timely and effective decisions. As we followed up with the hundreds of nonprofit business ventures in our survey, surprisingly few knew such basic information as their profit margin or return on investment. Almost none knew how to identify industry trends, or assess their market share.

This lack of measurement does not signify a lack of sophistication so much as the "bootstrapped" nature in which most nonprofit ventures operate. Even if organizations have the commitment to move forward with a business venture, they generally do so with too little initial capitalization. Additionally, they often return profits to the parent nonprofit instead of investing them in the business. This bootstrapping usually results in a small operation that may squeak out a profit, as opposed to a larger, more sophisticated venture that invests in itself—and in gathering data—for more substantial, long-term returns.

A notable exception are the grantees of the Roberts Enterprise Development Fund (REDF), a grantmaker that uses a sophisticated, comprehensive approach to nonprofit business ventures with an emphasis on measurement. REDF works with each organization in its portfolio to collect important data, including venture performance and social return on investment.

Unfortunately, this model is expensive and has been difficult for many nonprofits to replicate. Most practitioners launch a business with significantly less capital and technical assistance than REDF grant recipients, thereby limiting their ability to use such sophisticated measurement systems.

Insight #5: Development and investment funding is limited.

The lack of measurement is clearly linked to the limited funding available to support social enterprise. It is a classic chicken-and-egg scenario: Many funders want solid evidence that a venture will succeed before they invest, yet there is not enough capital available for nonprofit enterprises to grow to scale, much less measure and share knowledge.

The paucity of financial resources can be understood in terms of two very distinct stages of financing: development and implementation. Several innovative foundations have made significant grants to support the development of social enterprises, but few have made nonprofit business ventures an established program within their grantmaking. And only a handful of lending institutions have created low-interest loans to support implementation.

Insight #6: Ventures bring multiple benefits beyond revenue.

Our clients typically come to us looking for help generating money. We like this focus and have found that organizations with a passion for making money are most likely to put forth the effort to make their ventures successful.

While the focus on generating profits is critical, many of our clients acknowledge that the peripheral benefits of their business ventures are often as valued as the revenue itself. They include:

- *Direct Mission-Related Benefits*—Many ventures are an extension of the nonprofit's missions and result in benefits such as job training for clients or educating the public about the group's work.
- *Organizational Change Benefits*—In many cases, a business venture sparks overall organizational change. The process of launching and running a business venture requires discipline and accountability. This fact has pushed many of our clients to implement a number of similar principles throughout their organizations.
- *Public Relations and Marketing Benefits*—Some ventures have enabled our nonprofit clients to strengthen their name recognition and reputation in the community. The Latin American Youth Center opened a Ben & Jerry's PartnerShop that serves 100,000 customers a year. Most of these customers would never have heard of the center otherwise. The "marketing" has resulted in new donors, volunteers, and awareness of the center's programs.

Insight #7: Risk tolerance is low compared to traditional fundraising.

One of the first questions we typically hear from skeptical nonprofits and board members is "What if we lose money?" This is not a question we take lightly. Before deciding whether to launch a venture, a nonprofit needs to take a careful look at its strengths and weaknesses and its financial position.

However, the question also raises an interesting dilemma about when it is "acceptable" for a nonprofit to undertake risk. If you ask these same nonprofits to discuss their history of traditional fundraising, it is often littered with examples of failed direct mail campaigns and special events, such as golf tournaments, that were run for years without being profitable.

Pursuing a business venture absolutely involves risk. However, this risk is often no more extensive—and is, in fact, more manageable—than the risk nonprofits accept with more traditional fundraising. It is important to view these ventures as long-term strategies. Like a great fundraising event, it often takes several years for a business to mature and develop its full earning potential.

Insight #8: Earned income makes sense for those who hope to make a little or a lot of money.

Is earned income a path toward sustainability or a method to diversify an organization's revenue base? The answer is both. The success of market leaders such as Housing Works, Pioneer Human Services, Greyston Bakery, and Share Our Strength demonstrate that earned income can provide financial support for growth and sustainability. However, many nonprofits have more modest goals—simply to generate unrestricted income. For ventures that are closely aligned with program goals, the ambition is often just to offset a portion of the program costs. For many nonprofit leaders, this makes the effort required to launch and manage the venture far more acceptable.

Insight #9: Earned income is not for everyone.

Nonprofits of all types engage in business enterprises, but those that are most likely to succeed have an entrepreneurial culture, a commitment to the concept, strong leadership, and assets that can be leveraged to produce earned income. Often, successful nonprofits have either built an earned income component into their organization from launch, or are old enough so that programs are well established and staff can focus on a venture. To be successful, nonprofits must have the staff and time to focus on launching a venture.

This process of embarking on a venture, then, is not for everyone. Organizations that lack some of the key characteristics can focus on building capacity to move toward venture readiness, but running ventures simply may not be right for certain organizations.

Insight #10: Keys to Success

Our survey results and case studies provide several insights into what it takes to succeed. We hold no tricks, shortcuts, or absolutes regarding what it takes, but the following are common characteristics in successful nonprofit business ventures:

- *The business venture operates independently as its own department or entity.*
  - The strongest ventures establish clear lines of authority and responsibility. Business decisions must be made quickly, not at the slower pace of many nonprofit organizations. Too many nonprofits fail to establish direct accountability for a venture and rationalize the lack of progress by citing staff members' conflicting responsibilities.
- *The business venture has a champion.*
  - The organization has to have someone who cares and is accountable for the venture's success—someone who thinks about it on the way

to work and on the way home. This is as true in a nonprofit environment as it is in the for-profit world.

- *Energy and support for the venture must come from the entire nonprofit organization and its board.*
  - ➾ While the management of the business rests in the hands of a select few, if the venture team is constantly fighting the culture or board of the parent organization, it will undoubtedly fail. The staff and board must be behind the business venture for it to succeed, and the executive director must rally the board and staff to win their support.
- *The venture is adequately capitalized.*
  - ➾ Especially in the beginning of a venture, cash flow is more important than profit. Numerous sound business models have failed because of inadequate resources to get the venture to a point where it could be self-sustaining and eventually profitable. Because virtually all businesses lose money before getting to profitability, sufficient cash for planning and maintenance is critical.
- *Skilled staff is hired for the venture.*
  - ➾ The natural instinct of most nonprofit organizations is to assign someone on staff the responsibility for the venture. Depending on the venture, this may work initially, but most nonprofits quickly realize the need to bring in someone with a passion for and expertise in the venture. In our experience, nonprofits that invest in experienced employees reap the rewards of that investment.
- *The venture's goals are clear.*
  - ➾ It is important to clarify and keep a clear focus on the objectives of the venture. A nonprofit that launches a venture to generate profits, but then morphs it to meet program goals is likely to fail. A restaurant launched in New York initially was successful at appealing to high-end customers with quality food and tablecloths, while providing job training in the kitchen. The nonprofit then decided to expand the job training to the wait staff, and, since it was a social service organization, to accept food stamps. Ultimately, the mixed objectives of trying to serve several social missions while running a profitable restaurant doomed the venture.

Essays

on Nonprofit Ventures and Partnerships

As innovative nonprofit leaders launch and refine successful ventures and grow partnerships with corporations, an increasing number of valuable lessons and experiences are emerging from the field. To that end, we present the following essays from leaders and practitioners who have played major roles in developing different models of community wealth generation.

The first two essays present a strong overview and call to action for the nonprofit sector. Charles King's essay, originally delivered as a speech, is an inspirational call for change, and Bill Strickland offers a cogent plea for more entrepreneurship in the sector. Three essays follow from leaders of perhaps the foremost nonprofit enterprises in the country, Julius Walls, Mike Burns, and Rosanne Haggerty. The topic of effective partnerships is tackled by Charlie MacCormack and Mark Rodriquez. And longtime funders and advocates, Trinita Logue and Stacey Davis, put forth a call for capital markets to support community wealth enterprises.

We are grateful to each of these exceptionally busy individuals for taking the time to share their insights to advance this dialogue.

These essays follow:

> **"The Need for a New Paradigm: Social Entrepreneurship,"** *by Charles King, founder and co-executive director of Housing Works*
>
> **"Entrepreneurship and the Nonprofit World,"** *by William E. Strickland, Jr., president and CEO of Manchester Craftsmen's Guild*
>
> **"A Successful Social Enterprise Responds to the Market,"** *by Julius Walls, Jr., CEO of Greyston Bakery*

"Self-Sufficiency: How Important Is It?" *by Michael J. Burns, president of Pioneer Human Services*

"Lessons From Operating a Franchise to Support Housing Development for the Homeless," *by Rosanne Haggerty, founder and executive director of Common Ground*

"The Varieties of Corporate Partnerships," *by Charles MacCormack, president and CEO of Save the Children*

"Starting Off on the Right Foot: Walnut Acres & Share Our Strength," *by Mark S. Rodriguez, president and CEO of Acirca*

"Community Development Finance and Social Enterprise—Natural Partners," *by Trinita Logue, founding president and CEO of the Illinois Facilities Fund*

"Shifting Nonprofit Organizations to Entrepreneurship: How Foundations Can Help," *by Stacey H. Davis, president and CEO of the Fannie Mae Foundation*

ESSAY

The Need for A New Paradigm: Social Entrepreneurship

By Charles King

Charles King is a founder and co-executive director of Housing Works, Inc., a New York nonprofit organization serving homeless people with HIV/AIDS, some of whom are chemically dependent and/or mentally ill. The minority-controlled, community-based organization provides advocacy, housing, and support services for men, women, and children. King has used his background as minister and lawyer to develop and articulate the vision of Housing Works—to build a self-sustaining healing community based on aggressive advocacy, mutual aid, and collective empowerment. Fundamental to that vision is the development of entrepreneurial ventures that provide both income to the organization and quality employment opportunities for people with AIDS. Among these entrepreneurial ventures are a chain of upscale thrift shops, a used book café, and a food service business. Housing Works currently provides housing, health care, mental health services, chemical dependency services, legal advocacy, and job training and placement to more than 2,000 men, women, and children and has provided services to more than 10,000 people over the past ten years.

Before incorporating Housing Works in 1990, King served as staff attorney to the New York Coalition for the

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This essay was adapted, with permission from the author, from a keynote speech at the Social Enterprise Alliance's 2001 Gathering for Social Entrepreneurs.

I was leaving the gym after my morning workout in our facility on 9th Street and Avenue D in New York. When I got to my floor, our building superintendent was there, and he said to me, "Charles, you have to come to the window. The World Trade Center is on fire." Sure enough, I looked out and the north tower of the World Trade Center was burning.

It's funny how you react when something that dramatic and unexpected happens. What immediately went through my mind was, "Oh, my God, the World Trade Center is on fire and I have a plane to catch!"

I had been in the shower for about 30 seconds when it dawned on me what I'd just seen. I threw on my bathrobe and ran back out into the common room just in time to see the south tower explode. At that point, it occurred to me that it wasn't very likely that I was going to make my plane to Seattle that day. So I went up to the roof where we have a garden and joined a number of our clients and staff members who had gathered there to watch this horrific scene unfold. It was a surreal experience. We stood there in a beautiful, lush garden looking at the two towers burn. We stood there and watched as first the south tower, then the north tower collapsed.

The rest of the week is pretty much a blur to me. I remember spending most of the day Tuesday comforting clients and staff members who were shaken and afraid. Two of our health care facilities, one of our residences, and our principal office—from which we provide case management, job training, and many of our support services—are located in what had become a restricted security zone. We spent the next three days trying to figure out: how to walk in all the food we needed, how to contact all our clients to make sure they were okay, how to get

Homeless; assistant pastor at Emmanuel Baptist Church in New Haven, CT; director of an emergency center for abused children in Roundrock, TX; and minister of Street Ministries at First Baptist Church in San Antonio, TX. King holds both a law degree and a Masters of Divinity from Yale University and is an ordained Baptist minister.

patients their medicine every day, and how to sneak staff members into the office to operate the switchboard.

At some point in the course of this week, it occurred to me that as devastating as September 11 had already been to lives and buildings, the subsequent fallout was going to be just as damaging to our community. Sure enough, within six weeks 80,000 people in New York City had lost jobs. Mostly they were housekeepers in hotels, busboys, waiters, shoe shiners—people working at the margins. By the end of October, our food and hunger network, which supplies the soup kitchens and food pantries of New York City, reported a 57 percent increase in requests for aid. During November, our city shelter system reported housing nearly 30,000 people a night—numbers unseen since the very dark days of the '80s. More than 12,000 of those homeless people were children. And, of course, it was only going to get worse: The very next week 35,000 families in New York City faced impending welfare time limits.

How did the government respond? In October the mayor announced a 15 percent cut to the budget of every New York City agency except the fire and police departments. Cuts fell disproportionately in health care, human services, education, and housing. Governor George Pataki forced through cuts of nearly $500 million in contracts with nonprofit organizations in New York State that provide health care, AIDS services, social services, and youth enrichment. On the philanthropic side, contributions to nonprofit organizations not involved in relief work were dropped by over 50 percent.

What do you say at a time like this? Well, I say, "Thank God for social entrepreneurship." Because over the last few years we had built Housing Works so that 85 percent of our revenue is earned income. That doesn't mean we didn't suffer any losses from September 11. We calculate our revenue losses at about $300,000. But $300,000 is just a little over 1 percent of our annual budget. Another AIDS housing organization a few blocks away calculated its loss at half a million dollars on a $5 million annual budget. Such a substantial hit means services to very needy people will be cut.

While New York City is an extreme case, changes are happening across the country. San Francisco has recently felt the impact of the loss of dot-com revenue. In Seattle, Boeing has laid off thousands of employees. The economic changes happening around our nation will have a huge impact on both public and private resources available to nonprofit organizations.

Even in the best of times, it's very difficult to persuade government and private philanthropists that any marginal groups—people who are chemically dependent, ex-offenders, people who are homeless, people who are mentally ill, youth who need an opportunity—are worthy of resources necessary to address their needs. Sadly, we are no longer in the best of times. And none of the politicians are suggesting that one possible solution would be to lift all boats by funnelling funds to nonprofit organizations to help the people living at the margins.

The state of the economy doesn't dramatically alter the plight of nonprofits, because during the "good times" they are still begging funders and government for support. We need to change the entire paradigm by which nonprofits operate and generate the capital they need to carry out their mission. That new paradigm needs to be based on sustainability and social entrepreneurship.

Every time I attend a group discussion of social entrepreneurship, at least one person in the room says, "Now, we have to understand it's not for everybody." I want to challenge that idea. The question is not whether social entrepreneurship is right for every nonprofit; it's whether every nonprofit is ready to take on the challenge.

There is a notion that smaller, less sophisticated grass-roots organizations just aren't up to this paradigm shift. I know of a former sex worker who had the vision and passion to create an organization that reached out to her sisters who were still on the stroll. She created an organization—by going door to door to raise funds to start off to pay the rent and to keep the lights on. We must identify other such individuals who are working at the margins to heal their communities and offer them the tools to create the wealth they need to carry out their mission. If we don't give them those tools, they may be left behind.

As Mike Burns of Pioneer Human Services explains, "What we try to tell our clients is that they need to take responsibility for their own lives because, if they don't, nobody's going to take that responsibility for them. It's all about building self-sufficiency. And if we're going to get our clients to be self-sufficient, it's only going to happen if we, as an organization, are prepared to role-model that and take responsibility for being self-sufficient ourselves." I think that applies to so many nonprofits across the country and in Canada.

If we know that the paradigm needs to shift, and we know that we must make that shift happen, what's stopping us? Too often we hear about the obstacles. One risk often cited is that in a climate in which government is withdrawing its support for communities and hurting individuals, it will pull back even faster if we're successful in shifting the paradigm. That's why we need to change the business relationship between nonprofits and government.

Many nonprofit leaders know what I'm talking about. Every year we make our way to the city council, to the state legislature, or to Washington to beg for the resources we need to do our job. We stifle ourselves from doing the advocacy we ought to be doing for fear of offending somebody who has a vote on whether we get funded. If we can tell a sad enough tale, if it's in somebody's political interest to help us, and if we haven't done anything to give offense, we might get a little more money in a contract next year.

Nonprofits need to change that patronizing relationship, and we cannot change it as long as we keep going up the hill with our hand out begging. We can change that relationship only if we approach government as an equal partner. With our own resources to offer, we can sit down and talk about how together we can solve the problems in our community.

A second risk is that the for-profit sector will see what we're doing and compete. We've seen examples of this with corporations like America Works and Maximus. Unless you genuinely believe that for-profit companies are inherently better than nonprofits, there are only two reasons why a for-profit can step in and compete successfully against us when we're the ones with the passion and the expertise. One of those reasons is that they can cut a different deal with government than nonprofits have been able to cut. The second reason is that they have access to capital that nonprofits don't have. So we must stop thinking of "funding" as charity and start thinking of "financing" as an investment that has real, quantifiable economic or social return.

A third risk is that of changing our identities, and in the course of that change, losing our donors, our volunteers, and other stakeholders. To avoid this, not-for-profits must educate their stakeholders so that they understand that through social entrepreneurship we are best able to fulfill our missions.

Finally, there's the biggest risk of all. If we succeed in changing the nonprofit paradigm, our survival becomes totally dependent on our own initiative and our own judgment. That means that if we fail, we will have no one to blame but ourselves. That scares us, and I think it's a healthy fear. But the nonprofit community must begin to change the way we do business so that we're willing to take the risk and the responsibility of success.

Housing Works is committed to participate in a movement that brings about a change in the relationship between nonprofits and government, for-profits, and academics. We want to help shift that paradigm, and we want it to happen now.

What's in it for us? Most important, a new understanding makes our experience the norm instead of the exception. If nonprofits succeed in shifting the paradigm, we'll be able to recruit staff members who are both mission-driven and trained in the business models. We won't constantly have to try to prove the social and economic worth of investing in our work. We will be able to recruit board members who understand the real world of business, and, at the same time, appreciate the cause that drives the nonprofit's activities. We will have access to research to demonstrate what we already know to be true. If we succeed in shifting the paradigm, we will be living examples of the independence we seek to model for those we serve.

ESSAY

Entrepreneurship and the Nonprofit World

By William E. Strickland, Jr.

Bill Strickland is the president and CEO of Manchester Craftsmen's Guild and Bidwell Training Center, Inc., both founded in 1968. Throughout his career, Strickland has been honoured with numerous prestigious awards for his contributions to the arts and the community. In 1999, he was given the Commonwealth of Pennsylvania Arts Leadership and Service Award. In 1998, he received the Kilby Award and the Coming Up Taller Award, presented in a White House ceremony by former First Lady Hillary Rodham Clinton. In 1996, he was given a MacArthur "genius" award for leadership and ingenuity in the arts.

He has served as chairman of the Expansion Arts Panel of the National Endowment for the Arts (NEA) in Washington, DC, served a six-year presidential appointment as a council member to the NEA, and was recently appointed to the President's Committee on the Arts and the Humanities. He was also on the Pennsylvania Council on the Arts and the Pennsylvania State Board of Education, a trustee at the Carnegie, and a consultant with the British/American Arts Association in London.

Strickland has excelled in cultivating collaborative partnerships in Pittsburgh, San Francisco, Baltimore, and Kansas

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The subject of entrepreneurship in the context of nonprofit life seems on the surface like a contradiction in terms. Nonprofit organizations are concerned with issues of a charitable nature—helping others and focusing on needs rather than outcomes. The cost of the mission, while important, is viewed as tangential to the core mission, whether it be homeless issues, mental health services, or food distribution to the needy.

In many respects, Manchester Craftsmen's Guild, in Pittsburgh, reflects this service orientation. It is a viable model provided that financial resources are without limit and both private philanthropy and government funding continue to be lucrative sources of revenue. However, the current economic crisis in our country has demonstrated the consequences of becoming dependent on just one source of income.

In the recent past, organizations have witnessed a major reversal in government funding. Scores of social programs and the helping professions have seen a wholesale reduction in funding from education to mental health to AIDS awareness support. This rollback by the government has been mirrored by private and corporate philanthropy. In part because of the wholesale selloff of stocks and a reduction in the bond market, private foundations, in particular, have witnessed a major decline in available funds to support well-established social programs. No one has been exempt. Symphonies, mental health clinics, food distribution facilities, environmental groups, and countless others have experienced a 50 percent or more reduction in giving from these sources. This is a pattern of things to come. There will not be a recovery in funding to the levels known in the late '80s and '90s. The wealth of the technology companies in the Silicon Valley was a historical anomaly unlikely ever to be seen again in our lifetime.

Given all this, nonprofits must consider earned income and a diversified revenue strategy as essential to their survival. Even in good times, organizations

City. He has developed successful relationships with foundations such as the Alcoa Foundation, Helen Bader Foundation, Ford Foundation, Forbes Fund, Greater Kansas City Community Foundation, Milwaukee Foundation, W.K. Kellogg Foundation, Social Venture Partners, Pittsburgh Foundation, E.M. Kauffman Foundation, Heinz Foundation, R.K. Mellon Foundation, and Pew Charitable Trusts.

He has also served as a consultant, grant evaluator, and mentor in the field of arts and arts education, community development, and vocational training.

Mr. Strickland earned a bachelor's degree in American history and foreign relations from the University of Pittsburgh and graduated cum laude. Currently he is a Masters of Arts Degree Candidate at the University of Pittsburgh. Mr. Strickland resides in Pittsburgh with his wife Rose and daughters Julie and Olivia.

concerned with the poor, the disenfranchised, and the economically distressed were difficult to sell; in bad times, they may not survive. The idea of making money is a concept nonprofits need to contemplate more deeply because we are all totally dependent on capital for our survival.

But entrepreneurship is not just a financial concept. Becoming more entrepreneurial is as much a shift in organizational culture as a broadening of economic opportunity. As we begin to think like entrepreneurs, we will become sharper and more focused. We will learn how to "sell" our ideas to a much broader constituency. We will learn to evaluate staff and organizational capacity in a much broader way, and our commitment to entrepreneurship will have an impact on how we recruit and select board members.

As examples of this kind of new economic thinking, I hold up the Girl Scouts, Focus Hope, and the Sierra Club, to cite a few. Each has a unique story to tell but one that illustrates the entrepreneurial spirit. In the case of Manchester Craftsmen's Guild we have created a very successful training program called the Denali Initiative to teach nonprofit executives about entrepreneurship. The Denali Initiative has already worked successfully with nonprofits such as the Children's Choir of Chicago and La Causa of Milwaukee. Both organizations are thriving examples of goal-based practice of practical application entrepreneurs. Even top-rated business schools such as Harvard, Stanford, and Kellogg are offering MBA-level courses focused on social entrepreneurship.

Nonprofit entrepreneurship is a subject well worth exploring by both funders and the funded, by the private sector and the public sector. It must become a component of any survival strategy by nonprofits, including my own organization. Those that accept the challenge of incorporating entrepreneurship into their core mission will find a world of opportunity awaiting them.

ESSAY

A Successful Social Enterprise Responds to the Market

By Julius Walls, Jr.

Julius Walls, Jr. is the CEO of the Greyston Bakery, part of the Greyston Foundation, a nonprofit company whose operations are funded by a combination of grants and revenues from its nonprofit and for-profit subsidiaries. Greyston Foundation operates Greyston Health Services, Greyston Child Care, Greyston Family Inn, Greyston Community Technology Learning Center, and Greyston PathMaker Program. The foundation also oversees Greyston's two social enterprises: the well-established Greyston Bakery and the newly formed Greyston Bakery Café. Greyston refers to its integrated network of companies and services as a Mandala, a Sanskrit word which means "circle" and symbolizes the unity and interdependence of life.

Walls was born in the inner-city neighborhood of Bedford-Stuyvesant in Brooklyn, NY. Educated at Catholic schools in his early years, Walls went to the Catholic college seminary to pursue the priesthood. He later transferred to Baruch College to study business. He worked first in the accounting field at a midsize CPA firm and was given an opportunity to work for a chocolate company. At age 27, Walls was promoted to vice president of operations. In his final years at the chocolate company, Walls started his own product chocolate

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Ten years ago, during a break between meetings of the newly founded Social Venture Network, ice cream entrepreneur Ben Cohen and Greyston founder Bernie Glassman went for a walk in the clear air of a Colorado afternoon. In the conversation that followed, the two began discussing how Ben & Jerry's ice cream might support Greyston's social mission by purchasing brownies from the Greyston Bakery, a revenue-generating venture of the foundation. It was a turning point for Greyston.

The relationship between Greyston and Ben & Jerry's began with the desire to combine the two organizations to do good. But good intentions alone are insufficient to support a premium-quality food product and a social mission. It took about five years and significant growth in skills and manufacturing capacity for Greyston to break even. For Greyston to become profitable, we had to professionalize our business by focusing on a few key lessons: Pay attention to the market, remain true to the vision, pay attention to the needs of the business, and don't force the business to be a social program. Without these, our brownie business would still be struggling.

Pay Attention to the Market

The most important element in the success of any enterprise is that the service or product must fulfill a market need. This need may have existed before the business was formed or the business may have created a new need through marketing. But any business must be keenly aware of what its customers want. In our case, Greyston developed a market for its baked goods through its relationship with Ben & Jerry's, then expanded that market to include restaurants and other manufacturing clients.

The process of building that first relationship was critical. Ben & Jerry's required a very specific product—one that could meet its standards of production and price *manufacturing and fundraising company, Sweet Roots, Inc.*

Walls joined Greyston Bakery in 1995 as director of marketing. He was appointed general manager and CEO in 1997, and in 2000 was promoted to his current position at Greyston Foundation. Walls serves on the board of directors for the Workforce Investment Board-Yonkers, SEA Change, Yonkers Chamber of Commerce, and the Yonkers YMCA.

and would taste great. We spent two years developing the perfect brownie, and as we perfected the production, Ben & Jerry's gradually shifted its purchasing from other producers to Greyston. Today we are the exclusive provider of brownies for three of Ben & Jerry's top-10 selling flavors. Yes, our social mission appeals to Ben & Jerry's and to many of its customers, but our success is a function of market satisfaction with our product. This drive for quality is also the reason that Cumberland Farms incorporated our brownies into its most popular gourmet ice cream flavors. Our attention to the needs of the market has made our product popular.

This is a relatively simple concept, but many for-profit and nonprofit businesses make the mistake of not integrating the needs of the market into their plans. At the Greyston Bakery, our business is guided by what we want to accomplish and the opportunities the market offers.

Remain True to the Vision

As we run our social enterprises, we also focus on our mission statement and guiding principles. Both incorporate business principles, and we refer to them in the course of our day-to-day operations as well as our strategic planning processes.

Our Mission Statement:

Greyston Bakery is a force for personal transformation and community economic renewal. We operate a profitable business, baking high-quality gourmet products with a commitment to customer satisfaction. Greyston Bakery provides a supportive workplace offering employment and opportunity for advancement. Our profits contribute to the community development work of the Greyston Foundation.

Our mission statement refers to what we want to accomplish with respect to Greyston's many constituencies: our employees, our community of southwest Yonkers, our customers, and our parent company, the Greyston Foundation. We explicitly state what effect we want our business to have on each. Our goal is to provide our employees an opportunity to transform their lives from dependency to self-sufficiency in community. However, we do that within the context of a for-profit business that provides financial support to the work of the Greyston Foundation.

As important as our mission statement, however, is our vision for how that mission will be accomplished. As a part of a strategic planning process, the bakery's leadership committed itself to the following principles. These principles, while flowing from the missions of the Greyston Foundation and the Greyston Bakery, incorporate business principles to drive the bakery toward profitability.

The bakery:

- Will strive to be a model for inner-city business development;
- Should consistently achieve an operating profit;
- Will maintain an open-hiring policy;
- Will continue to operate in Yonkers;
- Will actively integrate itself into the Greyston Mandala;
- Will have as a central purpose the generation of profits that can help sustain the work of the Greyston Mandala;
- Will rigorously measure, document, and monitor its progress toward all non-financial goals;
- Will empower its employees by compensating them fairly for their efforts;
- Will strive for stable employee turnover rates for post-apprenticeship employees;
- Will automate its production whenever such changes are fiscally appropriate.

These principles are actively incorporated in our day-to day decisions and form the backbone of our efforts to serve our mission and manage our business.

Pay Attention to the Needs of the Business

An important part of Greyston's transition to profitability was an increased focus on business needs. Our desire to do more for our employees and to increase the number of employees we serve was making it difficult for Greyston to provide what the market needed. Many of the equipment decisions we make in the process of growth present us with an uncomfortable dilemma: whether we can develop the efficiencies necessary to stay competitive without eliminating staff positions. To maintain a profit and to ensure that bakery employees are developing skills valuable in the modern marketplace, the bakery has automated certain aspects of the production process when fiscally appropriate. Our management team monitors technological trends in the baking industry to inform these decisions. We strive to maintain and increase employment levels, despite increased automation, through improved marketing efforts and sales growth. But we constantly ask ourselves, "What does this business need to succeed?"

Recently, Greyston has faced another difficult decision. As the bakery has grown, it has always chosen to develop skills from within its existing pool of employees. Of the 68 employees, 62 began as trainees and have worked their way up to positions of greater responsibility. We have improved sales, raised wages, and sustained enough growth to support this process. However, as Greyston grows, we cannot develop rapidly enough some of the skills necessary for specialized jobs.

In these cases, our commitment and our focus on the business needs require that we reach beyond our current pool of employees for those skills.

Don't Force the Business to Be a Social Program

At Greyston, we don't employ people to make brownies, we make brownies to employ people. This is a simple but profound statement. For years, many nonprofits have been operating programs to train people in "real working situations." Some of these operations dispose of their products and services or sell them below market pricing. Many of these efforts have not provided people with practical work experience, and most do not cover expenses or produce a profit. Achieving an operating profit is the best route to long-term survival of the organization and the best inducement for others to follow the bakery's model. But we cannot expect our business to succeed as a business if we are asking our managers to be social workers as well.

We believe that our responsibility is to provide our workers with an environment that allows them to succeed in their efforts to improve the quality of their lives. We provide a work environment that encourages them to get assistance from the Greyston Foundation when they need it, but we are very strict about attendance, punctuality, attitude, and performance in the workplace. Because we are subject to the discipline of market competition, bakery employees develop skills that are genuinely valuable and marketable. This market pressure also holds our management team accountable and does not allow us to produce inefficiently or below market-quality standards.

To continue to succeed, Greyston must remain competitive with other producers and other bakeries regardless of our social mission or good intentions. We must produce cakes and tarts that New York upscale restaurants will sell to their discriminating clientele at prices that range from $3 to $6 per serving. Our customers, the restaurants, will not purchase from us if their customers, the consumers, do not like our products. Our customers are quick to inform us when our products don't fit their assortment and price point, and they will be quicker to inform us if we do not meet their service needs or quality standards.

So as we pursue our social mission, we must remain vigilant in our efforts to operate a successful business. We calculate success by our measurable social mission outcomes and financial statements. We will succeed only if we produce relevant, quality baked goods in an efficient manner. Relevancy will be determined by market demand. Efficiency will be determined by our operational ability to meet this demand. The opportunity to grow and succeed in our social mission objectives depends on our meeting this market demand. And we would have it no other way.

ESSAY

Self-Sufficiency: How Important Is It?

By Michael J. Burns

Michael J. Burns is the president of Pioneer Human Services, a position he has held since 1999. Before that, Burns was chairman and chief executive officer of Sea Watch International, a seafood processor headquartered in Easton, MD.

Pioneer's mission is to serve people on the margins of society through jobs/training, housing and counseling. Pioneer's eight businesses in the Seattle area supply products and services to Boeing, Starbucks, Hasbro, Xantrex, Leviton, Nordstrom, and other leading companies in the Northwest. Last year Pioneer served more than 6,400 clients through its 650 units of housing, its treatment and counseling services, and its jobs training programs.

Burns has more than 20 years' experience as president of several for-profit national and publicly traded companies, such as Dutch Boy Paints, Kroehler Furniture, Duncan Parking Meters, and the Rymer Company.

Burns earned a Juris Doctorate from Seton Hall University and a B.A. degree from William Paterson University in Wayne, NJ. He served 13 months in Vietnam in the U.S. Marine Corps and attained the rank of captain, and is licensed to practice law in New Jersey.

In November 1963 when Jack Dalton opened Pioneer Fellowship House as a residence for six recovering alcoholics, he required each resident to pay $25 a week for room and board, perform house chores, and attend nightly meetings. His philosophy for Pioneer reflected his firm belief that handouts were not effective and that a program that was dependent on governmental support would be nothing but destructive.

Today, Pioneer Human Services has more than 450 units of residential recovery housing (and an additional 200 units of low-cost housing), and the philosophy of self-sufficiency permeates the entire organization. At Pioneer, self-sufficiency is a value in its own right. Pioneer asks the question, "Is it possible to teach others the importance of self-sufficiency and, at the same time, not be self-sufficient?" Applying that philosophy, Pioneer today earns 99.6 percent of its $55 million annual budget through the sale of products and fees for services.

Pioneer's board of directors, comprised of men and women leaders from banking, business, legal, education, legislative, and behavioral health fields, established the company culture in the early stages of the organization. Today, Pioneer expects its board members to contribute in the form of sound advice and guidance, not in donations. In fact, the company does not solicit contributions or hold fundraisers. The revenues it earns from the products it sells and the services it offers provide for the long-term support of the company.

For any nonprofit to decide to become more self-sufficient, a fundamental change in the culture of the organization must take place. Producing a surplus—i.e. a profit—must become the basis for growth and expansion of the nonprofit's outreach to the clients it serves. As a result, Pioneer has not treated growth with ambivalence but considers it necessary to effectively serve more people. Over the years, Pioneer's mission has broadened to serve a wide spectrum of people on the margins of society. This has led to a series of new programs and extensions of existing programs.

Pioneer Industries, now part of the Enterprise Group of Pioneer Human Services, began in 1966 as a sheltered workshop producing washer-size spacers for the Boeing Company. The production initially served as a means of employing and training recovering alcoholics, and later ex-offenders and others recovering from chemical dependency.

Pioneer's housing programs have grown by expanding the use of tax-exempt bond financing for greater numbers of housing units; training and job opportunities have increased through internal expansion of businesses, startups, and acquisitions. Strategic planning initiatives have focused on how the company can integrate the services it currently provides to serve more people on the margins of society through its housing, counseling, and job training programs.

Pioneer is unique in its attempt to integrate a number of services to meet the needs of its clients and trainees. In addition to jobs and training, the company operates a residential recovery program and low-cost housing. It provides family and youth counseling services, and it runs two involuntary chemical dependency treatment centers with a total capacity of 200 people.

The company's community correctional programs operate both state and federal work releases for up to 230 people at a time. Many of the individuals residing in these residences find work at one of Pioneer's plants and may be able to find housing through Pioneer when they transition back into the community.

Because not all individuals seeking employment with Pioneer Industries are able to meet the math and reading requirements of Pioneer's formalized basic training program, the company has developed other enterprises in which these individuals can develop marketable skills to help them transition into the community. The 260-seat Mezza Café, in space leased by Pioneer in the Starbucks Coffee Company headquarters, is a great example of providing an opportunity for people to successfully transition into the community and become "taxpayers" not "tax-takers." They are trained in social and technical skills, which include industry standard "ServSafe" programs and food handling and preparation procedures.

In keeping with this entrepreneurial spirit, Pioneer even has a consulting group that customizes one-, two-, or three-day tours of Pioneer by other nonprofits to assist them in exploring steps necessary to lessen their dependence on grants and fundraising.

The growth of Pioneer Industries' manufacturing capabilities and the expansion of Pioneer's housing has provided a critical asset base that Pioneer can leverage to establish lines of credit. With the capital that those assets provide, Pioneer has reinforced its own self-sufficiency, and enabled its forays into other new businesses.

Some of the businesses have been grown from within. For example, the maintenance operation that was initially serving Pioneer's housing units eventually became a construction company doing siding and remodeling for third-party customers. Contract Services, a startup, performs assembly and packaging work for external customers. Food Buying Services, a stand-alone operation, supplies more than 400 food banks in 25 states. Each one of these units operates with a monthly and annual budget, specific margin targets, and mission goals.

Also, where necessary, each unit has implemented an internally directed program to measure performance against a set of indicators. Pioneer managers review mission results and financial results monthly in the same meetings.

Owning its own facilities and increasing equity has strengthened the company's ability to venture into new areas, expand current programs, and move beyond regional boundaries to other parts of the state. Eventually Pioneer will expand beyond the state of Washington and develop programs in adjacent states.

Unfortunately, not every venture that Pioneer has undertaken has flourished. Pioneer's acquisition of a printing company in 1998 did not meet any of the expectations. Differences in corporate culture led to the departure of key printing company managers. In addition to the lack of printing expertise within Pioneer, radical technological changes in the printing industry led to lower-than-expected results. Furthermore, the plan to gradually transition ex-offenders and individuals recovering from chemical dependency into the printing operation met resistance from the existing workforce of the acquired company. Eventually Pioneer decided to sell the printing business since it was not meeting margin targets or mission goals. Because Pioneer had the independence to make such a decision, it could retain its focus on achieving its overall mission rather than the success or failure of one acquisition.

Growth also requires Pioneer to challenge its assumptions. Maintaining the status quo based on current resources has not been (and is not) acceptable. To attract key operational and financial management professionals to direct the company as well as highly skilled individuals in the correctional, behavioral, and information technology areas, Pioneer implemented a competitive compensation program and incentive system. Significant investment in sophisticated information technology systems has provided the platform for more efficient management systems, case management, production and inventory systems, general administration, financial controls, and the evaluation and improvement of the services rendered to our clients.

At the same time, the increased revenues from growth have not only enabled the company to serve more clients but have also resulted in reduced overhead as a percentage of total operating expenses. In 2001, only 7.1 percent of the $52 million in revenues was spent for administrative functions.

With the success of these ventures and the revenues that come from them, Pioneer also retains power to direct and control the program design and corporate direction. In pursuit of the company's five-year strategic plan, the board and senior management of Pioneer decide where to deploy the income generated by these various programs. Modifications to programs to improve their effectiveness and measure their success emanate from within the Pioneer organization and are not in accordance with the requirements or instructions of a grantmaker. This freedom—to quickly change what is not working, to expand what is working, to eliminate reports that are without significance, and to experiment with new programs—empowers the managers within the organization. The same freedom enables Pioneer as a self-sufficient organization to be more responsive to the needs of the people it serves. As a result, jobs are meaningful, employees know they are making a difference, and their work has significance.

One may think that with such great emphasis on self-sufficiency Pioneer might place "profitability" ahead of its mission. The opposite is true. Employees throughout the organization realize that to expand the outreach of Pioneer's mission, the organization must produce a surplus. A group recently touring Pioneer from the Bureau of Justice in Washington, DC, was impressed that every manager described his or her role as meeting the mission of the company to serve people on the margins of society.

Entrepreneurial success is just as difficult for a nonprofit as it is for a for-profit business. Familiarity with a business, either by growing it internally or by acquiring a business in an area of expertise, will greatly enhance the probability of success. However, Pioneer has learned from its experience that there are a few critical elements that have made its social enterprises successful. First and foremost, at all levels the organization must have a specific vision and a passion for what it hopes to accomplish. Second, business planning and strategic planning are musts. Third, a strong board of directors, professional management, and employees committed to the mission are essential. Fourth, any business must be sufficiently capitalized, either through previous business success or a committed philanthropic business partner who needs a quality product or service delivered on time at a competitive price and is willing to give the organization a chance to compete for its business. Ultimately, success will be determined by employees who believe in the company's mission, have a passion to achieve that mission, and know they are making a difference as a result.

ESSAY

Lessons From Operating a Franchise to Support Housing Development for the Homeless

By Rosanne Haggerty

Rosanne Haggerty is a real-estate entrepreneur who conceived and founded Common Ground, a not-for-profit housing development and management organization in New York City providing innovative housing opportunities for homeless adults. Her flagship restoration projects, converting two decaying hotels in the heart of Manhattan into more than 1,000 attractive living spaces for homeless and low-income people, are not only important historical restorations, but also bold experiments in financing, developing, and managing residences. These facilities provide residents with support, structure, and employment opportunities while serving as a nexus for neighborhood revitalization. Haggerty continues to apply the lessons learned from these efforts toward additional projects, some targeting the housing needs of groups with special challenges, in New York and elsewhere.

Haggerty is a committed social service champion and determined leader who applies her expertise in real estate, finance, management, and strategic planning to address the unique challenges of housing low-income or otherwise disadvantaged urban residents. Her work to date highlights the promise for still further creative advances toward eradicating homelessness.

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Common Ground did not set out to be a social venture business operator. We were trying to solve two problems when we approached Ben & Jerry's in 1990 about the possibility of acquiring a franchise through its PartnerShop program. We wanted to create training and jobs for our future tenants, and we hoped to improve our community.

At the time, our organization was brand new, and we were attempting to buy and rescue a rundown, bankrupt hotel in Times Square to transform it into permanent housing for homeless and low-income adults. We knew we faced a host of challenges. Our tenants would need training and employment, and the neighborhood needed help. The neighborhood cried out for economic development, and for legitimate businesses to replace its X-rated establishments and cheesy souvenir shops. The building we were pursuing, the Times Square Hotel, had commercial spaces within it. We hoped to use it to make a material difference in the community and create jobs for tenants.

A fortuitous visit to a Ben & Jerry's scoop shop on a hot day in Baltimore suggested a strategy. The store was a "PartnerShop," run by a local nonprofit and providing employment for the organization's clients.

Ben & Jerry's created the PartnerShop program as an expression of its mission to improve the communities in which it does business. The program offers non-profit groups a free franchise and management support to open and operate a scoop shop. A much more complex proposition than making a grant, the program gives participating social service organizations a chance to transform themselves into business partners and entrepreneurs.

Typical retailers wouldn't pay to be in Times Square then. Yet Ben & Jerry's was willing to risk its brand on us and our location. Much of Common Ground's subsequent success as an organization followed from that early decision.

As a new organization, Common Ground's culture was just being shaped. In simultaneously developing a business plan for the Ben & Jerry's PartnerShop and

She received her B.A. from Amherst College and is currently pursuing an M.A. at the Columbia University Graduate School of Architecture, Planning and Historic Preservation. Before founding Common Ground in 1990, she was the coordinator of housing development at Brooklyn Catholic Charities. In addition to her role as executive director of Common Ground, Haggerty serves as a director of the Times Square Business Improvement District, and as a board member of New York City's Citizens Housing and Planning Council, the Center for Urban Community Services, and of the echoing green foundation. She was a 2000 Japan Society Public Policy Fellow and a 2001 MacArthur Fellow.

implementing our housing program—a gut rehabilitation of the hotel into 652 permanent efficiency apartments—we showed our entrepreneurial spirit, which we adopted in all our activities. Before the shop was open, for instance, we had created a nonprofit property management company to manage the building and, later, to provide that service to other supportive housing facilities. And we went on to create additional retail and employment partnerships with Starbucks, Marriott, Home Depot, and others.

Our ability to invent new ways of responding to homelessness also reflects the entrepreneurial influence. For example, Common Ground's "first step housing" program is an entirely new form of housing targeted at chronically homeless adults. Our business neighbors have embraced us as fellow business operators, despite operating major social service facilities of the type that often invites "not in my backyard" responses. And we came to understand how to communicate in business terms the urgency of our primary work to end homelessness: Whereas it costs the public just under $10,800 per year to house a formerly homeless person at the Times Square, it costs the public $25,000-$50,000 a year to maintain that same individual in a shelter—and much more in hospitals, jails, or psychiatric institutions.

Beyond its impact on the culture of Common Ground, our experience as retail business operators has produced very concrete benefits—and short-term costs—for our organization. Moreover, the businesses—we now have two PartnerShops and are opening a third this year—continue to evolve in response to our clients' and our organization's needs.

Some of the things we've learned along the way:

- Bringing Ben & Jerry's to that corner of Times Square prompted an immediate and steady improvement in the retail environment. We persuaded Starbucks to take the space next door, and two local retailers—a pizzeria and a Papaya King franchise—to occupy our remaining retail space. All three companies agreed to hire at least 25 percent of their staffs from candidates referred from our employment program as a term of their leases. That prompted neighboring owners to upgrade their leasing practices. Retail rents on our block that were $24 per square foot in 1994 are now $200 per square foot.
- We have been able to provide paid training and employment to scores of individuals transitioning from homelessness. Initially, it was a struggle to make the positions attractive to older adults re-entering the work force, as the positions were perceived as youth-oriented. Once we linked the

customer service training at Ben & Jerry's to long-term job placement, our adult tenants understood that their work experience at Ben & Jerry's was the first step in a longer process of re-entering the workforce.

- We have a goal of 50 percent of staff hours at Ben & Jerry's being filled by trainees, and the balance by more experienced retail staff—whom we hire from community-based job referral programs whenever possible. We started off wanting all positions to be filled by our tenants and others in transition from homelessness, but we couldn't operate a sound business or provide effective training that way. Now we have the right balance.
- We hire talented and experienced retail managers in each store. We started off with managers with social service/job training experience. We learned that perhaps more than most retail operators, having managers with substantial business operations expertise was critical in our stores, where so many goals are being pursued without compromise. We expect to run great stores, provide great training, and generate profits. We need proven, effective managers who buy into the whole plan.
- We are shifting our target group of trainees to young people in foster care or those 18-to 21-year-olds who are "aging out" of institutional care. We find our Ben & Jerry's training program, and its role in supporting Common Ground's overall mission of ending homelessness, must shift to reflect changes in our organizational priorities and the demographics of our tenants. Our permanent tenants in need of work have, for the most part, moved on from Ben & Jerry's into full-time jobs, and they no longer need training and placement services. Yet our newest housing initiative, focused on preventing homelessness among those leaving foster care, created a new need for employment links. Working with Ben & Jerry's retail operations staff, and our fellow PartnerShop operators in San Francisco, Juma Ventures, we've designed a new youth development-oriented training curriculum to be implemented this summer. Residents of our "Foyer" program—a transitional housing and career development program for 40 young people opening in early 2003—will particularly benefit from the new youth focus at our PartnerShops.
- We generate income for our job training and placement activities and other organizational needs through our Ben & Jerry's proceeds and our other social venture activities. We had to build our way to this, like any new business operators. Without the job creation and community redevelopment benefits, the commitment of time, resources and organizational capacity required to build successful retail businesses would not have been

worth it. I get nervous when I get calls from nonprofit groups that think opening a business is a simple proposition, like turning on an automatic flow of new resources to fill next year's budget gap. Our store, like most new businesses, was not profitable at first. But the proceeds from our ventures have become a critical element of our financial strength and ability to broaden our work into new programs serving the homeless.

- We continue to build our social enterprise activities, expanding our event space-rental, catering, and property management businesses. In addition, we are developing a business plan for a new social venture at our second major supportive housing project, the Prince George, which contains 416 apartments for homeless and low-income single adults. We hope to transform its landmark 5,000 square-foot ballroom into an event space in partnership with an established restaurateur.

Ultimately, it is hard to separate our identity as business operators from our role as housing developers for the homeless, because we are regarded—and see ourselves—as business-minded and business-friendly housing developers for the homeless. That has been good for Common Ground and good for the homeless people we serve.

ESSAY

The Varieties of Corporate Partnerships

By Charles MacCormack

Charles MacCormack has been president, chief executive officer, and a member of the board of directors of Save the Children Federation, Inc. since January 1993.

MacCormack was president of World Learning (previously known as the Experiment in International Living) in Brattleboro, VT, from 1977 through 1992. World Learning works to foster world peace through international education. Before that, MacCormack served as an international research fellow at the Brookings Institution, assistant to the dean of the International Fellows Program at Columbia University, and lecturer at the University of New Hampshire.

He is currently a member of the Council on Foreign Relations, the executive committee of InterAction, the advisory committee on Voluntary Foreign Aid and the Food Security Advisory Committee. He was selected by the United Nations secretary general to participate in the founding of the United Nations University and served as a member of the United States delegation to the World Food Summit and the United States delegation to the preparatory committee for the 2001 General Assembly Special Session on Children.

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Nonprofit organizations and corporations have more opportunities to partner and benefit from each other's strengths than many people realize. Nonprofit leaders are inclined to think that direct funding for program or operating expenses is the principal and most desirable form of corporate support. The experience of Save the Children suggests that there are many other ways for corporations to help nonprofits achieve their missions and for nonprofits to help corporations enhance their relationship with employees and customers. Philanthropic giving alone fails to capture the breadth and potential of this mutually beneficial relationship, and the more of these synergies that are brought into a corporate-nonprofit relationship, the more impact they will have on society.

Varieties of Corporate Partnerships

1. Strategic Alliance

A strategic alliance between a corporation and a nonprofit or a group of nonprofits takes place when a company brings virtually all of its capabilities to a social cause. A well-known example is the commitment between Avon and the breast cancer community. Avon has brought planning, communications, outreach, research, technology, public awareness, fundraising, human resources, grassroots mobilization, and political clout to the cause of significantly reducing breast cancer. Strategic alliances are probably the most difficult relationships to bring off because they imply long-term, highly visible, and managerially complex commitments on the part of both the nonprofit and the corporation. However, when a clear and deep harmony of interest and cultural beliefs exists, these relationships can significantly increase the effectiveness of a cause and lead to truly world-changing impact.

2. Sectoral Cooperation

When it comes to technical capacity, outreach, distribution systems, and resources, *He was awarded an honorary Doctor of Education by Middlebury College and an honorary Doctor of Laws by Clark University and was made a member of the Grand Cordon of the Order of Al-Istiolal by King Hussein of Jordan.*

He received his doctorate and master's degree from Columbia University, was a National Science Foundation Fellow at the Universidad Nacional Autonoma de Mexico in Mexico City, was a Fulbright Fellow at the Universidad Central de Venezuela in Caracas, and is a graduate of Middlebury College.

corporations can support the program or sectoral work of nonprofits in a variety of ways, particularly when program and corporate objectives coincide.

At Save the Children, for example, we have made a commitment to increasing the number of mentors available to disadvantaged children in the United States. One way we have gone about this is through a national media campaign to recruit mentors around the country. In cooperation with the Ad Council, Interpublic's McCann-Erickson developed a successful media campaign that has received numerous industry awards, including those from Brandweek and the American Marketing Association. Additionally, Scholastic, Inc., the leader in children's publishing, has supported Save the Children's efforts to improve literacy in our after-school programs throughout the United States. It has also provided hundreds of thousands of age-appropriate books for children who would otherwise have no access to personal reading material. The Mott's company supports the nutritional goals of our US program by providing training materials on nutrition and a generous free supply of its products. ClearVision Optical has conducted free vision screenings for tens of thousands of children in our program and supplied prescription eye-glasses.

Yet another example of shared enterprise is that of YouthNOISE, an exciting new web-based initiative launched by Save the Children to mobilize teens on behalf of children and youth in need. The project received collaborative support from partners in corporate technology, media, marketing, and philanthropy, including Seagate Technology, Yahoo!, Allstate, AOL Time Warner and the David and Lucile Packard Foundation.

3. Increasing Organizational Visibility

It would not be an exaggeration to say that millions of Americans know Save the Children through the distinctive children's art that is displayed on the Randa/Save the Children neckties and scarves. For many years, each piece of this line of licensed neckwear has included a Save the Children label and a tag that describes our mission and work.

In addition to Randa, some 30 licensees use the Save the Children name, logo, and artwork on a variety of products that generate significant visibility for us. Our artwork and logo are also on credit cards for MasterCard, where a portion of the sales charged benefits Save the Children's work. And our children's art and mission received nationwide publicity when they were featured on more than 70 million Pepsi-Cola cartons during a recent holiday season promotion.

Finally, public-service ads and stories in publications such as *Better Homes and Gardens, Fortune, Oprah, Marie Claire, Metropolitan Home,* and *Bon Appetit,* as well as on countless radio and television broadcasts, have provided significant free exposure for Save the Children. Each of these examples has brought financial support for Save the Children's programs as well as tremendous value in the visibility that would have cost us millions of dollars to secure commercially.

4. Management and Systems Support

Everyone in the nonprofit community is aware of the difficulty of securing adequate world-class management and technology talent and analysis for the work we do. Donors are reluctant to fund these functions, the scale of nonprofit operations often does not justify a full-time systems staff, and competition for this talent from the private sector often drives salary levels far beyond what nonprofits can pay. For these reasons, the strategic planning, technical analysis, and information technology of nonprofit organizations often lag behind those of their business counterparts. However, corporations that specialize in management and technical consulting are sometimes willing to provide *pro bono* help to nonprofits when the organization is staffed and structured to take advantage of their critical expertise.

One such firm, the Boston Consulting Group, has conducted in-depth analyses of Save the Children's marketing management as well as of the implications of the Internet revolution on our activities throughout the world. Another firm, Accenture, provided a full-time team of consultants to Save the Children throughout much of the year 2000 when we were carrying out a worldwide three-, five- and 10-year strategic planning process. Cisco Systems, Inc., has made available three full-time senior staff members for over a year to link our field offices throughout the world to our international communications systems. And McKinsey & Company has provided teams of professionals to significantly improve the cost-effectiveness of our fundraising activities and to help us learn how to benefit from the "new philanthropy." In all of these cases, the market value of the support received was at least in the hundreds of thousands of dollars, and often over $1 million. Even more than the cash value, the support has made our programs for children more successful, our operations and fundraising more cost-effective, and our staff throughout the world more highly motivated.

5. Volunteer Support

Virtually every nonprofit organization needs volunteers for its program work. The remote and sometimes dangerous locations where Save the Children works often make it difficult to utilize large-scale volunteer partnerships. However, as a component of our partnerships with Mott's and Denny's, for example, these companies have provided volunteers for our programs with youth in need. In addition, partnering with world-class corporations may introduce the nonprofit to business leaders whose vision and commitment to the charity's mission would make them candidates for board membership.

6. In-Kind Contributions

It is often easier, especially in challenging economic times, for companies to provide gifts-in-kind than it is to make cash gifts or grants. Very large nonprofits, such as AmeriCares and America's Second Harvest, focus on the opportunity to achieve their missions through gifts-in-kind from the pharmaceutical and food industries. At Save the Children, millions of dollars of expenses for necessary corporate activities have been offset by rental cars and automobile donations from Hertz, airline transportation from US Airways, hotel accommodations from Marriott and Hilton, and vehicles from General Motors, thus freeing up resources for program delivery.

7. Fundraising Support

Many corporations are in front of hundreds of thousands of customers every day. They can serve as fundraising channels for nonprofit organizations, generating funds from the public and their employees, sometimes along with corporate financial support. Save the Children's most comprehensive corporate partnership, with retailer T.J. Maxx, began as a licensing agreement for the use of Save the Children's proprietary artwork on a line of infant wear. It has since grown to include a child sponsorship for each of its 750 stores nationwide and, more recently, an at-register contribution opportunity for their customers. These ventures have added significant visibility for its Save the Children partnership as well as incremental revenue. Similarly, Denny's restaurants have implemented an eight-year comprehensive program that includes child sponsorship for each of its 100-plus locations, a contribution for each of two breakfast menu items, and a coin collection canister at the checkout in each restaurant.

Another example of corporate philanthropy that effectively combines fundraising and visibility is Save the Children's partnership with leading jewelry manufacturer OTC International. OTC contributes a portion of the sales price of select merchandise sold through all channels of distribution. When the sale is generated via a broadcast vehicle such as Shop NBC, visibility for Save the Children is especially significant.

Corporations also have an opportunity to engage and motivate their employees in the area of charitable giving by offering matching gift programs. Save the Children receives many donations from individuals that are effectively doubled when matched by participating employers.

8. Philanthropic Giving

Nonprofits often think almost exclusively of traditional philanthropic giving when they think of corporate partnerships, and this is especially critical to the viability of many nonprofits. Save the Children has received philanthropic gifts from Citicorp for microcredit programs in developing countries, from BP for improved nutrition in Vietnam, Johnson & Johnson for education in Asia, Premier Oil for child survival and basic education in Myanmar, IKEA for vital children's programs in Albania and the United States, and Becton, Dickinson for the fight against HIV/AIDS in the Republic of Georgia.

Conclusion

Corporations and nonprofit organizations can combine their respective resources in many ways to help meet national and world needs. These include forming strategic alliances, cooperating in technical assistance, raising visibility, strengthening management and staff morale, providing volunteers, donating gifts-in-kind, helping with outreach for fundraising and representation, and giving direct support for programs and organizational needs. It is in the interest of positive social change and nonprofit impact to nurture as many of these kinds of relationships as possible and as appropriate. Too many nonprofit organizations limit themselves to traditional philanthropic support, while a much richer array of mission-accomplishing resources are available through nonprofit/corporate partnerships. Unfortunately, many of these contributions, such as providing technical assistance and volunteers, don't flow through nonprofit financial statements and therefore don't always receive the credit they deserve. Many of Save the Children's corporate partnerships include several of these forms of support, and probably the greatest impact is possible through the strategic alliance that brings all these capabilities together in one relationship. Any nonprofit that aspires to have a significant impact on major issues should seriously consider corporate partnerships as a vital source of talent, technology, innovation, and resources that cannot be secured anywhere else.

ESSAY

Starting Off on the Right Foot: Walnut Acres & Share Our Strength

By Mark S. Rodriguez

Mark Rodriguez has more than 24 years of experience in the consumer packaged goods industry, including assignments at Pabst Brewing Company, Cadbury Schweppes, Danone Groupe, and Acirca, Inc. From 1990 to 1999, Rodriguez served as the chief executive officer in North America for Great Brands of Europe, Inc., and Danone International Brands, Inc., subsidiaries of the Paris-based Danone Groupe that manage its bottled water and specialty foods portfolio in North America. During his tenure as CEO, sales advanced from $68 million to $800 million through a combination of internal growth and acquisitions, with operating profits reaching the first quartile of the Groupe's business units worldwide. In 1998, Rodriguez was honored by the Groupe's chairman as the first recipient of the company's global Grand Prix Award for innovation.

In April of 2000 Rodriguez founded Acirca, Inc., a company dedicated to the promotion and development of certified organic brands. Acirca is a venture capital-financed packaged goods company targeting the rapidly growing $20 billion worldwide market for organic food and beverages. Since its inception, Acirca has introduced new products and acquired four leading certified organic food and

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In May 2000, I became involved in the start-up of an organic food and beverage company, and I wondered if the company could try something that I had not seen done before. What if, as part of our mission, the fight against hunger was incorporated into the model right from the very beginning? I wondered how it would impact the company's development. What could it afford to give back? How might a partnership be structured? Given that it was so early, would it weigh us down? Would an anti-hunger nonprofit see enough value in our efforts to take us seriously? More important, could a "cause" partnership accelerate the growth of both our startup and the efforts of a nonprofit in its fight against hunger?

As I began recruiting associates and partners, we clarified our vision and we thought the answer to be yes. You see, fighting hunger is important to us. We spend our days, nights, and many weekends solving problems related to food production and distribution. We have spent most of our professional careers in and around the food industry. We think malnourishment is a terrifying thought. And for me personally, as a parent of four children, it is appalling to think that our society allows it to happen.

For these reasons, we at Acirca included a nonprofit partnership that would fight hunger right from the start. This was a difficult decision because of the many challenges we had to face in our private equity-financed company. As with most companies, especially startups, we face extreme pressures in our business, including cash-flow management, recruitment and retention, competition, brand building and differentiation, and establishing an effective corporate culture. In retrospect, joining the fight against hunger proved to be one of the best moves we could have made. Our commitment to fighting hunger has improved our chances against all the challenges we face.

We selected Share Our Strength to be our anti-hunger partner for several reasons: (1) I've known its founder for a number of years and respect the work he has *beverage companies to secure leadership positions in strategic product categories.*

From 1993 to 1995, Rodriguez was a member of the Young Presidents' Organization. From 1995 to 2000, he served on the National Council of the World Wildlife Fund. In 1996, the American Advertising Federation honored Rodriguez with the Industry Career Achiever Award for demonstrating a high level of accomplishment in his career. In 1997 he accepted Share Our Strength's Taste of the Nation NYC Distinguished Community Service Award and, in 1998, the organization's Frontier Award.

Rodriguez earned his B.A. from San Diego State University and attended graduate school at the University of Southern California.

done; (2) Share Our Strength has created an infrastructure to work with corporate partners and understands how a partner's business objectives need to be met to help in its anti-hunger mission; and (3) Share Our Strength measures its efforts and has outcomes to demonstrate the impact it is making. Before the reintroduction of the company's flagship brand, Walnut Acres, or the development of our new products, we had committed to a multiyear partnership. On every Walnut Acres label, we would ask consumers to join us in our support of Share Our Strength's fight against hunger. Additionally, we would contribute a portion of the proceeds from the sale of every one of our products to Share Our Strength. Based on projections, this would amount to at least $500,000 over five years.

Although we had not produced a single jar of organic food, I believed that we could engage our management team in the fight against hunger, and that we could build a company with a defined social mission as well as a clear business purpose. Done well, this would increase the recognition of our brand in the mind of consumers, which would make us a more valuable company to all our business partners. In the process, we would also support Share Our Strength.

As we began to survey the landscape for private equity investors who shared our vision to develop a national leadership brand of certified organic foods and beverages, our commitment to the fight against hunger played an important role in demonstrating the values of the new company. When we spoke about our vision to create a culture that respected people above all else and to be a responsible corporate citizen, nothing communicated this as clearly as our commitment to Share Our Strength. Beyond the assumptions and calculations of our business plan, private equity investors seek people they can trust with values they can understand. The desire to end hunger unites us all.

Similarly, the company's commitment to the fight against hunger is a motivating factor in recruiting the best food and beverage industry professionals to join us. One associate who joined Acirca told me he thought it was very bold to commit to donate $500,000 of the company's cash because we had just begun to launch our first jars of certified organic soup, and we were still waiting to see how the market would react. I realized then that similar to the leap of faith that private equity investors take based on their belief in the integrity of a business plan and the management team's ability to execute it, so too must contract manufacturers, distributors, retailers, and prospective employees have faith when they join our team. Faith that our assessments and assumptions are reasonable and that we can—and will—accomplish what we set out to do.

We introduced our inaugural product line of organic packaged soups with a new look for Walnut Acres and an advertisement designed to spur awareness of and financial contributions to Share Our Strength. We regularly hear from people who buy our products that they respect our commitment to Share Our Strength. As I spoke at a press conference to announce the affiliation with Share Our Strength, I saw a great sense of pride in the smiles of my associates. I knew then that the commitment had already begun to pay us back, way ahead of schedule.

Following the introduction of Walnut Acres certified organic soups and salsas in 2001, we expanded in 2002 with a line of 9 Walnut Acres certified organic pasta sauces and 17 flavors of certified organic juices. More is in the pipeline. As I visit the thousands of stores across North America that sell our products, I see a growing population of millions of small banners on the label of every Walnut Acres product encouraging others to support Share Our Strength and join the fight against hunger.

During our startup, Acirca challenged the conventional rules of business by taking on a cause partnership, and now, thanks to that partnership, the social fabric of our company is strong and actively contributes to our business development. The reward has been well worth the risk.

ESSAY

Community Development Finance and Social Enterprise – Natural Partners

By Trinita Logue

Trinita Logue is the founding president and chief executive officer of the Illinois Facilities Fund (IFF), a statewide, community development financial institution incorporated in 1988. Logue developed the IFF at the Chicago Community Trust, which she joined as assistant director in early 1987. Under Logue's leadership, the IFF has become a national leader in innovative nonprofit financial and real-estate solutions and has grown to total assets of $52 million.

The IFF also undertakes research, education, and advocacy for and about the nonprofit sector. The IFF has broad experience in working with foundations and municipal governments as they plan programs for and with nonprofit corporations.

Logue serves on the board of directors of the Donors Forum of Chicago, is a member of the Illinois Advisory Committee on the Child Care Development Block Grant, is a member of the Chicago Network, and serves as a director of First Nonprofit Companies, a proprietary insurance company that provides insurance to nonprofit corporations in three states. Logue also serves on the governor's Leadership Subcabinet on Children, Youth and Families and the attorney general's charitable advisory

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Private sector community development financial institutions (CDFIs) invest in community programs and services that benefit disadvantaged and other special populations. Many of these CDFIs are nonprofit corporations that provide access to capital for other nonprofits and small businesses. A few, such as the Illinois Facilities Fund (IFF), provide long-term, below-market capital, that ensures that investments are not only available to borrowers but also affordable, often at fixed rates over many years.

Social enterprise lending is a natural extension of this approach. Long-term, low-cost, "patient" capital is already our role, and social enterprise projects need these benefits.

The IFF was created in 1988 as a statewide, nonprofit community development financial institution. Like most CDFIs, the IFF was structured specifically to respond to the needs of a particular market: in this case, the real-estate projects of nonprofit corporations that are dependent on annual government revenues—revenues that do not increase in relationship to true costs and are largely unaffected by macroeconomic factors. The founders and initial funders of the IFF recognized that these nonprofits need access to growth capital at rates that are sensitive to their revenue streams. By taking this position, the founders determined that the IFF's underlying purpose would be not only to take risks that other lenders would not accept, but also to change the very definition of risk for underwriting purposes.

In the case of the IFF, this meant building a business predicated on cash-flow lending, or revenue for real-estate projects—projects that, for the most part, result in additional programs and services in low-income communities. IFF loans support projects that also create new jobs and improve disinvested neighborhoods.

In 1999 the Illinois Facilities Fund published the important study "Illinois Nonprofits: Building Capacity for the Next Century," which documented for the first time the financial condition of community service nonprofits in Illinois. One of *committee and is a member of the Kellogg School of Management's Public and Nonprofit Advisory Committee.*

Before joining the Chicago Community Trust, Logue served as director of the North Loop Theatre District Project at the Chicago Department of Planning.

the key findings was the need for increasing earned income and diversifying sources of income. The IFF made a commitment to design programs that would respond directly to the study's findings, and the IFF's New Visions loan product—our first non-real-estate loan product—was created to support social enterprise. As usual, the innovators were ahead of the funders: Dozens of nonprofit corporations in Illinois were already engaged in social enterprise. The IFF set out to learn from them, and eventually we began to learn together. The IFF is now engaged—along with 40 or 50 other organizations—in creating a center for social enterprise and a peer network to sustain and support this learning.

The IFF reviews every loan application with one overriding goal in mind: How can we make it work? This approach works well when applied to the patient capital model needed by many new social enterprises. In fact, it is hard to imagine a better model, because "making it work" includes not only a disciplined analysis of the nonprofit's financial and program performance in the past, but also a deep understanding of the quality of the management and the involvement of the members of the board of directors. And finally, the role of our loan officers is not unlike the engagement of mentors and investors: One of our loans was finally ready to go after a year of technical assistance from our loan officer on financial planning and business plan development.

Social enterprise lending is cash-flow lending at its most basic. We base the repayment on revenue projections of the venture within a framework that allows for deferred interest and principal payments until the venture breaks even. Our loan terms can be as long as 15 years. However, the repayment is expected to come from sales, not from government funds.

Many of the real-estate loans the IFF has made over the years have had components that resemble social enterprise projects. They include real-estate loans for thrift shops or job training sites that establish clients as employees or members who receive economic reward for their participation. This, in concert with the IFF's cash-flow lending model, made the transition to our new product much easier. But even with a dozen years of experience in crafting unusual loan packages, we have had to stretch our thinking to meet the needs of nonprofits experimenting with social enterprise. We now understand that these retail operations must be more attuned to competitive situations, and we ask better questions of board members.

For example, the Academy Bakery is a job training and retail bakery program operated by Community Services West, an alternative high school for at-risk young people in Chicago's North Lawndale community. The IFF is providing a $170,000 loan to help finance facility renovations, including the build-out of a kitchen, dining, retail, and classroom areas. Checking references on a master baker is a new style of underwriting for the IFF.

A second example is a $120,000 IFF loan for start-up and capital costs to a current borrower, Youth Jobs Center of Evanston, for a Ben & Jerry's PartnerShop. This project will enable the Youth Jobs Center to extend its job training and support programs and to employ 25 of its clients annually. We worked closely with the Ben & Jerry's corporate office, which made the second franchise loan a little quicker.

In addition to its experience with, and understanding of nonprofit projects, a large nonprofit CDFI is uniquely well-suited to social enterprise because it is unregulated and because of its underlying financial strength. The IFF, like many similar organizations, is fortunate to have accumulated equity from funders and investors, which enables us to be a flexible, low-cost lender. But is debt the best way for a social enterprise to get started? Larger, older nonprofits that have well-established social enterprise programs may have funded them from operating reserves, cash surplus, or a special gift from a donor. Today's social enterprise nonprofit tends to be smaller and lack physical assets or an established donor base. These social enterprise projects require grant funds not only to get started, but for long-term viability as well.

Grant funding that will ensure a project's launch and successful start-up phase is still hard to come by for many nonprofits, particularly these smaller and newer ones. So while the IFF is willing to make loans, we also need partnerships with funders that will work with us and with the nonprofit to take a new approach. Part of our leadership role in the growing world of social enterprise includes identifying, reaching, and educating funders and investors about social enterprise opportunities. The Donors Forum of Chicago has played a leadership role by sponsoring several programs on social enterprise. The IFF has developed programs that focus on the role for funders and the unique evaluation procedures necessary in reviewing grant applications for social enterprise projects. The list of interested foundations is growing, and we have assisted some of these funders with their evaluation of social enterprise projects on an individual basis. We believe such efforts will result in a larger group of philanthropic partners supporting social enterprise projects, which ultimately will reduce reliance on government and charitable funds.

For further information on the Illinois Facilities Fund's social enterprise activities, please contact Jill Levine, project manager, at jlevine@iffund.org.

ESSAY

Shifting Nonprofit Organizations to Entrepreneurship: How Foundations Can Help

By Stacey H. Davis

Stacey H. Davis is president and CEO of the Fannie Mae Foundation, the country's largest foundation devoted to affordable housing and community development issues. The Fannie Mae Foundation's mission is to create affordable home-ownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the country. In 2001, the Fannie Mae Foundation was responsible for nearly 20 percent of all housing and community development grants in the country.

In addition to providing financial resources, the Fannie Mae Foundation, under Davis's leadership, has defined itself as a knowledge leader. In 2001, she led the creation of KnowledgePlex, an innovative new technology-based resource for community development.

Davis began her career at Fannie Mae in 1992 and was director of regional public affairs in the southeastern region until 1995. From 1995 to 1999, Davis served as vice president for housing and community development in Fannie Mae's southeastern regional office in Atlanta. Before joining Fannie Mae, Davis was an investment banker with Merrill Lynch in the public finance division, where she assisted state and local governments in structuring senior-managed bond trans-

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Peter Drucker wrote, "Innovation is the specific instrument of entrepreneurship ... the act that endows resources with a new capacity to create wealth." Today, these words couldn't be truer.

Now, more than ever, the philanthropic community would be well advised to embrace this advice and focus on strategies that prepare nonprofits for long-term success. To ensure that our nonprofit leaders have the tools they need to build sustainable organizations, we must invest in innovation and entrepreneurship, as well as infrastructure and capacity building.

When making funding decisions in the coming months and years, foundations need to look beyond programs and consider a nonprofit's ability to be entrepreneurial. For a variety of reasons, including the recent economic slowdown, the myriad repercussions of the terrorist attacks of September 11, and changing government priorities, nonprofits have an increased incentive to develop new revenue streams to support initiatives. Just as high-performing companies are separated from fly-by-night companies in difficult economic times, perhaps the recent challenges will present unexpected opportunities for nonprofits. Foundations, as nonprofits' partners, need to be prepared to support entrepreneurial innovation.

But while developing new revenue streams is critical to the success of the nonprofit sector, it is only a part of the equation. Creating operating efficiencies and maximizing programmatic impact is the real goal. Philanthropy can certainly play a key role in helping nonprofits develop a systematic view of their fundraising efforts and integrate innovative new approaches along with improved traditional practices.

High-performing nonprofits are increasingly expressing interest in opportunities for growth through partnerships and strategic alliances. These organizations want to find ways to work with others more collaboratively and effectively to better serve their communities. The environment is ripe for innovation, including partnerships and community wealth enterprises.

actions, and at Pryor McClendon Counts in Atlanta.

Davis earned an A.B. in economics from Georgetown University and an M.B.A. from the University of Michigan Graduate School of Business Administration.

How can we at foundations support nonprofits making the shift to entrepreneurship? Here are three strategies:

1. We must practice what we preach. We must look inward and examine our own processes and strategies and be both honest and transparent. We must share what we learn to help our nonprofit partners grow and thrive. We cannot just write a check and wish them luck.
2. We must support the use of financial and tracking systems so that our partners can be entrepreneurial. Nonprofits need help identifying and adapting successful private sector tools, support systems, and models of business that will teach them a new way of thinking and foster self-sustaining growth. We should provide incentives to invest in such infrastructure to build for the future. The foundation community can and should serve as a bridge between the private sector and nonprofits in implementing tracking systems.
3. We must teach nonprofits to prepare for the long haul. Generating revenue and, more important, building an organization that will last, is hard work. The results of investing in revenue generation may not be immediate. Our efforts should reward those innovative organizations that are working toward long-term sustainability.

At the Fannie Mae Foundation, we are trying to encourage this transition by realigning our giving strategy to encourage nonprofits to focus on long-term infrastructure investment, rather than giving one-time, quick-hit grants. Our goal is to use our expertise and relationships in the field to develop sustainable best practices in the area of nonprofit capacity building and revenue generation. We want to be a leader in supporting systemic change to increase the effectiveness of nonprofits. We have already begun developing and testing ideas in our hometown of Washington, DC, and the early indications of nonprofit willingness to adopt infrastructure investments are strong.

For example, through our Paving Pathways to Sustainability program, in partnership with the Eugene and Agnes E. Meyer Foundation, we have confirmed our theory that the nonprofit sector is eager to learn how to generate additional revenue more creatively and that venture development presents opportunities to improve effectiveness, productivity, and management throughout the organization. Our Learning Circles initiative demonstrates that when given the appropriate tools and guidance, nonprofits can identify organizational challenges and develop solid strategies and measurements for continuing improvement in sustainability and operations.

As funders, we have an obligation to stay involved with our nonprofit partners and invest in infrastructure and capacity. As a catalyst, foundations must strike a balance in their own giving and be more forward-thinking. Perhaps this is not the year to write that check to put 50 kids through college, but instead to invest in a nonprofit's capacity building and infrastructure so that in future years, that organization can send 5,000 kids to college.

Shifting the culture of nonprofits and grantmakers will take time and determination. We know that even in the business community, innovation can fail to deliver on its promise. We need to remember, however, that despite the risk of failure, the discipline of taking risks and testing new processes is essential to higher performance and future success. Our support for these efforts throughout a difficult period of transition will indeed result in a new capacity to create wealth and will ultimately weave a stronger fabric of society.

Survey

of Organizations Running Enterprises

Executive Summary

To complement the profiles and essays in this report, Community Wealth Ventures conducted a survey of executive directors of nonprofit organizations with business ventures. We wanted to find out, for example, whether having a venture closely aligned with the group's mission affects its chances of success and what roles these ventures play in the nonprofit's financial picture. While surveying a developing field proved to be more difficult than we expected, and the results are far from conclusive, the data support some of our fundamental theories about the success factors behind social enterprises. Findings include:

Planning and upfront investment pay off. Many of the organizations with the largest and highest performing business ventures invested the necessary capital to give the venture a firm foundation. These organizations were more likely to have conducted market research and developed a comprehensive business plan. Additionally, they were more likely to have hired outside staff with industry experience to lead the venture.

Mission alignment helps. Nearly 90 percent of the organizations we interviewed reported that their ventures were directly related to their mission. Many found it easier to secure board and investor support and launch a venture if it was in a familiar field.

Employment training missions are natural platforms for social enterprise. While CWV continues to believe that social enterprise is a viable option for many organizations regardless of mission, nonprofits with job training missions, such as sheltered workshops and rehabilitation agencies, undeniably have a natural platform for earned income activities. Where these organizations were once incurring significant expense to operate their job training programs, they now generate a profit, or at least subsidize their programs with earned income. Additionally, the business ventures allow them to offer real-time, competitive job experience while providing much needed support services to hard-to-train populations.

Success breeds success. Nearly half of the organizations we surveyed operate multiple ventures and many indicated that the greatest impact of their enterprises was in creating a more entrepreneurial culture at the nonprofit. Therefore, it appears likely that the cultural shift required to launch a business venture creates an overall environment that encourages entrepreneurial thinking and a willingness to dedicate resources to new projects.

It is important to note that while the field of social enterprise has advanced a great deal over the past five to ten years, for the most part, there are few universally applied practices for documenting and evaluating financial outcomes. Because many organizations set up their ventures as departments or divisions within the nonprofit, few separate out the operating costs of the venture from those of the organization. Consequently, few were able to definitively state their venture's profits or losses.

As practitioners, advisors, and funders, we must encourage organizations to share best practices and standardize methods for evaluating success. These efforts will help prove the concept and accelerate growth in the field.

The survey methodology and survey form can be found in Appendix B.

Key Findings

Below is a summary of our survey results and key findings. We have organized the data in the following categories:

I. The Nonprofit Organizations Running Ventures
II. Business Venture Characteristics
III. Start-Up Considerations
IV. Prelaunch Activities
V. Impact of Venture

Note: Some of the survey results do not add up to 100 percent due to multiple responses, responses of "don't know," or unanswered survey question(s).

I. The Nonprofit Organizations Running Ventures

Mission Focus

Nonprofits running ventures represent a diverse group in terms of mission and services, with most offering some type of social service to at-risk populations in their communities (as compared to educational, religious, or arts organizations).

The largest category of respondents (40 percent) was nonprofits with an employment-training mission, often using their ventures as job training programs. Community and economic development organizations and children and youth organizations represent the next two most common missions. The following table depicts the contours of our social enterprise sample by type of mission. (Note: Some organizations may serve multiple missions.)

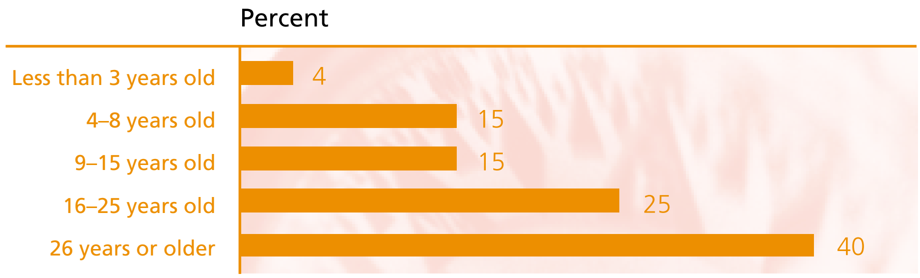
Table 1. Missions of Organizations With Ventures

Mission Type	Percent
Employment Training	40
Community and Economic Development	28
Children and Youth	26
Rehabilitative Services	17
Homelessness	15
Hunger and Poverty	14
Advocacy	12
Education and Research	12
Substance Abuse	10
Elderly	8
Health Services	8
Arts, Culture, and Humanities	7
Other Social Services	6
Environment and Animals	4
Religious	4
Disaster Relief	4
International	4
Other	10

Age of Organizations

Eighty percent of the organizations surveyed were at least nine years old. Only 4 percent of those surveyed were less than three years old, suggesting that ventures are generally not a part of an organization's initial plan.

Table 2. Age of Organizations with Business Ventures



Size and Scope of Nonprofits

Running a venture is not just for large nonprofits: One-third of the organizations surveyed have an annual operating budget of under $1 million, and another third have a budget of $1 million to $5 million. Nearly half (46 percent) are community-based, 38 percent operate regionally, and 14 percent operate nationally.

Multiple Ventures

Nearly half (46 percent) of the organizations surveyed operate multiple ventures. In fact, one fourth of the organizations are running at least three ventures. These data suggest that once a venture has proven to be a viable source of revenue or job training, the organization understands the internal capacity needs and benefits of running a venture and pursues new opportunities. Additionally, larger organizations are more likely to operate multiple ventures. Of the organizations with annual operating budgets of more than $1 million, 56 percent operate two or more ventures.

II. Business Venture Characteristics

Type of Venture

While the types of ventures that nonprofits operate range across a spectrum of industries, the most common — retail/thrift store, employee training, clerical services, and light manufacturing — provide employment training, which relates to the mission of 40 percent of the groups surveyed. The following chart outlines the types of businesses reported:

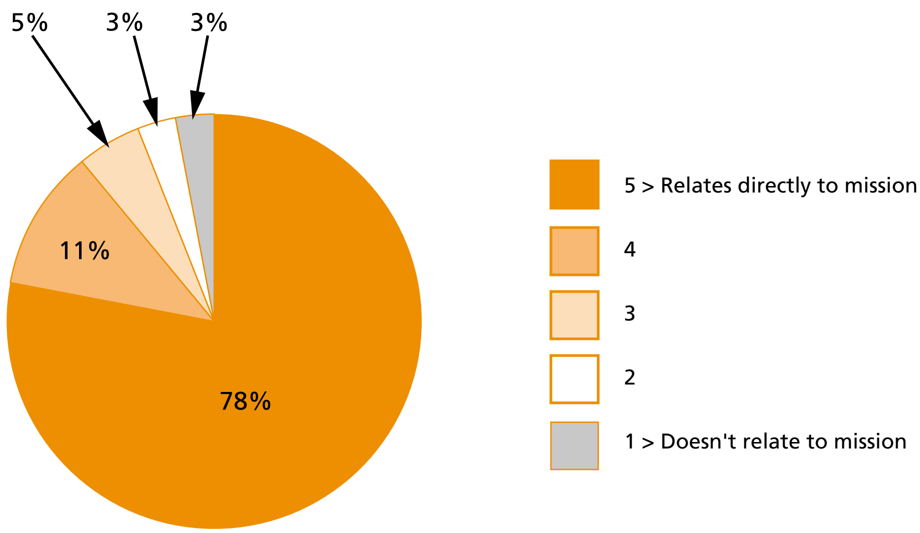
Table 3. Types of Ventures Run by Nonprofit Organizations

	Percent
Retail/Thrift Store	13
Employee Training	9
Clerical Services	8
Light Manufacturing	8
Consulting Services	4
Property Management	3
Packaging/Assembly	3
Help Hotline for Employee Assistance Program	3
Maintenance	3
Restaurant/Café	3
Janitorial/Cleaning Services	2
Bike Shop	2
Child Care	2
Printing/Copying	2
Art Gallery/Arts	2
Housing Rehab	2
Salvage/Recycling	2
Low-Income Housing	2
E-Commerce/Web Design	2
Food Distribution	2
Private Home Care	2

Tying the Venture to the Mission

Overwhelmingly, nonprofits report that their business activities relate to their mission. Eighty-nine percent of respondents indicated that their ventures relate either directly or nearly so (rated either a 4 or a 5 on a five-point scale) to the nonprofit parent's mission.

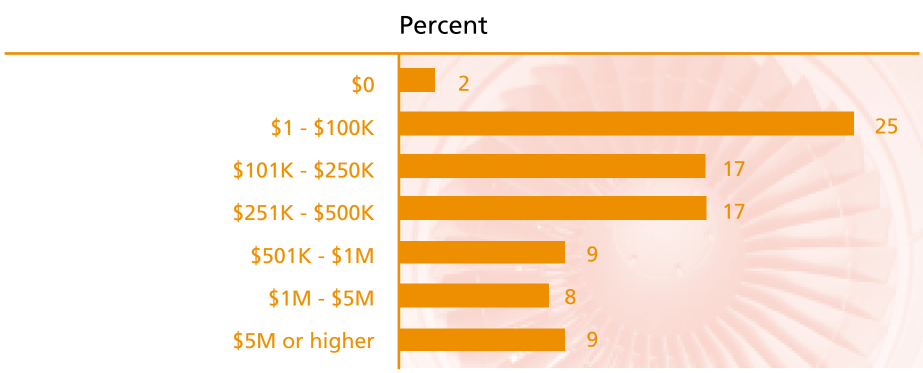
Table 4. How Ventures Relate to the Mission of the Parent Organization



Venture Revenues

Most business ventures appear to generate modest revenues. About one-third of the organizations surveyed generate annual gross revenues of $100,000 to $500,000. The following chart depicts annual gross revenues generated by ventures:

Table 5. Annual Gross Revenue

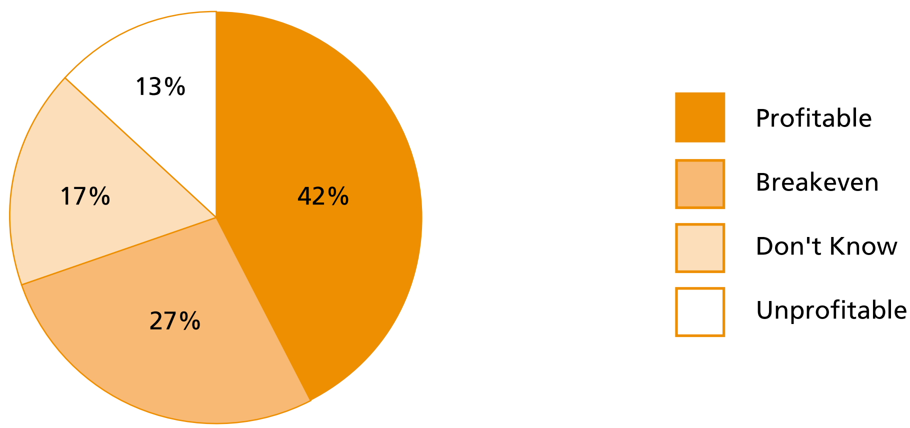


It is interesting to note that annual gross revenues from the ventures appear to correlate with the size of the parent nonprofit organization. For smaller organizations (under $1 million operating budget), ventures generate average annual gross revenues of $167,000. For $1 million to $5 million organizations, annual gross revenues from their ventures average about $600,000. For organizations with annual budgets over $5 million, the ventures tend to be much larger. About 25 percent of these organizations reported annual gross revenues of $5 million or more.

Venture Profits

Sixty-nine percent of the organizations surveyed reported that their ventures either make a profit or break even.

Table 6. Venture Profitability



Of the 42 percent that were profitable, 16 percent netted less than $25,000, and 13 percent generated more than $50,000. However, more successful ventures may be underrepresented in this survey since there is a greater likelihood that busy managers of larger operations will opt out of this sort of interview. In addition, ventures that are not profitable may be less forthcoming with financial results.

How Long It Took to Become Profitable

It took organizations with profitable ventures an average of 2.5 years to break even. This is consistent with conventional wisdom about most small business start-ups and underscores the need to capitalize to survive for the longer term.

Table 7. How Long It Took to Become Profitable

1 year or less	2 years	3 years	4 years	5+ years
45%	12%	12%	4%	14%

III. Start-Up Considerations

Initial Investment

While initial capitalization for the ventures averaged $200,000 (with a mean of $90,000), investment levels varied widely across the organizations surveyed.

Table 8. Initial Investment in Venture

	Percent
Under $10,000	14
$10,001–$25,000	6
$25,001–$50,000	8
$50,001–100,000	12
$100,001 and up	26

However, the survey bears out the old adage, "You must spend money to make money." Forty-six percent of the organizations with ventures earning annual profits of $25,000 or more invested $100,000 or more to start the venture.

Primary sources of start-up capital included the parent nonprofit's operating budget, fundraising, board members, foundations, and the government. (Note: numbers in Table 9 exceed 100 percent as most nonprofits used multiple sources of financing.)

Table 9. Types of initial investments used to start ventures

	Percent
Operating Budgets	56
NPO Parent Internally Generated Funds	52
Foundation Grants	44
Board Support	39
Government Grant	29
Commercial Loans	17
Foundation PRI	11
Others	10
Government Loans (SBA)	7
Private Equity Investment	7

It is clear that while social enterprise may be an established practice in the nonprofit sector, there are still limited capital markets available to help nonprofits fund start-up ventures. Organizations with annual operating budgets greater than $5 million are twice as likely to take advantage of more traditional business lending resources, such as commercial loans (26 percent vs. 13 percent). However, organizations with annual operating budgets of less than $1 million tend to rely more heavily on foundation grants (67 percent of smaller organizations vs. 24 percent of larger organizations).

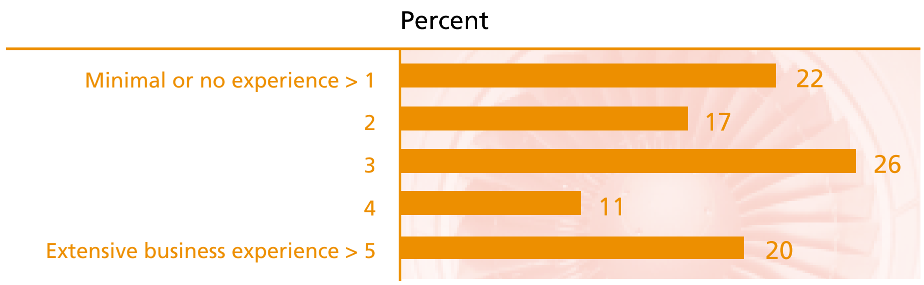
Legal Structure

Nonprofit organizations overwhelmingly keep their ventures within the organization's operating structure. Eight-nine percent of the nonprofits surveyed operate their ventures as a department or a division within the organization. Only one in ten sets up its venture using for-profit corporations, limited liability partnerships, limited liability companies, joint ventures, affiliates, or other structures.

Start-Up Staffing

Slightly less than a third of the organizations surveyed (31 percent) felt they had extensive business experience at launch (rated a 4 or 5 on a five-point scale), while 39 percent reported they had little to no experience, indicating that many nonprofit organizations tend to bootstrap new program launches.

Table 10. Level of Business Experience Available at Launch



It is interesting that most nonprofits that start business ventures look within their organization for initial staffing: Forty-three percent of those surveyed used existing staff members on a part-time basis, and 26 percent permanently reassigned staff to the venture on a full-time basis. Only 44 percent of the organizations surveyed hired part-time or full-time staff from outside the organization at launch.

However, about half of the organizations with ventures earning more than $25,000 a year hired outside staff at launch, suggesting a correlation between the use of outside expertise and financial success of the venture.

Perhaps it follows, then, that a majority of nonprofits report shifts in venture management since start-up. Fifty-three percent of the organizations surveyed reported that the senior management currently running the venture is not the same as when they opened their doors for business. Not surprisingly, this is especially true of older ventures (73 percent of ventures that are six years or older) and larger ventures (61 percent of ventures with revenues in excess of $500,000).

IV. Prelaunch Activities

Planning and Research

Nonprofit organizations interested in social enterprise believe that planning and research are important. Half of the organizations we surveyed conducted a feasibility study, other market research, or financial analysis before launching their ventures. In addition, of the range of possibile planning activities available to them, 65 percent of the nonprofits we surveyed ranked one or more of these activities as very important.

Table 11. Planning and Research Activities

	Percent
Feasibility study or market research to assess consumer demand, competitors, etc.	50
Financial analysis to assess investment needs, pricing, cash flow, etc.	49
Internal organizational assessment of staff expertise, capacity, marketable assets, etc.	43
A business or marketing plan to assess operations, production, staffing, marketing, sales, advertising, etc.	38
Total number of organizations ranking at least one of the above activities as Very Important	65

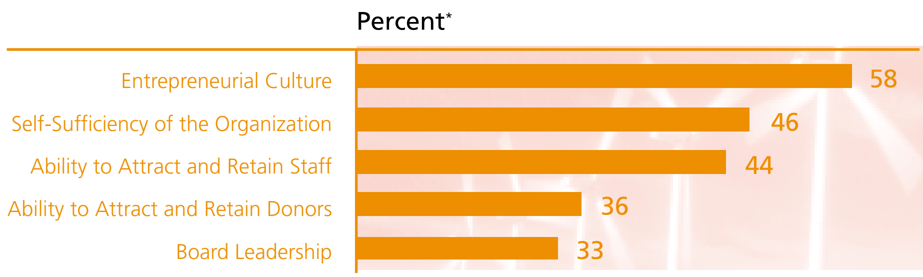
However, organizations operating larger ventures (with annual revenues greater than $500,000) appear to have conducted more extensive planning than their peers. (Three out of five conducted extensive feasibility or financial analysis.) Also, organizations with younger ventures were much more likely to use these tools to assess their chances for success. Sixty-nine percent of younger ventures (5 years old or less) conducted feasibility studies, 58 percent made extensive use of financial analyses, and 50 percent wrote a business or marketing plan.

Organizations that conducted some level of planning, even minimal, tended to find the process useful. Fifty-four percent of those that did a financial analysis found it valuable (rated a 4 or 5 on a five-point scale), while 52 percent benefited from feasibility studies, 44 percent from business and marketing plans, and 49 percent from an internal organizational assessment. Interestingly, larger organizations (with annual operating budgets greater than $5 million) found the internal assessment most useful, with 64 percent reporting that this form of planning was "extensively valuable."

V. Impact of Venture

It is not surprising that overall, nonprofit organizations reported that the greatest impact of running a social enterprise was in creating a more entrepreneurial culture. However, many also reported that it helped the nonprofit attract and retain staff, attract and retain donors, and achieve greater self-sufficiency.

Table 12. Impact of Venture on Parent Organization



*Percentage answering 4 or 5 on a 5 point scale, where 5 indicates significant impact.

Within these statistics, organizations running larger ventures (with annual revenues greater than $5 million) and those with ventures more than six years old were more likely to report a significant impact on creating an entrepreneurial culture (with 64 percent rating a 4 and 67 percent rating a 5 on a five-point scale). Additionally, organizations with ventures more than five years old were more likely to report a greater contribution to the self-sufficiency of the organization (with 56 percent rating a 4 or 5 on a five-point scale).

Younger organizations were more likely to report that engaging in social enterprise was very important in attracting and retaining donors, with nearly two thirds (65 percent) indicating the significant impact their venture has had on their ability to do so.

Case Studies

Lessons From the Field

As in any complex field, an in-depth study of community wealth enterprises could yield hundreds of valuable lessons. We present the following ten case studies to highlight just a few of the lessons that respected practitioners have identified as critical. The organizations profiled in the following pages represent a range of challenges and successes that many other practitioners may face in launching or growing their own social enterprise or partnership.

Not all of the organizations we studied have reached their goals. Indeed, some are still struggling toward profitability. However, it is our hope that the lessons learned from each of the organizations profiled here will help others in the field as they consider new community wealth opportunities.

We are grateful to all of the organizations for their time, candor, and interest in sharing their experiences to help others.

CASE STUDY

Boomtown Café and Boomtown Café Catering

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Seattle, WA 98104
Phone: 206-625-2989
Fax: 206-624-8492
www.boomtowncafe.org

Robert Kubiniec, Executive Director
bob@boomtowncafe.org

Operating Budget for 2001:
$543,000

Boomtown Café is a nonprofit that launched its venture, a catering business, which generated revenue to support the early development of the nonprofit organization. Later, the catering business sustained the organization when it had to temporarily shut down operations.

Organization Mission and Description

Boomtown Café's mission is "to make nutritious, affordable food available in a safe and dignified atmosphere, while creating a community of openness and respect." The idea began in response to the limited meal options available to Seattle's homeless and low-income residents. Due to a lack of cooking facilities, many low-income individuals were seeking "convenience" foods or meals prepared in restaurants and soup kitchens.

In response, the Boomtown founders developed the idea for a nonprofit restaurant that would meet the need for affordable and nutritious food in a welcoming environment, while functioning as a business. On December 28, 1999, Boomtown Café's restaurant opened its doors, serving more than 120 meals on its first day.

Venture Description: Boomtown Café Catering

For two years before Boomtown Café's restaurant officially opened, its catering venture provided meals to local homeless shelters. The organization decided to launch the catering venture first in 1997 because it had a lower capitalization cost than the restaurant and enabled Boomtown to begin generating revenue immediately. At the same time, the venture allowed the organization to start developing a positive track record both within the community and among its target market for the restaurant.

Today, Boomtown Café Catering has ten full-time employees and provides, on a contractual basis, over 11,000 meals per month to six Seattle-based shelters and residences for homeless individuals. In addition, Boomtown offers a limited commercial catering service for private events such as parties and weddings.

Planning and Implementation

The catering business started with $20,000 raised from foundations, the parent nonprofit organization, and its board members. Boomtown launched the business as a division of the nonprofit and contracted with another nonprofit to serve as the fiscal agent. Robert Kubiniec, Boomtown's executive director believes this relationship was a key factor during the enterprise's early development. The fiscal agent nonprofit not only shared its knowledge but also assisted in planning for the venture and helped Boomtown deal with the inevitable cash flow concerns of a start-up.

Kubiniec cites strong board support as one of the main reasons for the venture's early launch. Board members supported the idea that a catering business would allow the organization to begin building its reputation and generating revenues. Without the board's support, Kubiniec notes, the venture would have been difficult to launch.

"When developing a business venture, good partnerships are better than gold."

ROBERT KUBINIEC, EXECUTIVE DIRECTOR

Boomtown secured contracts with shelter providers that were having a difficult time preparing quality meals. Often meals were cobbled together by volunteers without regard to food safety or nutritional concerns. Because of its nonprofit link, Boomtown Catering was able to utilize food that was donated or purchased at a discount. This reduced the venture's operating costs and allowed it to provide quality food service for a lower price to cash-strapped agencies serving the homeless. Once Boomtown Café Catering successfully fulfilled its initial contracts, it began receiving calls from other nonprofit organizations looking to outsource their food services. With no formal marketing, the venture grew and now serves over 11,000 meals per month at six local shelters.

In addition to the social service market, Boomtown receives traditional catering contracts for weddings and parties. While these contracts are fairly profitable, they remain a small portion of the overall business. Kubiniec would like to grow the traditional catering business to increase revenues, however this would require dedicated staff to schedule and work at the events. The organization currently stretches the responsibilities of existing employees to fulfill these catering contracts in addition to juggling their regular workload.

Hiring a dedicated executive chef was critical for Boomtown to grow. With the organization preparing for the opening of its restaurant and developing its internal infrastructure, Boomtown needed someone to oversee the day-to-day operations of contract meal production, maintain quality standards, and oversee kitchen personnel. The decision to delegate the daily production responsibilities to the executive chef allowed the organization's leaders to focus their attention on planning and establishing the restaurant.

Support for the catering venture has been strong from Boomtown's staff and donors. While the business does not generate significant profit for the organization, its unrestricted revenues help the nonprofit parent cover staff vacations, turnover, and illnesses while maintaining a positive cash flow. In addition, donors to

Boomtown Café to be more supportive when they learn that the venture can cover up to 40 percent of Boomtown's annual budget. In fact, the catering venture helped keep Boomtown afloat when its restaurant was closed for two months due to a lack of funding.

Outcomes

Boomtown Café Catering is expected to generate approximately $286,800 in revenue in 2002.

	2000	2001	2002 (est)
Annual Catering Revenues	$194,800	$230,000	$286,800

"Without the revenues from the catering venture, Boomtown Café may not have survived during the two months our restaurant was closed."

ROBERT KUBINIEC, EXECUTIVE DIRECTOR

Goals and Challenges

Faced with a climate of dwindling public funds for human services, Kubiniec envisions expanding the catering operation to achieve greater financial independence. He believes that the business can double its meal production and expand into new markets such as schools and eldercare institutions. In addition, Boomtown is looking to develop a new venture, such as another food-related business or a product to sell, that would complement the organization's catering.

Despite its early success, Boomtown's catering venture faces ongoing challenges, including:

Limited ability of clients to pay. Social service agencies often have tight budgets that sometimes prevent them from purchasing food services. To address this issue, Boomtown tries to work with an agency before financial problems arise that could jeopardize the catering contracts. At times, this means helping an agency develop its funding streams through donations and grants.

Decentralized food production. Boomtown Catering currently operates in two locations which significantly increases production costs. The organization is trying to centralize production in its restaurant kitchen to improve internal efficiencies.

Reliance on donated foods. Growth of the catering business is often hampered by Boomtown's reliance on donated foods, which prevents adequate inventory forecasting and control. To achieve its growth objectives, Boomtown is trying to increase the percentage of food it buys at discount, giving the organization greater control of its inventory.

Marketing. To date, Boomtown catering has done little formal marketing of its services. Kubiniec acknowledges that to attract additional clients and contracts, a formal marketing strategy is needed.

Lessons Learned

Kubiniec cites the following key lessons that other nonprofit organizations should consider when looking to start a business venture:

Spend adequate time planning the venture. Planning allows an organization to avoid duplication of operations and increase efficiencies. For example, Kubiniec recognizes that additional planning might have eliminated the need for the catering business to operate out of two locations, thus reducing overall costs.

View the venture as a business. During Boomtown Café's temporary closure, the organization recognized the business value of its contract meals and the need to expand its venture. Operating the catering venture as a business helps Boomtown decrease its reliance on external funding and move the organization toward long-term sustainability.

Evaluate the appropriateness of the venture to the mission. A social enterprise should never distract an organization from its primary mission. In Boomtown's case, the catering business actually allowed the organization to continue serving homeless and low-income individuals even when its restaurant was closed.

Good partnerships are better than gold. The initial relationship with the fiscal agent provided cash flow, credibility, and the advantage of working with experienced nonprofit professionals. The fiscal agent also allowed Boomtown to put off the investment in certain systems and structures (i.e., accounting, human resources, 501(c)(3) status, etc.).

CASE STUDY

The Center for the Homeless and CFH Landscape Services

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Drew Buscareno, Executive Director
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Operating Budget for 2002–2003:
$2.1 million

The Center for the Homeless in South Bend, Indiana partnered with ARAMARK ServiceMaster Facility Services, a managed services company, to launch CFH Landscape Services. While ARAMARK manages the day-to-day operations, the center owns the business and provides a labor force consisting of formerly homeless men and women as well as workforce support services. The business operates as a transitional job training program for the center's clients. CFH Landscape Services illustrates the value of a partnership with a proven business model.

Organization Mission and Description

The Center for the Homeless provides food, shelter, and comprehensive life building services to over 200 homeless people a day in the South Bend area. The center provides crisis assessment and treatment education, job training, supportive housing, and help with home ownership. The organization's mission is threefold:

1. To help people break the cycle of homelessness;
2. To bring disparate groups together so each can discover the dignity, worth, and God-given potential of the other; and
3. To pioneer a service model worthy of replication.

Venture Description: CFH Landscape Services

CFH Landscape Services is a commercial landscape enterprise that provides complete landscape design, maintenance, and installation to customers in St. Joseph County, IN. The center established the venture in March 1998 in partnership with ARAMARK ServiceMaster Facility Services, a leading management company. CFH Landscape Services has four goals:

1. To provide exceptional landscape services;
2. To train, employ, and support people transitioning beyond homelessness;
3. To prove that homeless people can do outstanding work in a structured and supportive work environment; and
4. To provide revenue to fund the nonprofit's programs.

The center owns and operates CFH Landscape Services, hires the labor, handles the financials, and decides on the overall direction of the business. ARAMARK manages the day-to-day operations and provides an on-site manager who is responsible for bidding on new contracts, skills training, scheduling, and initial oversight of the crews. ARAMARK also has a manager who visits on a monthly basis to review financials, address customer service or training issues, and provide advice.

As part of the arrangement between the two organizations, ARAMARK receives a portion of the business profits, and the center pays the on-site manager's salary and a management fee.

"A business venture within a nonprofit must be the priority of one person on the leadership team. It is simply too much work to make it an extra responsibility."

DREW BUSCARENO, EXECUTIVE DIRECTOR

Planning and Implementation

Several years before the development of CFH Landscape Services, the center studied a number of nonprofit organizations that had created revenue-generating businesses. The most successful models had benefactors who became customers, then helped the businesses build a client base.

One of the Center's greatest assets was its relationship with Memorial Hospital of South Bend, which ran a medical clinic at the center and made regular donations. When the center decided to launch a business, the hospital put the center's management in contact with the ServiceMaster Corporation, then the parent company of what is now ARAMARK ServiceMaster Facility Services, and the hospital became one of CFH Landscape Services' first customers.

The center received grants totaling nearly $350,000 from the Indiana Department of Commerce and the Supportive Housing Program at the Department of Housing and Urban Development. The three-year HUD grant covered a variety of services at the center in addition to some of the landscape business training costs.

After hiring an executive director and a development director, who raised money and leveraged community relationships for the venture, the center hired a business director to provide oversight and financial management. Later, the center reformulated the team to better integrate the landscape business with other programs. Today, this team includes the business director; a program manager, who assists with training; the ARAMARK manager; and the center's director of adult services, who manages the hiring process.

In addition to Memorial Hospital of South Bend, the business has contracts with the City of South Bend, WNDU radio, the University of Notre Dame, St. Joseph County, and Bosch Brakes, among others. Contracts range from $3,000 to $60,000 for one to three years, and average about $15,000.

Outcomes

CFH Landscape Services is expected to generate revenues of $300,000 in 2002. These revenues, along with those from a car donation program operated by the center, account for close to 10 percent of the organization's total revenue.

	2000	2001	2002
Annual Revenues	$295,000	$315,000	$260,000

Although the organization does not wish to release net profit and loss information, the business director says the landscaping venture has been profitable in each of the previous four years and he anticipates it will be again this year. Profits from the first two years of the venture were returned to the business to cover cash flow at the beginning and end of the season and to make capital purchases necessary for business growth. More recently, the center has begun to use a portion of the profits for its operations.

"We found that one of our greatest assets was our network of relationships in the community. The challenge of creating a business venture is how to transform social relationships into customer-vendor relationships without risking the strength of the original relationship."

DREW BUSCARENO, EXECUTIVE DIRECTOR

Goals and Challenges

The center's greatest ongoing challenge is to pursue its financial objectives without losing sight of the social objectives. Although the center's cultural climate has remained positive, Executive Director Drew Buscareno says that tension exists between the organization's social and financial objectives. "With our commercial landscaping venture, we have two bottom lines: to break the cycle of homelessness and make money. Often these two goals directly conflict," says Buscareno. For example, because of the organization's social mission, CFH Landscape Services hires only the center's clients, many of whom do not stay with the firm for very long. While reducing turnover by hiring more highly qualified and reliable workers from the community would reduce costs, the firm would lose its commitment to the organization's social mission of breaking the cycle of homelessness.

Moving forward, Buscareno has two main goals:

Achieve greater self-sufficiency. Buscareno hopes to explore new business opportunities for the center, with the ultimate goal of generating 50 percent of its revenue through business ventures.

Leverage momentum in other areas of the organization. When CFH Landscaping Services began to develop, Buscareno noticed an increase in the staff's energy and motivation as they prepared to tackle a new challenge. Buscareno hopes to leverage this enthusiasm to pursue government and other types of grants.

Lessons Learned

Invest in human resources. Buscareno stresses the importance of investing in the idea of human potential. This concept is at the core of the center's mission to help homeless people become self-sufficient, but it is equally important to the survival of any nonprofit that aims to keep good employees.

Hire the right person to manage the venture. Buscareno believes it is critical to find someone who understands both the social and financial objectives of the venture. This can be difficult as the center competes for business-minded people with the for-profit sector and its higher salaries, but is well worth the effort in terms of the venture's long-term viability.

Make the venture the manager's sole responsibility. Once the organization has hired the right person, it must ensure that that person has only one full-time responsibility: developing and implementing the business.

Recognize the organization's strengths and outsource where needed. The center recognized that managing a landscaping business was not one of its core competencies. By outsourcing the management to a company with this expertise, the center was able to focus on its strength, job training.

CASE STUDY

Davis Memorial Goodwill Industries of Washington, DC, and DMGI Janitorial Services

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Operating Budget for 2002:
$21 million

Davis Memorial Goodwill Industries of Washington, DC (DMGI), is a nonprofit that strives to be self-sufficient through business ventures. Although this case study focuses only on DMGI Janitorial Services, Goodwill operates several businesses, which generate about 90 percent of its revenue. DMGI Janitorial Services illustrates how an organization used an advisory board of people with business acumen and connections to grow a venture.

Organization Mission and Description

Elizabeth Murray founded the present-day Davis Memorial Goodwill Industries (DMGI) of Washington, DC, in 1935 to provide job training and placement for people with workplace disadvantages and disabilities. Today, DMGI is one of 209 independently operated member organizations that make up the Goodwill Industries International network.

DMGI, like other Goodwill Industries affiliates, operates several businesses that offer employment opportunities for its clients, while generating revenue to support its training programs. Its best-known business is its thrift store operation, which collects and sells used clothing, shoes, furniture, and household items and employ people with disabilities.

Venture Description: DMGI Janitorial Services

In the late 1970s DMGI was facing higher transportation costs for used goods due to an increase in oil prices, so it had to find new ways to generate revenue rather than relying solely on its retail store, government grants, and individual donations. DMGI embarked on a massive internal restructuring that eventually led to the creation of several businesses under the DMGI umbrella, including DMGI Janitorial Services.

In 1981, the agency secured a substantial contract with the U.S. Bureau of Engraving and Printing, marking the official launch of DMGI Janitorial Services for government facilities in the Washington, DC, area. Today, the venture employs nearly 350 people and generates half of DMGI's revenue.

In 1998, DMGI launched Best Kept Buildings (BKB), a division of DMGI Janitorial Services designed to expand the business to large commercial offices.

Planning and Implementation

DMGI launched its custodial business after carefully analyzing its resources and capabilities. The decision to start the government side of the business was an easy one, since its location in the nation's capital gave it easy access to federal institutions.

Expanding it to the commercial sector—and navigating the business community—was not so simple. Developing clients in "Class A" commercial properties requires a different sales process than obtaining government contracts. Recognizing this, DMGI established an advisory board of 12 local senior property managers representing a sizable number of commercial properties.

The advisory board met four times over the course of a year. It provided advice to DMGI on how to conduct business with these firms, from marketing to contract development. Many advisory board members said they would be willing to give DMGI work if it could match the quality of the services provided by its for-profit competition. After the group disbanded, two advisory board members retained DMGI Janitorial Services.

"The revenue generated through our diverse array of business ventures has given DMGI the freedom and flexibility to find and take advantage of new and innovative ways to execute our mission of providing job training and actual employment to individuals in need. Especially in light of difficult economic times, the ability to embrace entrepreneurship has been critical to our success."

DAVID BECKER, PRESIDENT & CEO

"The key to our success was that we had a well-known property and development manager who headed up the operation," DMGI President and CEO David Becker said. "He told property managers he was working with Goodwill and wanted to invite them to the meeting. In large part these people came because of who was asking them. If we hadn't gotten the right guy to head up the advisory group, it wouldn't have worked as well as it did." [1]

Becker says that it is important to find the right people to guide the business, whether they are serving on the advisory board or managing the venture. Advisory group members must be willing to assist the organization in getting its foot in the door. The DMGI advisory group not only offered guidance but also helped DMGI build relationships and credibility within the business community. At the same time, group members were sensitive about the use of their time, and DMGI had to ensure that meetings were time well spent.

From the outset, managing BKB was a struggle. DMGI quickly discovered the difference between working with the government and working with commercial properties. While the government requires companies to live up to their contracts, it also tends to be sensitive to the training needs of the workers. Commercial properties are less tolerant. At first, the organization lacked the management expertise to resolve this problem. Eventually, it hired new management talent with the right skills and experience, but at a higher cost to the organization.

Outcomes

DMGI estimates that 90 percent of its revenues come from all its business ventures combined. DMGI Janitorial Services alone generates $10.7 million in revenue. The nonprofit uses this income to continue current business operations and to develop new ones.

[1] BoardSource, *Unlocking Profit Potential, 2002.*

In addition to achieving a high level of self-sufficiency, DMGI has flexibility in how it spends its funds. DMGI doesn't face the limitations of nonprofits that rely mostly on outside donors, who often allocate their gifts to a specific purpose.

Goals and Challenges

Entering new markets without being fully prepared. Whereas DMGI had the expertise to service and grow its government business, it did not have the level of staffing or quality assurance necessary to penetrate the commercial market. Today, DMGI struggles with the question of whether to continue developing custodial contracts for non-government buildings.

Short-term vs. long-term orientation. DMGI is trying to increase its focus on long-term goals, despite the fact that it operates in an environment that is inherently focused on short-term results, such as trying to create more jobs and revenue each month. The organization understands that new ventures often take three to five years to become profitable and is trying to embrace a more long-term mindset about its business investments.

Strong business skills. DMGI recognizes the need for strong business skills for its ventures. Therefore, the organization is constantly searching for employees who have MBAs or experience in the corporate sector.

Commitment to advertising and promotion. As a nonprofit organization with multiple businesses, DMGI is often conflicted over how much money to spend promoting them. Outsiders are quick to criticize nonprofits that spend money on advertising rather than social programs. Some within the organization believe that it should be spending more on advertising its entrepreneurial ventures, while others believe that its strong brand name alone can produce the desired financial and social results.

Lessons Learned

Understand the nonprofit's competitive advantages. DMGI recognized that its location and access to a low-cost workforce were competitive advantages that could be leveraged to create custodial contracts with the federal government. Its brand also proved to be an asset when soliciting advice from industry professionals.

Hire the right people. After a slow start to DMGI Janitorial Services, the organization realized it needed a manager with the right skills and experiences to develop the business. Ultimately, it went outside the organization to find these skills.

Ensure adequate capitalization. Becker recommends making sure that adequate financial resources are in place before launching a new venture, allowing the organization to spend the money to hire the right talent to run the venture. In his words, "Don't do things on the cheap."

CASE STUDY

Gould Farm and the Roadside Store and Café

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Operating Budget for 2001:
$2,300,000

Starting a for-profit venture called the Roadside Store and Café created an opportunity for Gould Farm to increase its name recognition. Although the store and café generate relatively small revenues, the venture supports the mission of its parent organization. The Roadside Store and Café also illustrates the good and bad organizational impacts an enterprise can have on a nonprofit organization.

Organization Mission and Description

Gould Farm is America's oldest therapeutic community for people with mental illness. Located on 600 acres in the Berkshires of Western Massachusetts, Gould Farm was founded in 1913 by William J. Gould to provide emotional rehabilitation based on the principles of respectful discipline, wholesome work, and unstinting kindness.

Gould Farm's mission is "to help people find inner strengths and outer resources to meet the challenges that life imposes." The farm hosts up to 40 guests at any one time, and an average stay is over a year. Through its hands-on programs, residents work in nearly every operational aspect of the farm, care for 100 acres of farmland and gardens, and accomplish all the chores of the community excluding administration.

Gould Farm also runs three small, graduated rehabilitation programs for patients in different stages of recovery in Lincoln and Waltham, MA.

Venture Description: The Roadside Store and Café

The Roadside Store and Café is a small restaurant with seven tables and a lunch counter that Gould Farm has operated since 1987. The café serves lunch and breakfast and is known for its hubcap-size buckwheat pancakes.

The store offers high-quality homemade products and other souvenir items produced on the farm and made by Gould Farm residents. These products include baked goods and mixes, fresh produce, plants, homegrown mint tea, maple syrup, yarn, eggs, wood products, and other items. Five to six residents work in the store and café at a time, providing them with a structured work environment as they transition to independent living situations.

Gould Farm also operates a number of other ventures, including a fully functioning farm, a dairy and cheese making operation, a garden and produce stand, and a forestry program, which produces wood and over 300 gallons of maple syrup annually. More recently, the farm has begun to distribute its products through mail order and is completing a barn and food-processing kitchen facility, which will allow it to expand its selection of products and services.

"I don't expect this venture to generate a lot of excess revenue. I expect it to pay for the expenses of its staff and supplies and to provide excellent opportunities for skill-building, training, and successful work experiences for our clients."

CATE TOWER, EXECUTIVE DIRECTOR, GOULD FARM

Planning and Implementation

Gould Farm opened the Roadside Store and Café in 1987 to further the farm's outreach to the community while preparing its clients for other rehabilitation programs or independent living. Gould Farm initially leased, then later purchased, a small convenience store and gas station one mile from the farm. Funding to purchase the Roadside Store and Café property and to begin operations came from Gould Farm's operational budget. The organization has not incurred debt in more than 40 years.

The store began as a traditional convenience store with a gas station and lunch counter. Over time, managers transformed the store to more closely match the mission of the farm and the interests of its customers, eliminating most of the typical convenience store goods. Today, the store sells handmade items and local agricultural products, many of which are produced on Gould Farm. Goods range from candies that sell for less than $1 to handmade Adirondack chairs and woven baskets that sell for over $100. Every product carries a prominent tag or sticker with the mission of Gould Farm, reinforcing the importance of the store for public outreach. To further align the store's wares with the farm's mission, managers removed the gas pumps in 1997.

The business employs the equivalent of 1.5 full-time employees, and one volunteer, and it receives administrative services and support from Gould Farm. Business is largely seasonal and takes advantage of the summer tourist traffic in Western Massachusetts. The store has also built a sufficiently large base of local wintertime customers, justifying year-round operations.

Gould Farm did not conduct explicit planning as it developed the business. Product selection and business format constantly evolve based on formal and informal customer input. The store uses summer customers for regular product tasting and testing sessions, which help provide direction for inventory decisions. In addition, the store has invested in new cash registers that allow careful tracking of sales by product to further refine product choices.

To market the business, Gould Farm includes a copy of the menu with its response to each admissions inquiry it receives as well as in all its direct mail efforts. It also advertises locally and has its own Internet site.

Within the last few years, the store has increasingly served as a wholesale distribution point for bulk products for regional businesses and restaurants. At present, the store sells herbal teas, maple syrup, and cheese products in large volume to restaurants and distributors. Wholesale sales are carefully tracked to facilitate marketing efforts.

Outcomes

The Roadside Store and Café has experienced slightly increasing revenue over the past three years.

	2000	2001	2002 (est)
Annual Revenues	$88,876	$88,884	$97,000
Net Profit (Loss)*	$26,613	$17,848	$30,000

**Total administration costs are not reflected.*

Gould Farm's staff believes changes in organizational culture as a result of the successful operation of the Roadside Store and Café have encouraged greater financial integrity and accountability. The venture introduced new challenges to the organization staff, such as deadlines, production responsibilities, and the imperative of working through difficult situations. This new perspective has been useful in the process of developing its barn and food-processing kitchen facility.

From a programmatic standpoint, the store and café are perceived as valuable additions to Gould Farm's offerings because they provide a good training opportunity for its clients. But most important, notes Amy Goldfarb, the mission team operations director, "they're a tradition now." In nine years, they have become an accepted part of the program.

Goals and Challenges

Growth will require new decisions about staffing. Staffing decisions have a significant impact on the bottom line and on organizational culture, so the opportunities to expand the staff will be limited. Managers must try to reallocate existing employees rather than hiring new ones. However, it is not clear that the skills necessary to accommodate expected growth are available within the existing staff pool.

Managers must remain true to the mission of Gould Farm. Success in these ventures is a function of the passion of highly committed individuals and an organizational ability to capitalize on opportunity. However, managers understand that mission must drive the decisions about which opportunities to seize. Mission needs to be integral to Gould Farm's product development and the approaches the managers take to marketing those products.

Lessons Learned

The program should be good for the clients, good for the staff, and good for the community. In one case, Gould Farm established a community supported agriculture (CSA) program, in which it committed the season's produce to 15 shareholders who each received 1/15 of the harvest each week. This program was highly successful for Gould Farm in that it generated revenue, provided rich opportunities for outreach to the community, and received excellent press coverage, but it was tremendously stressful to Gould Farm staff. This prompted the organization to take a short hiatus from the program and redesign it as a produce stand which makes no commitment but sells produce to everyone as it comes from the field. Since its launch, the farm stand has doubled its revenues, has reduced stress among staff, and generates almost as much revenue as the CSA program.

Success depends largely on attracting and keeping skilled staff. The store and café require managers who understand the business of small retail and restaurant operations. Attention to detail, ability to manage stress, people skills, and, in the case of the café, short-order cooking skills are critical for their success. These skills may not be present in the existing staff pool, in which case it may be necessary to hire more staff. Finding staff who understand the dynamic tension between thinking like a business and thinking like a social service agency is essential if the business is to accomplish both mission and financial goals.

The passion of the person leading the venture can make the difference between success and failure. Visionary leadership spreads throughout the organization, and any social venture needs someone who cares as if it is more than a job. Fortunately for Gould Farm, the organization has experienced a history of innovative leadership. The concept of social enterprise is actually included in the farm's 1929 charter. Cate Tower, the organization's new executive director, continues that tradition.

Business planning is valuable. Development of a business plan for the new kitchen facility helped the organization maintain realistic expectations of the revenue-generating capacity of the venture.

CASE STUDY

Homeboyz Interactive and hbi consulting

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Brother Jim Holub, SJ, CEO
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Operating Budget for 2002:
$1.5 million

hbi consulting is a venture that creates high-paying jobs in the IT industry for at-risk youth. A division of the $1.1 million organization Homeboyz Interactive, hbi consulting has grown in large part from the work of the organization's leader, who has been able to leverage his personal connections and previous business experience to secure engagements with large corporate clients.

Organization Mission and Description

Brother Jim Holub, SJ, founded Homeboyz Interactive in 1996 to reduce gang violence in inner-city Milwaukee by providing youth with training in information-technology careers. Its primary objectives include:

- Creating sustainable economic development that builds equitable, productive, and participatory environments that increase the economic power of violence-ridden and impoverished communities;
- Fostering respect for the dignity of every person;
- Educating and mobilizing a faith-based network of brother/sisterhoods composed of former gang members and other rehabilitated youth, offering job and life-skills training to young inner-city residents, and providing rational, peaceful alternatives to violent life;
- Commissioning these brother/sisterhoods to accomplish street-level one-on-one outreach with youth involved in gangs, drug trafficking, and other destructive conduct; and
- Maintaining a business that provides a training platform for students while generating a sustainable revenue stream to support the training programs.

Venture Description: hbi consulting

hbi consulting is Homeboyz Interactive's mission-oriented revenue-generating consulting firm, which specializes in Web-based software solutions. Its clients range from Fortune 500 companies to nonprofit organizations to government agencies. They include Amoco, GE Medical, Toyota Forklift, Verizon Wireless, BP, and the Milwaukee city school district. hbi consulting partners with its clients to design websites, implement content management systems, and develop mission-critical, database-driven, Web applications.

hbi consulting's executive team consists of eleven full-time and two part-time employees, including a CEO who also serves as the executive director of Homeboyz Interactive, a full-time CFO, and a part-time chief strategy officer to help direct new business development strategies. Because hbi consulting is a mission-based venture, all profits are used to support Homeboyz Interactive's activities, including drug and alcohol rehabilitation and technical training programs.

"hbi consulting's competitive advantage lies in its ability to tap into the tremendous potential of young adults that other firms have overlooked."

JIM HOLUB, SJ,
FOUNDER AND CEO

Planning and Implementation

Brother Jim Holub, SJ, founded hbi consulting in 1996 to provide a real-time training platform to equip inner-city Milwaukee youth with marketable skills. A member of the Jesuit Religious Order assigned to serve Milwaukee's inner city, Holub was interested in starting a business that would offer productive opportunities for at-risk youth to express themselves. He wanted a venture that would promote economic development, offer work that the youth would find exciting, and pay a living wage. Given the tremendous opportunities in the information technology field in the mid-1990s, a Web development firm seemed to be a natural fit for Holub's mission.

The venture started with a $25,000 grant from Holub's Jesuit order and eight young men from rival gangs in Milwaukee. A former businessman, Holub taught himself HTML at night so that he could teach Homeboyz's initial trainees by day. He then e-mailed several Fortune 500 companies with the group's portfolio and asked if they had any IT projects that Homeboyz trainees could staff. Amoco responded with two Intranet projects and hbi consulting delivered its first products on time and on budget.

Upon completion of the project, Amoco not only referred Homeboyz to other corporations, but it also asked to interview several of the trainees for internships in the company. The venture received two subsequent grants of $250,000 and within three years was a profitable enterprise.

According to Holub, the venture's greatest assets are the youth who go through the program. One of the key reasons companies contract with hbi consulting is to gain access to a future labor force. Additionally, hbi consulting offers an economical outsourcing option for many understaffed corporate IT departments. Before entering Homeboyz Interactive's intense technical training program, all trainees must undergo drug and alcohol rehabilitation and pursue a high-school equivalency degree while holding down an unrelated part-time job for at least three months.

To enhance the firm's credibility in the corporate sector and to prove to its trainees that they can compete in the technology field on equal footing, Holub decided that from the beginning hbi consulting must be set up like a for-profit business. However, hbi consulting has engaged in little or no marketing efforts, relying almost completely on Holub to solicit new contracts and word of mouth from satisfied clients. Average projects range from $50,000 to $150,000. The firm's businesslike environment helps position trainees as professionals in the field, resulting in more substantive contract requests from corporate clients.

To help it stay abreast of the latest technologies and advise it on trends in the field, hbi consulting established a technology advisory committee. This group of advisors is separate from Homeboyz Interactive's board of directors and consists of five members with corporate high-tech experience, including employees of companies such as Microsoft and Lotus.

Outcomes

hbi consulting has experienced substantial growth in revenue and profit over the past three years.

	2000	2001	2002
Annual hbi consulting Revenues*	$470,000	$818,000	$1,071,000

**Because hbi consulting and Homeboyz Interactive share staff and are part of the same legal entity, a 501(c)3, separate financial data on the venture's profitability are not available.*

Holub has said, "Nothing stops a bullet like a job." Since 1996, Homeboyz Interactive has trained and placed over 150 youth in jobs with an average starting salary of $40,000 a year. Additionally, after a few years in the corporate sector, many alumni return to work full-time at hbi consulting.

hbi consulting has developed a sophisticated system for tracking training requirements and client project work. The firm's goal is for trainees to bill 70 percent of their time to client projects, with the remaining 30 percent of their time spent in comprehensive training programs designed and managed by hbi staff. Currently, trainees are about 67 percent billable.

Goals and Challenges

Homeboyz Interactive expanded hbi consulting's operations to Chicago in 2002 and plans to expand to Los Angeles in 2003.

Despite its early success, hbi consulting faces ongoing challenges to its long-term sustainability, including:

Balancing training mission with business objectives. hbi consulting faces the constant tension created by promising value to the customer while maintaining an effective training platform for its youth. To balance these competing priorities, hbi consulting uses two teams: a frontline team to handle client projects and a training team which shadows the frontline team on projects. This approach provides real-time training opportunities, while ensuring that the firm can deliver a quality product on time to the client.

Marketing. To date, hbi consulting has done little to market its services. However, with a slowing economy, Holub acknowledges that a formal marketing strategy is needed to maintain a balanced portfolio of clients.

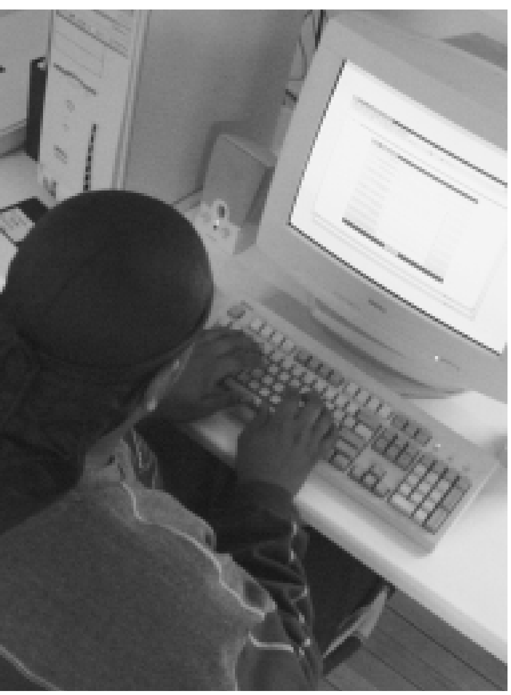
Succession planning. Holub has been a central force behind hbi consulting's success. However, as a Jesuit, he could be transferred to a new community at any time based on the needs of the church. Consequently, the firm needs to develop an effective succession plan.

Seeking funding for replication. Despite hbi consulting's successful track record, many funders want to see an expansion site up and running before committing funds to the project. Therefore, hbi consulting has found it difficult to secure the start-up funding necessary to support its planned replication sites in Chicago and Los Angeles.

Lessons Learned

As Homeboyz Interactive prepares to expand its operations to Chicago and Los Angeles, Holub attributes several key factors to hbi consulting's success:

Make customer service a commitment. hbi consulting's Jesuit roots are reflected in its commitment to service. The firm prides itself on providing high-quality work at a fair price. It recognizes that mission alone will not deliver contracts and that the venture must compete on an equal footing with other for-profit Web design firms.



Adopt a "counter-cyclical" business strategy. To minimize its vulnerability to economic downturns, hbi consulting has adopted a counter-cyclical business strategy to maintain a balanced portfolio of clients in the corporate, nonprofit, and government sectors. For example, as corporate contracts have slowed recently, hbi consulting has increased its efforts to pursue contracts with the city school district and local governmental agencies.

Draw on corporate experience. Holub says that his corporate experience has been invaluable to building hbi consulting's portfolio of clients. He is comfortable in the corporate sector and understands how to approach potential corporate clients and communicate the value of contracting with hbi consulting.

Leverage personal connections. Because many CEOs are Jesuit-educated, they are often more willing to give Holub's requests consideration over other potential vendors in the field.

CASE STUDY

Rainforest Alliance and SmartWood

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SmartWood: www.smartwood.org

Tensie Whelan, Executive Director
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Operating Budget for 2002:
$6.7 million

Rainforest Alliance launched SmartWood, a timber certification program, to further its conservation and sustainable development mission. In the course of building this program, SmartWood attracted for-profit companies to the marketplace. SmartWood's experience demonstrates that nonprofit ventures are not immune to intense for-profit competition or to the need for constant business and strategic planning to survive in a dynamic industry.

Organization Mission and Description

The Rainforest Alliance is an international nonprofit organization dedicated to protecting ecosystems and the people and wildlife that live within them by implementing better business practices for biodiversity, conservation, and sustainability. To participate in Rainforest Alliance's programs, companies, cooperatives, and landowners must meet rigorous standards for protecting the environment, wildlife, workers, and local communities.

Venture Description: SmartWood

Founded in 1989, SmartWood is a timber certification program designed to encourage conservation and sustainable development. According to Executive Director Tensie Whelan, the program's goals are to improve forest management practices to increase conservation and provide communities around the world with sustainable sources of income and equitable access to certification and markets. SmartWood aims to be self-sustaining through the fees it charges for certification.

The SmartWood certification process involves sending a team to review a company's forest management practices. Companies that meet the organization's standards can market their products as SmartWood certified.

What is certification? Out of a sense of either corporate responsibility or pressure from the marketplace, corporate America is increasingly interested in using responsible practices to develop products. As a result, several organizations have devised a certification strategy to pressure companies to meet certain standards. Examples include the "dolphin safe" labels on tuna cans, which indicate responsible fishing practices, and "salmon safe" labels on bottles of wine, which ensure careful use of pesticides and fertilizers near spawning rivers.

Why certify? The growth of certification has been driven by an increasing demand for environmental accountability among consumers and environmental organizations. These groups have threatened to boycott companies that engage in or support unsustainable forestry activities.

Though the SmartWood program initially focused on tropical forests, it now works with temperate and boreal forests, too, as well as plantations, large businesses and small-scale community projects. Products with SmartWood certification include furniture, musical instruments, flooring, and picture and window frames.

SmartWood also serves as an internationally recognized clearinghouse for information on sustainable forestry management and certified wood products. SmartWood sends out information daily in response to requests from consumers, architects, designers, manufacturers, woodworkers, builders, and municipal governments.

"If we conservationists are to credibly promote sustainable development, we must ensure that our own projects are guided by this same goal. The Rainforest Alliance has shown that sustainability can be a successful business strategy as well as an ecological imperative."

TENSIE WHELAN, EXECUTIVE DIRECTOR

Planning and Implementation

The idea of forestry certification originated during a workshop organized by the Rainforest Alliance in 1988 that involved experts from industry, professional institutions, foreign governments, and other environmental organizations. Its purpose was to discuss how forest technicians, the forestry industry, and conservationists could work together to respond to damaging logging practices so prevalent in tropical forests. Initially, Rainforest Alliance had no plans to run the certification program as a business but rather developed the science and techniques to carry out certifications.

Without any initial market research or business planning, Rainforest Alliance began conducting certifications in response to calls from companies searching for assistance. It performed the certifications on a fee-for-service basis, billing the client for time and expenses. To cover additional costs, it accepted foundation grants, secured a Program Related Investment (PRI) loan (a ten-year loan at low interest rates with a deferred graduated payment schedule), and used unrestricted Rainforest Alliance funds.

Today, SmartWood provides services to clients through its worldwide network of regional offices. Originally, the partners acted as regional franchises, providing all certification services using SmartWood technology and expertise. But over time, the organization found it difficult to maintain records, control costs, and uphold quality standards. Although SmartWood needed partners to expand the program rapidly, it needed tighter financial and management controls once the business began to grow. As a result, Rainforest Alliance centralized the business functions while the partnerships focused on education and awareness activities.

Now, by having Rainforest Alliance regional managers, SmartWood can offer clients superior service. Each regional office focuses on building SmartWood's brand equity in the marketplace and delivering a full range of certifications and services. This regional network is supported by a staff of forestry specialists and administrators based at Rainforest Alliance offices in New York and Vermont. In all, SmartWood has 28 full-time employees and four part-time employees.

The Rainforest Alliance operates SmartWood as a department within its nonprofit structure and makes little distinction between employees who work on certification activities and those who work on other Rainforest Alliance programs.

Outcomes

SmartWood has certified 14 million acres and is working with 800 clients worldwide. However, it has been financed through grants and loans and has yet to break even. Given the program's mission, much of its early work involved building the capacity of its nonprofit partners, research and development, and supporting the work of small landowners and community operations, which own 25 percent of forests. However, these activities added to the program's expenses, making it difficult to break even. In 2001, these activities were spun off into a grant-funded program.

Goals and Challenges

SmartWood's short-and medium-term financial goal is to break even and pay back its loans. It has taken steps to achieve profitability in the long-term, including careful control of costs, increasing sales, and achieving a more evenly distributed base of clients between small and larger landowners. By 2003 SmartWood expects to break even on sales of $3 million. Beyond repaying the loans, any profits would be used to further the organization's mission.

Beyond SmartWood's financial goals, the organization's long-term objective is for businesses to manage natural resources more responsibly and for consumers to look for the certification label indicating a sustainably produced product before they buy. As a means to that end, Rainforest Alliance also certifies sustainable agriculture and is testing the idea of a sustainable tourism certification program.

In aiming for these goals, Rainforest Alliance has experienced several challenges, including:

- Managing the global scale of the SmartWood operation;
- Developing the agility to respond quickly in a competitive environment;
- Working with multinational and other large corporations; and
- Managing certification activities while keeping costs down.

Lessons Learned

The key lesson that stems from SmartWood is experience is the ability of a nonprofit to create an industry and anticipate competition. In the course of building a certification business, SmartWood attracted for-profit competitors to the marketplace. One competitor is Société Générale de Surveillance, a Swiss firm that surpassed SmartWood in terms of number of acres certified. (SmartWood is still the largest nonprofit organization in the industry.) This additional competition led SmartWood to question whether it had accomplished its goal. Did the existence of for-profit players indicate that the service was now important to the marketplace, allowing Rainforest Alliance to exit? In the end, the organization recognized that its presence was important to maintain a standard of quality that might otherwise be compromised.

Other important lessons learned include:

Project costs accurately. One challenge has been to project and manage costs accurately to ensure that all appropriate costs are billed to SmartWood's certification clients. In the past, the organization has had problems with under-billing and not understanding the actual cost of an engagement until after it had ended. Since then, the organization has learned to project costs more accurately.

Sell the venture concept to internal stakeholders. In the beginning, SmartWood experienced some internal tension when it decided to pursue loans. The business people on the board were comfortable with the idea, but some staff were nervous about the risk for the organization.

If it isn't working, don't be afraid to make changes. Rainforest Alliance has made a number of changes to the SmartWood business model as the venture has grown and its leaders have learned more about how to be successful. Ongoing business and strategic planning have been critical to provide the analysis needed to make mid-course business decisions.

CASE STUDY

Triangle Residential Options for Substance Abusers (TROSA)

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Operating Budget for 2002:
$6 million

What began as an opportunity for this nonprofit to provide labor to peel potatoes has resulted in the development of seven businesses that have built TROSA into a nearly $6 million organization in eight years. The businesses serve as vocational training workshops for residents and generate about half of TROSA's annual budget.

Organization Mission and Description

Triangle Residential Options for Substance Abusers, Inc., was founded in 1994 to help recovering drug and alcohol abusers, including those with medical conditions, change their addictive behaviors. About 275 men and women live at TROSA for two years, receiving food, clothing, therapy, and amenities for free. In exchange, residents must stay off drugs and alcohol and learn vocational skills by working in support services within the organization or in one of the seven business ventures that TROSA operates:

- TROSA Moving
- TROSA Brick Masonry
- TROSA Catering
- TROSA Commercial & Residential Painting
- TROSA Lawn Maintenance
- TROSA Picture Framing
- TROSA Retail Sales

These ventures have helped the organization develop a solid reputation among local businesses and have led to strategic alliances with three corporations: Storr Office Environments, Alfred Williams & Co., and A Southern Season. TROSA provides hourly workers to these companies on an as-needed basis. In addition to receiving the temporary help, the companies can observe potential full-time employees at work. (See Exhibits I and II for complete descriptions of business ventures and corporate partnerships.)

Planning and Implementation

Kevin McDonald, TROSA president and CEO, is the first to admit that the organization did little formal planning when starting its ventures. It opened in 1994 with only $18,000 and immediately took advantage of any opportunity that would generate revenue and provide training for its residents. McDonald attributes much of TROSA's transformation into a nearly $6 million organization to its ability to be "opportunistic, flexible, and hard-working."

> *"Never underestimate the importance of sweat equity."*
>
> KEVIN MCDONALD, PRESIDENT & CEO

TROSA launched its first business venture when a local company needed workers to peel potatoes. TROSA offered its residents to peel them for a fee, thus beginning its first foray into social entrepreneurship.

When Hurricane Fran hit North Carolina in the fall of 1996, many of the roads were blocked by fallen trees. Because the local government was overwhelmed and TROSA had residents with experience in tree removal, the organization began a tree removal enterprise. TROSA later discontinued the venture when the residents with the expertise graduated from the program.

To launch TROSA Moving, the organization purchased a license from an old moving company that was going out of business. TROSA did not incur any debt to start the venture. It seeded the business with a $40,000 grant from the Durham, NC, Chamber of Commerce and, although it got a few other grants to grow the business, most of its funding has come from its profits.

While TROSA initially struggled to manage the business, it eventually hired Michael Keene, whose expertise in the moving industry significantly contributed to the company's growth. The business now has four full-time employees and has grown steadily to become the seventh largest mover in the Research Triangle area of North Carolina. It trains between 75 and 150 TROSA residents per year.

Similarly, TROSA launched other ventures when either a market opportunity presented itself or a resident had some expertise to share. In determining which ventures to pursue, McDonald stresses the importance of doing something in which the organization can develop a competency. TROSA Brick Masonry and TROSA Framing were started when residents with experience began teaching other residents their trade. Both individuals were hired after they graduated from TROSA to run their businesses.

Many of TROSA's ventures rely on word-of-mouth marketing. Therefore, McDonald says it's important to take advantage of every opportunity to display TROSA's services. For example, when the City of Durham experienced a shortage of volunteers to clean up after its annual downtown festival, TROSA offered its residents' services. Not only did that help build a relationship with the city government (which eventually led to paying contracts), but it also exposed TROSA's cleaning services to numerous for-profit and nonprofit organizations at the festival.

While McDonald admits that his current marketing strategy doesn't bring wide exposure to TROSA's businesses, it nonetheless builds a solid network of references that later translates into revenues. With minimal formal marketing, TROSA businesses have landed contracts with the Durham Housing Authority, the City of Durham, Duke University, University of North Carolina, and Habitat for Humanity.

Outcomes

Revenues from TROSA's ventures currently generate about half of its annual budget. TROSA Moving is the largest of the seven businesses and has experienced revenue growth and increasing profitability within the last three years.

	2000	2001	2002
Annual TROSA Moving Revenues	$1,060,000	$1,450,000	$1,573,000
Net Profit (Loss)*	$644,000	$1,071,000	$1,172,000

**It is important to note that TROSA residents work not to earn wages but to stay in the rehabilitation program and receive its benefits, which include room, board, clothing, and therapy. Because TROSA's expenses do not include employee wages, the organization's profitability appears high; however all net profits go to cover TROSA program expenses.*

The other six businesses combined are expected to generate about $700,000 in revenues in 2002.

	2000	2001	2002
Annual Revenues	$441,000	$632,000	$700,000
Net Profit (Loss)	$128,000	$519,000	$550,000

Goals and Challenges

Despite the early success, TROSA businesses face ongoing challenges to long-term sustainability, including:

Institutionalization of businesses and processes. As a result of the organization's opportunistic growth, TROSA's internal infrastructure remains relatively weak. Currently, the organization is working to develop the policies, procedures, and training to build TROSA's capacity. By codifying its employment training programs, TROSA hopes to develop a model that can be replicated in other cities.

Succession Planning. Kevin McDonald has been a central force behind TROSA's success. However, to ensure that the organization's mission and vision continue even if he leaves, TROSA is developing a succession plan.

Balancing mission with business objectives. TROSA businesses face the challenge of creating value for customers while training residents. To help balance these priorities, TROSA offers residents extensive training and on-the-job guidance by mentors who are older residents. In addition, profits generated by TROSA businesses often are invested in program services instead of reinvested in the business. Determining how profits are to be divided between TROSA's programs and services remains a significant challenge.

Marketing. McDonald acknowledges that the organization needs a formal marketing strategy to continue growing the ventures and attract additional clients and contracts.

Nearly 100 percent staff turnover every two years. Because TROSA businesses are staffed almost completely by residents, the organization must plan for nearly 100 percent staff turnover every two years. This reality not only affects service and management consistency, but also presents a challenge in ensuring that enough motivated, trainable individuals are available.

Overcoming stigma. Because TROSA workers are recovering from severe substance addictions, businesses and community members often are initially wary of using its services. While the organization has overcome some of this stigma by consistently delivering quality services, it remains a constant challenge.

Lessons Learned

McDonald notes the following key lessons from his experience launching and managing multiple business ventures:

Get enough capital for the business upfront. While TROSA was able to survive and grow with initial funds of $18,000, McDonald admits that it was exhausting to grow a business with such limited upfront capital. Although he succeeded by being creative and entrepreneurial in his approach, he realizes that the lack of capital prevented the businesses from growing in a more strategic manner. Asked if he would start a social enterprise with such little capital again, McDonalds answers, "Absolutely not."

Market your business at every opportunity. Rather than developing a marketing budget and department, TROSA has relied on other techniques to promote itself. Volunteering at public events and remaining flexible with customers helped the organization develop a strong network of contacts. Additionally, McDonald suggests it is almost always worth the expense of doing initial work for free or at a nominal cost to build a new relationship.

Hire the right people to run your business. In the eyes of Kevin McDonald, hiring Michael Keene as manager of moving services took TROSA Moving "to a whole new level." Because of his expertise, Keene transformed the company from an average program to a highly profitable business that generates significant revenues.

Find a connection between your business and your mission. Beyond the profits generated, a business venture can provide opportunities for an organization to further its mission through job training. In addition, linking the business with the nonprofit mission can increase staff buy-in and provide extra motivation to make the venture successful.

McDonald also cites the following lessons for nonprofit organizations considering entering into corporate strategic alliances:

Corporate partners expect value for their dollars. Even though a corporation knows it is working with TROSA residents, it still expects value for its money in terms of performance and quality. It is important for TROSA to deliver what it promises when entering a strategic alliance to maintain its reputation.

Be discriminating when selecting a partner. In the beginning, many businesses viewed TROSA's client population as a source of cheap labor. TROSA refused to partner with companies under these circumstances maintaining that it provides corporations with a reliable workforce and defending its clients from predatory work environments. In some cases, these companies later returned to TROSA and were willing to pay slightly above-market rates for its workers. Companies realized that the organization provides a quality, drug-free temporary workforce that is unmatched by local competitors.

Alliances can build a nonprofit's credibility in the business community. In 1999, a year after TROSA demonstrated that it could provide Storr Office Environments with quality workers, Alfred Williams & Co. approached the organization to establish a similar relationship. After TROSA proved it could perform within the corporate community, businesses were willing to explore partnerships with the organization.

Exhibit I: Venture Descriptions

TROSA Moving—Offers in-home, local, intrastate, and interstate commercial and residential moving services as well as professional storage and packaging services. The company is licensed and insured. It is the seventh largest moving company in the Research Triangle area of North Carolina.

TROSA Brick Masonry—Provides services to homes, city organizations, and TROSA facilities and specializes in brick walkways, walls, patios, and foundations. Clients include Duke University, Habitat for Humanity, Grace Gardens, and the Durham Housing Authority.

TROSA Catering—Primarily services TROSA's in-house needs by providing 1,000 meals plus snacks each day to residents and by catering all TROSA-related events, such as graduations. However, TROSA Catering also services small commercial events on a fee-for-service basis. Clients include the Duke Center for Documentary Studies and the University of North Carolina at Chapel Hill.

TROSA Commercial & Residential Painting—Provides commercial and residential painting services, including interior and exterior painting, power washing, deck cleaning, and textured ceilings.

TROSA Lawn Maintenance—Provides commercial and residential lawn care and maintenance services. Clients include the City of Durham, the Museum of Life and Sciences, the Durham Housing Authority, and the Goldenbelt Education Center.

TROSA Picture Framing—Provides services for both the community and for TROSA facilities. Services include framing, dry mounting, and matting.

TROSA Retail Sales—Assembles gift baskets for A Southern Season Company and sells Christmas trees during the holiday season.

Exhibit II: Partnership Descriptions

Storr Office Environments—TROSA provides hourly workers to Storr Office Environments, which operates a moving division, on an as-needed basis. Initiated in 1998, this partnership allows TROSA to train residents in furniture assembly and moving as well as to generate revenue. Storr has the opportunity to evaluate part-time employees with an eye toward full-time employment. This partnership generated revenues of $417,000 and $265,000 in 2000 and 2001, respectively.

Alfred Williams & Co.—As in the relationship with Storr Office Environments, TROSA provides hourly workers on an as-needed basis for large office contracts. In return, Alfred Williams helps train TROSA residents and pays the organization directly for the hourly wages of its workers. This partnership generated revenues for TROSA of $128,000 and $90,000 in 2000 and 2001, respectively.

A Southern Season—TROSA provides hourly workers to A Southern Season to work in its gift basket warehouse. Residents assemble gift baskets and package and ship products, among other tasks. Assignments typically range from a few weeks to a few months and tend to be associated with upcoming holidays (i.e., Christmas, Valentine's Day, etc.). A Southern Season trains TROSA residents and pays the organization directly for the hourly wages of its workers. TROSA residents assembled over 120,000 gift baskets in 2001, the first year of the partnership.

CASE STUDY

Asian Neighborhood Design and the Building Technologies Center

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Operating Budget for 2002:
$3 million

Asian Neighborhood Design (A.N.D.), a nonprofit community development agency in San Francisco, faced the difficult decision of whether to divest a business venture in which it had invested much time and effort. The report that follows is adapted from a document written by A.N.D.'s senior management for its funders and other supporters in July 2001, the year the organization decided to close the doors on the Building Technologies Center. All material has been reprinted with permission from A.N.D.

Small Scale—to Scale—Scaled Back

Asian Neighborhood Design has gone through significant changes in the past several months. This report includes a brief review of A.N.D.'s history and programs, information about its multiyear social experiment with "going to scale," and an update on the recent series of difficult decisions the board has made to ensure the long-term sustainability and vitality of the agency.

This is a story about the funding community's confidence in a community development agency with strong leadership and a strong record of service. It is a story about taking risks to seek greater heights and reach greater numbers of people with economic development programs. It is a story about lessons learned.

Background

In 1973, architecture students from the University of California at Berkeley formed Asian Neighborhood Design to improve communities using their newly acquired architectural skills. The founders were committed to social change within poor and ethnic communities and were motivated by a desire to contribute to their communities.

Over its 28-year history, A.N.D.'s original mission of advancing community development programs and policies that empower, transform, and improve the lives of low-income and disenfranchised people has remained intact. From humble beginnings in borrowed offices south of Market Street in San Francisco, A.N.D. has built assets, acquired property, developed training programs and cabinetmaking businesses, and pursued projects that could be replicated in other urban centers. A.N.D.'s development work ranges from modest renovation projects to larger scale multi-unit dwellings. Last year, A.N.D.'s annual budget approached $9 million, derived from a diverse base of individual and institutional funders and self-generated revenue.

Programs and Nonprofit Businesses

A.N.D. is a multi-service community-based development organization that over time has operated the following programs and nonprofit businesses:

Employment and Training (E.T.) is offered in both San Francisco and Oakland and trains 100 to 150 people each year in construction-related fields. This program targets at-risk youth and unemployed adults who have problems such as substance abuse, lack of a high school education, legal issues, family instability, and other barriers to self-sufficiency.

Family and Youth Resources (F.Y.R.) works with 700 low-income individuals and families each year, providing holistic case management services to help them achieve economic self-sufficiency and end the cycle of poverty.

Architecture and Planning (A.P.) employs architects to collaborate with other nonprofits to create safe and efficient living environments and community spaces sensitive to the needs of low-income users. Recent projects include Friendship House, a new 80-bed residential care facility serving Native Americans; the Treasure Island Homeless Development Initiative; and Glide Memorial Church.

Specialty Mill Products (S.M.P.) is a cabinetmaking business that provides training, jobs, and exposure to a realistic work environment for A.N.D.'s youth training program participants.

Social Experiment: Going to Scale

Seeing the need for jobs and job training in Oakland, A.N.D. set out to expand its services and training programs to the East Bay. The Building Technologies Center (B.T.C.) was A.N.D.'s most ambitious venture in its 28-year history. Its goal was to house a new state-of-the-art computer facility for 60 students, a new and expanded employment training program, and a second and larger cabinetmaking business. A.N.D. launched a capital campaign to support these goals, and the funding community responded with more than $3.5 million in grants and loans.

A.N.D. purchased part of a large old brick warehouse in an economically depressed area of West Oakland. The structure was in need of extensive repairs, including seismic retrofitting, installation of mechanical systems, and the addition of restrooms. Though the project was undercapitalized and incomplete, the S.M.P. Oakland cabinetry business began operations in 1996.

But as with most development projects, B.T.C. faced unanticipated problems and costs. For example, inadequate funding precluded the construction of the planned state-of-the-art computer facility. Instead a smaller scale computer lab was created, but even that required additional support.

In 1997, A.N.D. entered into a partnership with a major funder. The mutual goal was to support the program, increase the number of clients A.N.D. served, and help it become self-sustaining. The two organizations agreed that they would measure outcomes in both business and social terms. The plan called for extensive growth over a seven-year period, creating 125 new jobs and training 400 low-income individuals annually.

These were ambitious goals, since B.T.C. had been undercapitalized. But with the infusion of over $1 million (in the form of a recoverable grant from this funder) expansion began. Though gross revenues showed incremental increases, net profitability was always marginal. There were many obstacles to growth and many factors that limited the project's ability to achieve its objectives. Adding to the challenge were an underdeveloped organizational infrastructure, weak operational systems, the lack of a chief financial officer, lagging financial management systems and controls, and board and staff leadership that were inexperienced at running a large social-business hybrid.

Compounding this was the business model for the S.M.P. cabinetry business. The Oakland shop was producing low-end products in a highly competitive marketplace and was unable to meet the rising operating costs. In 1999, A.N.D. refinanced its San Francisco and Oakland properties and increased its line of credit.

A.N.D. sold some of its equipment to a leasing company to generate cash, then leased the equipment back, saddling the organization with additional debt in the form of monthly payments. The refinancing and leasing arrangements ultimately resulted in nearly $5 million worth of debt by the beginning of 2000. While most of the programs were self-supporting through earned income and grants, the debt and administrative overhead were becoming more burdensome. By mid 2000, A.N.D. was deeply mired in debt.

But despite the financial challenges and the burden of debt, A.N.D. was reaching greater numbers of people with its services. It was achieving scale and meeting its goals. The Employment Training program expanded from serving 98 to more than 135 trainees each year; the Family and Youth Resources program increased the number of families and individuals served each year from 350 to over 700; and the S.M.P. cabinetry business created 40 new jobs during the growth and expansion period.

Difficult Decisions

In February 2001, the board of directors determined that A.N.D. could not meet its debt obligations over the long term without taking drastic steps. Program revenues were insufficient to pay the monthly debt service, and it was unlikely that a funder would be willing to cover the debt service and operating deficits.

The staff and board of directors immediately began to work with A.N.D.'s major creditors to reduce the debt. A.N.D. sold its San Francisco property, including the Specialty Mill Products business, to a long-time manager, who made a commitment to continue providing job and training opportunities for A.N.D.'s Employment Training program and its graduates. The E.T. program will lease space there and continue to operate at the same level. This is a "win-win" situation, avoiding interruption of services or programs and maintaining about 20 jobs, many of which are filled by Asian immigrants and other formerly low-income Bay Area residents.

A.N.D. is pursuing a similar solution with other interested parties for its Oakland property and business. Under the circumstances, A.N.D. is viewing these transactions as strategic alliances. With these changes, A.N.D. will be able to reduce its current $4.5 million debt by more than $3.5 million in a relatively short period of time.

Lessons Learned

A.N.D. has always been a complex agency with many goals. Despite the experience with the Building Technologies Center, the board and staff remain committed to honoring the original mission and continuing to operate all of A.N.D.'s core programs. To date, program services have not been interrupted. But many lessons have been learned on "the journey to scale" over the past several years.

Several critical capacities did not receive the attention or resources they deserved from either the agency or its funding partners. Key among these was the organization's infrastructure. A.N.D. is only now beginning to address these weaknesses. Financial management is an ongoing priority. It is expected that all accounting systems, procedures, and controls will be fully implemented within the next three months.

In summary, undercapitalization was a problem from the outset. And though ongoing support from the philanthropic community masked the extent of the problem, the banking community was less patient. The bottom line was that the organization grew too fast and wasn't equipped to handle the pace of growth.

A.N.D. has learned a great deal during this process. The board of directors made the hard decisions necessary to put the agency back on track and A.N.D. has emerged as a healthier, leaner, and more appropriately scaled organization. The organization is confident that the measures it has taken will ensure its long-term sustainability, the quality of its services, and the vitality of its work for the future.

Since this report was written, A.N.D. has sold the Oakland building, but at a loss. It also has sold the furniture venture to a West Oakland business that continues to employ the former A.N.D. workers. The purchasing company, Mueller Nichols, also is contributing a percentage of each sale to A.N.D.

A.N.D.'s board, volunteer finance committee, and staff have worked to reduce the organization's debt on its line of credit to around $880,000, which it is refinancing. A.N.D. also is attempting to reduce payments to the equipment leasing company and other creditors by renegotiating the amount and terms of the loans. Currently these total $700,000.

After a series of interim executive directors and one permanent director who was with the organization for four months, A.N.D. is now led by a staff member of 12 years, Grant Din, who was promoted to the position of executive director in July 2002.

CASE STUDY

Neighborhood Reinvestment Corporation and Washington Mutual

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Operating Budget for 2002:
$114.3 million

By building trust upfront and clearly defining expectations, the partnership between Neighborhood Reinvestment Corporation and Washington Mutual was successful by both parties' standards. This case study illustrates the importance of accurately assessing costs and investing in dedicated account management to coordinate a sizable partnership.

Organization Mission and Description

The Neighborhood Reinvestment Corporation was created by Congress "to revitalize older urban neighborhoods by mobilizing public, private, and community resources at the neighborhood level." Neighborhood Reinvestment supports over 220 community development corporations (CDCs), collectively known as the NeighborWorks® network, with financial support and technical assistance to advance community development goals. In FY 2001 alone, this network generated over $1.4 billion in direct reinvestment while assisting over 34,000 families to purchase, improve, and maintain their homes. As part of this mission, Neighborhood Reinvestment also runs a Training Institute to help local leaders learn techniques for effective community revitalization.

Partnership Description: Washington Mutual

Over the past 18 years, Neighborhood Reinvestment has run an event called National NeighborWorks Week®, in which most of its 220-plus affiliated CDCs participate in a one-week, hands-on activity to raise awareness of the work that the CDCs are doing locally. Before the partnership was formed, the event was a grassroots effort, with Neighborhood Reinvestment providing some overall cohesion and assistance at the local level. Washington Mutual, a national financial services company headquartered in Seattle, had been one of many small-commitment local partners that participated on a regional level for a number of years.

Washington Mutual was growing quickly and had become one of the top five mortgage underwriters in the country. The company, recognizing the stabilizing impact affordable housing can have on communities, was committed to making communities better places to live and work, which relates directly to one of its core lines of business.

In 2000, the company's public relations agency, Cone Communications, began to explore how Washington Mutual could engage its employees with Neighborhood Reinvestment in a national volunteer effort.

"Our partnership with Washington Mutual enabled us to professionalize and expand NeighborWorks Week tremendously. The negotiation and implementation process was an important learning experience for Neighborhood Reinvestment, and I believe we are now better prepared for future large-scale partnerships"

ELLEN LAZAR,
EXECUTIVE DIRECTOR

Planning and Implementation

Having never engaged in a corporate partnership of this magnitude, Neighborhood Reinvestment retained Community Wealth Ventures to help it navigate this new territory. After several discussions, each side realized that it was important to explicitly lay out its own objectives to ensure that expectations were clear for all concerned. Neighborhood Reinvestment established that it was seeking to:

- Raise awareness of the revitalization efforts of the NeighborWorks network while promoting and building the NeighborWorks brand through the National NeighborWorks Week campaign and the Training Institute;
- Deliver increased services and benefits to NeighborWorks organizations; and
- Expand access to the Neighborhood Reinvestment Training Institute for participants who can contribute to community development but need financial assistance to attend the institute.

Washington Mutual wanted to partner with an organization with breadth and national presence that could grow as it was growing. The company sought to:

- Help build awareness for the Washington Mutual brand with a broad national effort, with targeted focus on five key markets;
- Provide employee volunteer opportunities to achieve higher employee morale and retention;
- Lay the groundwork for geographic expansion into new markets;
- Increase specialty mortgage finance loans; and
- Position Washington Mutual as a leader participating in neighborhood revitalization.

This early and candid identification of objectives helped craft a partnership that would meet each party's goals.

Project Details

As a result, Neighborhood Reinvestment:

- Encouraged and promoted a hands-on event at CDCs around the country (a cleanup, a building project, a community revitalization event) as part of National NeighborWorks Week;
- Produced co-branded collateral materials: T-shirts, hats and caps, water bottles, balloons, and work gloves for each site;
- Oversaw six "big-build sites," larger venues that had substantial Washington Mutual employee volunteer activity, an on-site event coordinator, and significant publicity efforts; and

- Created a scholarship application process for the endowment funding for the Training Institute.

Washington Mutual:

- Provided a total of about $100,000 in marketing, advertising support, and collateral materials in the six big-build sites;
- Provided $470,000 to support the CDCs' participation in the event;
- Provided $500,000 for an endowment to fund educational initiatives at Neighborhood Reinvestment's Training Institute; and
- Encouraged the local branches to partner with participating CDCs to create volunteer opportunities.

Outcomes

National NeighborWorks Week proved to be a successful event and partnership. Washington Mutual supported the event with funding, in-kind marketing support, and more than 2,500 employee volunteers contributing over 10,000 volunteer hours of work. In addition, Washington Mutual contributed $500,000 to the Neighborhood Reinvestment's Training Institute to start an endowment. The partnership consisted of contributions to 150 CDCs, creation of ancillary and promotional materials, and print support.

Neighborhood Reinvestment saw over 3,900 homes improved in 540 communities nationwide, and generated better media coverage than in previous years. It estimates the financial impact on community improvements was $4.8 million dollars.

Washington Mutual got employee involvement and good press coverage in the target markets. Based on surveys completed by employee volunteers, the company had tremendous success in using the event for both employee teambuilding and conveying its commitment to community revitalization.

Both organizations committed to a second year of the partnership, and Washington Mutual doubled its investment.

Lessons Learned

- ***Accurately account for staff time in pricing.*** For Neighborhood Reinvestment, the partnership was not initially priced properly. The organization did not factor in the two to four full-time employee positions necessary to make the relationship work. So while it was a great success in terms of improving homes and getting publicity, most of the funding was passed through to the CDCs or used for event materials.
- ***Do not fear other funders' reactions.*** Neighborhood Reinvestment was initially fearful of how other funders would view the partnership

and whether it would damage longstanding relationships. In fact, other funders respected Neighborhood Reinvestment for entering into a partnership in a businesslike way to create revenues.

- *Practice detailed account management.* Neighborhood Reinvestment created a detailed "account management plan" that included every element of the partnership from collateral materials creation to approvals and weekly phone check-ins. This plan was provided to all internal staff working on the partnership and to Washington Mutual, and it was referred to on a daily basis by the project manager to ensure that the project team was meeting deadlines and fulfilling expectations. Additionally, this planning tool allowed all the internal groups at Neighborhood Reinvestment to "buy in" to the partnership and be more involved.
- *Manage the partner's (Washington Mutual's) expectations.* Because Neighborhood Reinvestment is an intermediary that works with community-based groups, it spent a great deal of time making sure its partner understood the limits of what it could enforce (vs. encourage) at events being run by independent CDCs around the country. This process helped Neighborhood Reinvestment avoid over-promising.
- *Adopt a new culture, if necessary.* Neighborhood Reinvestment needed to adopt a businesslike discipline in assessing the event. To engage Washington Mutual and explain the pricing, it undertook a line-item budget for all cost components, something that had not been done previously.
- *Take a long-term focus.* Both parties identified the potential of a long-term relationship. They worked hard to be candid and direct and to establish trust so that they could truly cultivate a partnership that would work for years. Neighborhood Reinvestment also cautions that, while you must understand your partner's objectives, you must also stay focused on your own objectives.
- *Simplify communication.* Each side had one point person who held responsibility for communications, ensured clarity, and offered a centralized voice for all internal departments.
- *Ensure that all internal parties are onboard first.* While trying to establish this first national partnership, the project team at Neighborhood Reinvestment met some internal resistance. It was forced into the challenging situation of trying to persuade internal parties while negotiating with Washington Mutual.

CASE STUDY

Special Olympics and Cingular Wireless

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Operating Budget for 2002:
$74,105,000

The partnership between Special Olympics and Cingular Wireless began at the state level and grew into a national campaign designed to raise $40 million for the nonprofit over four years. By including members from all levels of both organizations in the planning process and by getting buy-in from top executives early on, Cingular Wireless was able to integrate its partnership with Special Olympics into its corporate culture.

Organization Mission and Description

Special Olympics is an international program of year-round sports training and athletic competition in 26 Olympic-type sports for more than a million people with mental retardation. Through its program, the organization aims to provide these individuals with continuing opportunities to develop physical fitness, demonstrate courage, experience joy, and participate in a sharing of gifts, skills, and friendship with their families, other Special Olympics athletes, and the community.

Venture Description

In January 2000, Cingular Wireless became an official partner of Special Olympics USA and an official sponsor of Special Olympics Team USA. Cingular Wireless hopes to raise $40 million for Special Olympics by the end of 2003.

As partners, Special Olympics and Cingular Wireless have developed and executed successful cause-related marketing campaigns in each of the past three years to attain this goal. During the promotional period, customers who donated $20 to Special Olympics and signed a two-year Cingular Wireless service agreement received a free wireless phone.

Special Olympics provides recognition and numerous benefits to Cingular Wireless at the national and state levels in press releases, on its website, on signs during events, and through access to its donor database and key stakeholders.

Stephen Carter, President and CEO of Cingular Wireless, with Special Olympics Florida athletes at the 2001 Pepsi 400.

Planning and Implementation

In 1999, Special Olympics hired IEG, Inc., a sponsorship consulting firm, to perform an audit of its corporate partnerships. Because of its national recognition and appeal, Special Olympics believed it could position itself as a valuable marketing partner to corporations instead of simply a philanthropic grantee. IEG provided Special Olympics with a plan to standardize its corporate sponsorship activities locally and nationally. This plan helped the organization identify the marketing and other benefits that it could deliver to a major corporate partner and establish a pricing structure for these partnership packages.

> *"The Cingular brand is all about self-expression. Special Olympics has a special place in our hearts because it creates opportunities for its athletes to build self-esteem, instill pride, and express themselves in achieving goals and experiencing sports competition firsthand."*
>
> STEPHEN CARTER, PRESIDENT & CEO, CINGULAR WIRELESS

The idea to partner with Cingular Wireless began as a grassroots effort by Special Olympics Northern California. In 1999, the chapter joined forces with PacBell Wireless and launched the "Give A Little, Get A Lot" campaign, which raised over $2.1 million for Special Olympics athletes in the area. Due to the success of this partnership, a similar concept was pitched to SBC Communications, the then-parent company of Cingular Wireless.

Once the national partnership idea gained approval, financial, marketing, and legal staffers from both organizations' headquarters worked to develop the details of the partnership, including its fundraising elements. Later, front line sales, fundraising, marketing, and public relations representatives from both companies came together for a one-and-a-half-day kick-off seminar. This meeting gave people a chance to meet one another and to learn about each other's organizations and about the upcoming promotional campaign.

The partnership is now in its third year. While both organizations contribute capital to promote the partnership, Cingular Wireless has been largely responsible for public relations and advertising expenses, including television and print advertising and in-store promotional displays and brochures.

Special Olympics and Cingular Wireless recognize the importance of keeping the promotion fresh in the eyes of consumers. They have achieved this by integrating strong third-party partners each year. For example, in 2001, Blockbuster Video supported the promotion. In addition to receiving a free phone for a $20 donation to Special Olympics, consumers also got five free movie rentals. In 2002, Motorola developed a program in which promotional cut-outs of Motorola phones were widely distributed at Special Olympics events. If consumers brought the cut-out to a Cingular retailer, took advantage of the Motorola handset offer and registered their new phone on a specified website, they were entered into a sweepstakes for a trip to Super Bowl XXXVII. In addition, Motorola donated $2 to Special Olympics for each phone registered on the website.

Outcomes

Since the partnership began, Cingular Wireless has helped raise over $28.1 million dollars for Special Olympics USA, and the company's employees have served as volunteers. Furthermore, the partnership has increased awareness of Special Olympics and the athletes whom it serves.

For Cingular, the partnership has increased its brand awareness and helped fulfill its goal of being socially responsible.

Goals and Challenges

Because of the success of the partnership, Special Olympics hopes to extend the relationship past its current end date of 2003, and both organizations would like to create new, innovative ideas for the partnership in addition to cell phone promotional sales. One such idea is already in place: Cingular Wireless customers can donate to Special Olympics by adding $1 to their monthly bills.

In developing and implementing the partnership, Special Olympics has faced several challenges:

Logistics. In the first year, Special Olympics received 450,000 checks, each for $20. The volume was overwhelming and required significant staff time to process all the checks in a timely manner. Before the 2002 promotional campaign, Cingular Wireless took steps to modify its billing system so that customers' donations could be added to their monthly bill, reducing administrative costs.

Keeping the campaign fresh. Special Olympics and Cingular Wireless have to work continuously to create new components for the promotional campaign to keep it fresh and exciting for the consumer.

Tax implications. State governments and the Internal Revenue Service put restrictions on goods and services provided in return for tax-deductible donations. Special Olympics and Cingular Wireless had to pay close attention to these details and craft the campaign to meet state and IRS regulations. For example, in Maryland, promotional materials included a statement indicating that individuals were not required to give a $20 donation to receive the free cellular phone.

Staying current with the partner's business objectives. From the onset of the partnership, Special Olympics has sought to understand Cingular's business objectives and help the company achieve them. In 2001, Cingular's main focus was to "build brand." The following year, while building brand remained important, the primary focus became "driving sales," so Special Olympics tried to drive traffic into Cingular retailers by promoting the partnership at the grassroots level.

Lessons Learned

Management from Special Olympics and Cingular Wireless identify two points that made their partnership successful.

- ***Obtain buy-in at a high level.*** The partnership was fully backed and supported at senior levels of both organizations. Cingular Wireless focused on making its partnership with Special Olympics an integral part of its overall corporate culture.

- ***Build on incremental success.*** Since the partnership originated at the state level, the companies were able to draw on that experience to implement the partnership nationally.

Special Olympics also offers the following advice to organizations considering a corporate partnership:

- Understand and study the business objectives of potential partners;
- Invest in education and training for employees; and
- Keep in constant contact with the partner to be sure information is seamlessly distributed.

Appendix A

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Appendix B

Survey Methodology

Community Wealth Ventures, Inc., contracted with WB&A Market Research to conduct a phone survey among executive directors of nonprofit organizations with business ventures. For the purposes of this study, a business venture is defined as a business that generates revenues from the sale of products and/or services to customers beyond the organization's immediate constituents.

CWV chose the phone survey for several reasons: to ensure that only nonprofits with ventures were included in the sample; to encourage respondents to answer all the questions; and to reduce some of the self-selection bias (i.e., getting answers from people particularly motivated to participate in a survey).

- CWV and WB&A developed the survey, which took an average of 12 minutes to administer (Appendix C). The interviews were conducted from October 8 to 21, 2002, during normal business hours.
- CWV provided WB&A with a list of 265 potential respondents, collected primarily from the companion directory to this report. WB&A completed as many surveys as possible within the two weeks. In total, 72 organizations, representing 105 ventures, completed surveys.

Table 1. Summary of Call Dispositions

Call Disposition	Dialings	Percent
Callback	698	47.2%
No Answer/Busy/Answering Machine	642	43.4%
Initial Refusal	30	2.0%
Disconnected/Number Changed/Wrong Number	17	1.2%
Residential/Computer Tone	5	0.3%
Qualified Refusal/RF/Mid Term	1	0.1%
Terminated	26	1.8%
Completed Interviews	72	4.9%
Total Dialings	1478	100.0%

Table 2. Summary of Call Data

Total Surveys Completed	72
Refusal Rate	26.7%
Overall Incidence	84.9%
Average Interview Length (minutes)	12.4
Total Hours to Complete Survey	73.3
Production Rate	.98

Appendix C

Survey Form

COMMUNITY WEALTH VENTURES, INC.
SOCIAL ENTERPRISE SURVEY

Hello, my name is _________. I'm calling from WB&A Market Research on behalf of two national foundations. We are conducting a brief research study and we'd like to include your opinions. The purpose of this study is to help advance the field of social entrepreneurship by identifying trends and best practices among enterprising nonprofit organizations, in other words, nonprofit organizations that are generating revenue through business ventures. For the purposes of this study, a business venture is defined as a business that generates revenues from the sale of products and/or services to customers beyond the organization's immediate constituents. Let me assure you, this is for research purposes only. Absolutely no selling is involved and all your answers will remain strictly confidential.

IF ASKED: This study will take anywhere from 5 minutes to 15 minutes, depending on your answers.

S1. First, may I confirm that you are a 501C3 non-profit organization?
01 Yes → **CONTINUE**
02 No → **THANK AND TERMINATE**
98 Refused → **THANK AND TERMINATE**
99 Don't know → **THANK AND TERMINATE**

ASK EVERYONE:

1. Which of the following describes the mission of your organization? **(READ LIST. MULTIPLE RESPONSES ACCEPTED.)**
01 Advocacy
02 Arts, Culture and Humanities
03 Children and Youth
04 Community and Economic Development
05 Disaster Relief
06 Education and Research
07 Elderly
08 Employment Training
09 Environment and Animals
10 Health Services
11 Homelessness
12 Hunger and Poverty
13 International
14 Rehabilitative Services
15 Religious
16 Sports and Recreation
17 Substance Abuse
95 Or some other mission? **(SPECIFY)**

2. In what year was your organization started?
________ **RECORD YEAR**
98 REFUSED
99 DON'T KNOW

3. What is the annual operating budget of your organization for 2002? **(READ LIST.)**
01 Less than $1 million
02 $1 million to less than $5 million
03 $5 million to less than $10 million
04 $10 million to less than $25 million
05 $25 million to less than $50 million
06 $50 million to less than $100 million
07 More than $100 million
98 **DO NOT READ:** Refused
99 **DO NOT READ:** Don't know

4. What is the scope of your organization? Is it…**(READ LIST.)**
01 National
02 Regional, or
03 Community
98 **DO NOT READ:** Refused
99 **DO NOT READ:** Don't know

5. How many business ventures does your organization operate?

________ **RECORD NUMBER OF BUSINESS VENTURES**
98 REFUSED
99 DON'T KNOW

6. What is the total revenue of your business venture(s) for this year? **(IF DON'T KNOW OR REFUSED DOLLAR AMOUNT, ASK PERCENTAGE:** Can you tell me what percent of your total revenue comes from your business venture(s)?**)**

________________________ **RECORD WHOLE DOLLAR AMOUNT**

(OR %_______________), NO RANGES.

98 REFUSED
99 DON'T KNOW

If Q5>1, READ: Now I would like to ask about your ventures one at a time, starting with the venture that generates the most revenue.

VENTURE 1: QUESTIONS 7-21

7. Please tell me what type of venture your organization operates. **(DO NOT READ LIST. ACCEPT ONLY ONE RESPONSE.)**
01 Catering Services
02 Clerical Services
03 Consulting Services
04 Heavy Manufacturing
05 Light Manufacturing
06 Housing Rehabilitation
07 Janitorial or Cleaning Services
08 Landscaping or Grounds Maintenance
09 Moving Services
10 Printing or Copying Services
11 Property Management
12 A Restaurant or Café
13 A Retail or Thrift Store
14 A Developing Country Product Vendor
95 Other **(SPECIFY)**
98 Refused
99 Don't know

8. Please tell me how your venture relates to the mission of the parent organization, using a scale of 1 to 5, where "1" means it does not relate to the parent organization's mission and "5" means it relates directly to the parent's mission. You may use any number between 1 and 5.
05 Relates directly to parent's mission
04
03
02
01 Does not relate to parent's mission
98 Refused
99 Don't know

9. In what year was the venture established?

________ **RECORD YEAR**
9998 REFUSED
9999 DON'T KNOW

10. For the current year, please tell me the annual revenue for this venture:

______________________ **RECORD DOLLAR AMOUNT, NO RANGES.**
98 REFUSED
99 DON'T KNOW

10A. For the current year, please tell me the profit or loss for this venture:

____________________ **RECORD DOLLAR AMOUNT, NO RANGES**

96 NONE/BREAK EVEN _ SKIP TO Q.12
98 REFUSED _ ASK Q.11
99 DON'T KNOW _ ASK Q.11

indicate:

01 Profit **ASK Q.11**
02 Loss **SKIP TO Q.12**

IF PROFITABLE, RF OR DK, ASK Q.11

11. If your venture is profitable, how long did it take to become profitable? **(DO NOT READ LIST)**

01 Less than one year
02 1 Year
03 2 Years
04 3 Years
05 4 Years
06 5+ Years
96 Not profitable
98 **DO NOT READ:** Refused
99 **DO NOT READ:** Don't know

ASK EVERYONE

12. Please tell me the number of full-time staff employed at the venture.

NUMBER OF STAFF
9998 REFUSED
9999 DON'T KNOW

13. What is the legal structure of your venture? **(READ LIST. ACCEPT ONLY ONE RESPONSE.)**

01 A Department or Division within the Non-Profit
02 For-Profit Corporation
03 Limited Liability Partnership
04 Limited Liability Company
05 Joint Venture
95 Or some other type of structure **(SPECIFY)**
98 **DO NOT READ:** Refused
100 **DO NOT READ:** Don't know

14. What initial investment was necessary to launch your venture? **(IF NEEDED SAY:** Your best estimate will do.**)**

$ **RECORD WHOLE DOLLAR AMOUNT, NO RANGES.**
98 REFUSED
99 DON'T KNOW

15. Which of the following types of capitalization or investment, if any, did you use or are you using to start-up your venture? **(READ LIST STARTING WITH X'D ITEM. ROTATE.)**

		YES	NO	DK	RF
( ) a.	Foundation grants	01	02	98	99
( ) b.	Board support	01	02	98	99
( ) c.	NPO parent internally generated funds (NPO=non-profit organization)	01	02	98	99
( ) d.	Foundation program related investment or PRI	01	02	98	99
( ) e.	Commercial loans	01	02	98	99
( ) f.	Private equity investment	01	02	98	99
( ) g.	Government loans, such as SBA, etc. (SBA=small business administration)	01	02	98	99

( ) h.	Operating budget	01	02	98	99
( ) i.	Government grant	01	02	98	99
( ) j.	Any others? **(SPECIFY)**	01	02	98	99

16. How did you staff your venture at the launch? Did you…**(READ LIST. MULTIPLE RESPONSES ACCEPTED.)**

01 Use existing staff on a part-time basis
02 Re-assign existing staff on a full-time basis
03 Hire part-time or full-time staff from outside the organization
04 Contract with a service provider
95 Or did you staff your venture in some other way **(SPECIFY)** ____________________
98 **DO NOT READ:** Refused
99 **DO NOT READ:** Don't know

17. Using a scale of 1 to 5, where "5" means extensive and "1" means minimal, how extensive was your business experience at the time of launch?
05 Extensive
04
03
02
01 Minimal
96 No business experience
98 Refused
99 Don't know

18. Is your current senior management staff the same as at the time of start-up?
01 Yes
02 No
98 Refused
99 Don't know

19. For each of the following steps, please rate the extent to which your organization conducted this type of planning and/or research prior to launch. Using a scale of 1 to 5, where "5" means extensive and "1" means minimal, to what extent did your organization conduct **(READ LIST STARTING WITH X'D ITEM. ROTATE.)**?

		Minimal Use				Extensive Use	None/Did not use	Refused	Don't know
( ) a.	Internal Organizational Assessment to assess staff expertise, capacity, marketable assets, etc.	01	02	03	04	05	96	98	99
( ) b.	A Feasibility Study or Market Research to assess customer demand, competitors, etc.	01	02	03	04	05	96	98	99
( ) c.	Financial Analysis to assess investment needed, pricing, cash flow, etc.	01	02	03	04	05	96	98	99
( ) d.	A Business Marketing Plan to assess operations, production, staffing, marketing and sales, advertising, etc.	01	02	03	04	05	96	98	99

FOR EACH ITEM USED PER Q.19 (01-05), ASK Q.20

20. For each of the following steps that you used at least minimally, please rate how valuable this planning and/or research was to the success of your venture. Using a scale of 1 to 5, where "1" means minimally valuable and "5" means extensively valuable, how valuable was **(READ LIST STARTING WITH X'D ITEM. ROTATE IN SAME ORDER AS Q.34.)**?

			Minimally valuable				Extensively valuable	Refused	Don't know
(	) a.	Internal Organizational Assessment to assess staff expertise, capacity, marketable assets, etc.	01	02	03	04	05	98	99
(	) b.	A Feasibility Study or Market Research to assess customer demand, competitors, etc.	01	02	03	04	05	98	99
(	) c.	Financial Analysis to assess investment needed, pricing, cash flow, etc.	01	02	03	04	05	98	99
(	) d.	A Business Marketing Plan to assess operations, production, staffing, marketing and sales, advertising, etc.	01	02	03	04	05	98	99

ASK EVERYONE

21. Please rate how your venture has impacted each aspect of the parent organization. Using a scale of 1 to 5, where "5" means it has had a significant impact on the parent organization and "1" means it has had a minimal impact on the parent, how did your venture impact the **(READ LIST STARTING WITH X'D ITEM. ROTATE.)**?

			Minimal Impact				Significant Impact	None/No Impact	Refused	Don't know
(	) a.	Ability to attract and retain donors	01	02	03	04	05	96	98	99
(	) b.	Ability to attract and retain staff	01	02	03	04	05	96	98	99
(	) c.	Board leadership	01	02	03	04	05	96	98	99
(	) d.	Entrepreneurial culture	01	02	03	04	05	96	98	99
(	) e.	Self-sufficiency of the organization	01	02	03	04	05	96	98	99

IF ONLY 1 VENTURE PER Q.5, SKIP TO CLOSE

IF Q5>1, READ: Now I would like to talk about the venture that generates the second highest revenue for your organization.

VENTURE 2 (IF APPLICABLE): QUESTIONS 22-36

22. Please tell me what type of venture your organization operates. **(DO NOT READ LIST. ACCEPT ONLY ONE RESPONSE.)**

01 Catering Services
02 Clerical Services
03 Consulting Services
04 Heavy Manufacturing
05 Light Manufacturing
06 Housing Rehabilitation
07 Janitorial or Cleaning Services
08 Landscaping or Grounds Maintenance
09 Moving Services
10 Printing or Copying Services
11 Property Management
12 A Restaurant or Café
13 A Retail or Thrift Store
14 A Developing Country Product Vendor
95 Other **(SPECIFY)**
98 Refused

99 Don't know

23. Please tell me how your venture relates to the mission of the parent organization, using a scale of 1 to 5, where "1" means it does not relate to the parent organization's mission and "5" means it relates directly to the parent's mission. You may use any number between 1 and 5.
05 Relates directly to parent's mission
04
03
02
01 Does not relate to parent's mission
98 Refused
99 Don't know

24. In what year was the venture established?

________ **RECORD YEAR**
9998 REFUSED
9999 DON'T KNOW

25. For the current year, please tell me the annual revenue for this venture:

_________________ **RECORD WHOLE DOLLAR AMOUNT, NO RANGES.**
98 REFUSED
99 DON'T KNOW

25A. For the current year, please tell me the profit or loss for this venture:
_______________________ **RECORD DOLLAR AMOUNT, NO RANGES**
96 NONE/BREAK EVEN _ SKIP TO Q.27
98 REFUSED _ ASK Q.26
99 DON'T KNOW _ ASK Q.26
indicate:
01 Profit **ASK Q.26**
02 Loss **SKIP TO Q.27**

IF PROFITABLE, RF OR DK, ASK Q.26

26. If your venture is profitable, how long did it take to become profitable? **(DO NOT READ LIST)**
01 Less than one year
02 1 Year
03 2 Years
04 3 Years
05 4 Years
06 5+ Years
96 Not profitable
98 **DO NOT READ:** Refused
99 **DO NOT READ:** Don't know

ASK EVERYONE

27. Please tell me the number of full-time staff employed at the venture.

NUMBER OF STAFF
9998 REFUSED
9999 DON'T KNOW

28. What is the legal structure of your venture? **(READ LIST. ACCEPT ONLY ONE RESPONSE.)**
01 A Department or Division within the Non-Profit
02 For-Profit Corporation
03 Limited Liability Partnership
04 Limited Liability Company
05 Joint Venture
95 Or some other type of structure **(SPECIFY)**
98 **DO NOT READ:** Refused

99 **DO NOT READ:** Don't know

29. What initial investment was necessary to launch your venture? **(IF NEEDED SAY:** Your best estimate will do.**)**

$ **RECORD WHOLE DOLLAR AMOUNT, NO RANGES.**
98 REFUSED
99 DON'T KNOW

30. Which of the following types of capitalization or investment, if any, did you use or are you using to start-up your venture? **(READ LIST STARTING WITH X'D ITEM. ROTATE.)**

		YES	NO	DK	RF
( ) a.	Foundation grants	01	02	98	99
( ) b.	Board support	01	02	98	99
( ) c.	NPO parent internally generated funds (NPO=non-profit organization)	01	02	98	99
( ) d.	Foundation program related investment or PRI	01	02	98	99
( ) e.	Commercial loans	01	02	98	99
( ) f.	Private equity investment	01	02	98	99
( ) g.	Government loans, such as SBA, etc. (SBA=small business administration)	01	02	98	99
( ) h.	Operating budget	01	02	98	99
( ) i.	Government grant	01	02	98	99
( ) j.	Any others? **(SPECIFY)**	01	02	98	99

31. How did you staff your venture at the launch? Did you…**(READ LIST. MULTIPLE RESPONSES ACCEPTED.)**

01 Use existing staff on a part-time basis
02 Re-assign existing staff on a full-time basis
03 Hire part-time or full-time staff from outside the organization
04 Contract with a service provider
95 Or did you staff your venture in some other way **(SPECIFY)** ____________________
98 **DO NOT READ:** Refused
99 **DO NOT READ:** Don't know

32. Using a scale of 1 to 5, where "5" means extensive and "1" means minimal, how extensive was your business experience at the time of launch?

05 Extensive
04
03
02
01 Minimal
96 No business experience
98 Refused
99 Don't know

33. Is your current senior management staff the same as at the time of start-up?

01 Yes
02 No
98 Refused
99 Don't know

34. For each of the following steps, please rate the extent to which your organization conducted this type of planning and/or research prior to launch. Using a scale of 1 to 5, where "5" means extensive and "1" means minimal, to what extent did your organization conduct **(READ LIST STARTING WITH X'D ITEM. ROTATE.)**?

			Minimal Use				Extensive Use	None/Did not use	Refused	Don't know
(	) a.	Internal Organizational Assessment to assess staff expertise, capacity, marketable assets, etc.	01	02	03	04	05	96	98	99
(	) b.	A Feasibility Study or Market Research to assess customer demand, competitors, etc.	01	02	03	04	05	96	98	99
(	) c.	Financial Analysis to assess investment needed, pricing, cash flow, etc.	01	02	03	04	05	96	98	99
(	) d.	A Business Marketing Plan to assess operations, production, staffing, marketing and sales, advertising, etc.	01	02	03	04	05	96	98	99

FOR EACH ITEM USED PER Q.34 (01-05), ASK Q.35

35. For each of the following steps that you used at least minimally, please rate how valuable this planning and/or research was to the success of your venture. Using a scale of 1 to 5, where "1" means minimally valuable and "5" means extensively valuable, how valuable was **(READ LIST STARTING WITH X'D ITEM. ROTATE IN SAME ORDER AS Q.34.)**?

			Minimally valuable				Extensively valuable	Refused	Don't know
(	) a.	Internal Organizational Assessment to assess staff expertise, capacity, marketable assets, etc.	01	02	03	04	05	98	99
(	) b.	A Feasibility Study or Market Research to assess customer demand, competitors, etc.	01	02	03	04	05	98	99
(	) c.	Financial Analysis to assess investment needed, pricing, cash flow, etc.	01	02	03	04	05	98	99
(	) d.	A Business Marketing Plan to assess operations, production, staffing, marketing and sales, advertising, etc.	01	02	03	04	05	98	99

ASK EVERYONE

36. Please rate how your venture has impacted each aspect of the parent organization. Using a scale of 1 to 5, where "5" means it has had a significant impact on the parent organization and "1" means it has had a minimal impact on the parent, how did your venture impact the **(READ LIST STARTING WITH X'D ITEM. ROTATE.)**?

			Minimal Impact				Significant Impact	None/No Impact	Refused	Don't know
(	) a.	Ability to attract and retain donors	01	02	03	04	05	96	98	99
(	) b.	Ability to attract and retain staff	01	02	03	04	05	96	98	99
(	) c.	Board leadership	01	02	03	04	05	96	98	99
(	) d.	Entrepreneurial culture	01	02	03	04	05	96	98	99
(	) e.	Self-sufficiency of the organization	01	02	03	04	05	96	98	99

CLOSING - READ TO EVERYONE

Those are all the questions I have. Thank you very much for your cooperation. For quality control purposes, you may receive a follow-up phone call from my supervisor to verify that I have completed this interview. Can I please verify your name so they know who to ask for if they call back? Thank you and have a nice day/evening!

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