<u>March 19, 2007 Conference Call: Starting Your Earned Income Venture—Transcript</u>

Erica: "…. and she will be sharing the nitty gritty details that we have all been waiting for, which is how you actually start doing the plan, making it work, the last two call sets set up the contacts and big picture stuff, as well as looking at some of the proven models and best practices, a couple worst practices, and now we will have Bernice join us again."

Bernice: "Thank you Erica for having me and the Department of Labor Center for Faith-Based and Community Initiatives. But taking the initiative to bring this kind of opportunity forward for our faith-based and community organizations across the country. Good afternoon everyone, I have heard a lot of lady voices, so ladies and gentleman who are out there. I am delighted to share with the third and final session, the key steps to starting, or as the little presentation indicates, firing up your earned income venture, again I am Bernice Sanders Smoot, I am president of Saint Wall Street which specializes in increasing funding for faith-based organizations, a significant partner for any community development venture anywhere, however, as a small business and nonprofit developer for more than twelve years, and my background in corporate marketing, that I was asked to speak to you on earned-income venturing today. There is a saying that contentment is when your earning power equals your yearning power. You can say that this is a good reason for your nonprofit organization to venture. If by chance you're a small business owner joining us through SBA this session also offers information that could spark ideas and relationships by which to grow by in the nonprofit community. If you have been with us from the start, then you know that an earned income venture is for profit business created to support your nonprofit mission. You also know that venturing is not a quick cash fix for struggling nonprofit organizations but rather it is an increasingly popular income generator for financially stable organizations. Before getting started, I would really like to thank Erica Pelman, she is the host that has made all of these teleconferences happen. All three of the presentations that I have done on earned income venturing for the DOL, along with the forms to assess your organization's venture readiness are available at my website, www.saintwallstreet.net, the three presentations all available there in PowerPoint, both the audio and visual components will be available, as Erica mentioned, if your on the email list you get information on it, if not, it will be on the DOL website shortly too. Make sure you get back in touch with Erica at the end of the session to make sure you're on the list. Starting up a venture is exciting, so please don't let the bright lights blind or disillusion you because you have to fire it up right to succeed. I will give you a ton of information in the next hour, perhaps two hours worth of information, so we are going to be flying through this, but the idea is to help you get earned income venturing right. So please hold your self away from any distractions for the next hour and we shall get started."

"First I will give a quick refresher on what earned income venturing produces for nonprofit organizations: first and foremost, a sustainable income for your mission, at last count that income exceeded 4.2 billion dollars in a single year for nonprofit organizations, it will also improve reputation and service that your organization can render in the community, greater reputation and service means your actually meeting your all important mission, earned income venturing further produces superiority distinction in the marketplace, it is important these days with 1.4 million nonprofit organizations now in the U.S., with 40,000 being added every year, it is important to be distinguished, to stand apart, and to have greater appeal to donors, volunteers, and grant makers, many of whom now actually prefer to support nonprofits that have sustainable incomes. So what does all of this mean? It means that we actually wind up being able to generate more interest and support for your nonprofit. Common earned incomes these days are thrift or retail stores, fee for service businesses such as landscaping, janitorial, refurb or reselling items, property rental or leasing, and then there is also low capitalization ventures like when your organization provides training, perhaps you write and sell a book, your leaders in the field do consulting, or maybe even you find a nonprofit that is doing something ideal for your nonprofit and you strike up an opportunity for a joint venture or franchising way. No capitalization ventures is cause related marketing, I will not be talking about this, and it is a topic on its self, and it is really reserved for organizations that have long standing reputations in the community, and they can pose to be an attraction to businesses that want to fund their ability to do the cause marketing. We did touch on this in an earlier session, if you want more information please revisit one of the earlier presentations. This is a short view of what we will cover today. Each topic actually correlates to the objective that is across from it. First thing we are going to do is assess venture feasibility. The purpose of this is to make sure you are able to relate versus violate the principles necessary for your ability to succeed in venturing. The second one is to develop your business plan. The purpose of that is to prove the profitability of what you're doing. And the third one is to secure the capitalization, and we all know what that means, finding the money to get started."

"Assessing feasibility is pretty serious chunk. It is actually the very first task for your venture committee. There are five very compelling reasons to venture. First of all, venturing will help make sure you help relate not violate your mission, your culture as an organization; certainly you don't want to comprise your program or tax status. It is very important that venturing has a proper fit. Another reason why you want to do the feasibility piece is to determine if any of the ideas you are thinking about might really pay off, and narrow down which one will pay off the best. Certainly it will give you a realistic glimpse of profit potential and what will be required to achieve it. Marketing is a big part of that. So it will also help you get a glimpse of some aspects of marketing. Marketing is one of the three M's that really kill businesses most. Very important to get the marking right. Fourth, feasibility is important because it avoids investing a bunch time and money, venturing down a road that might make you crash and burn. Fifth, it helps you produce the information critical for your business plan, which is key to getting venture capital. I want to suggest that we think about venturing as a vehicle for long term success. This vehicle can't just look good or sound good, it has to be right for the mission and be able to deliver high performance in the marketplace. Now we all know that vehicles of any sort aren't cheap, and since yours will be for the long haul, it needs to pass some tests. There are four of them in all. The first one will determine whether the venture is right for your organization. There are a lot ventures out there, but your board will need to determine what is best. You really want to buy into the vehicle that will drive you to the money that your organization needs. Each vehicle idea you brainstorm should be feasibility tested and kept or dismissed based on how well it meets those tests. You want to be left with the one most suited for your mission. How well does the venture fit? I call this the showroom look over. How well does the venture fit your mission? Think about what your mission is, and think about how your venture is going to enhance this mission. Regarding the structure, what will be the government structure? Well with structure, it is important to remember that the structure has to be complimentary to the mission, venture structure and mission structure needs to be hand in hand. At the nonprofit level you have one mentality, as a for-profit you have another different mentality; they still need to have a corresponding relationship. You don't want to start a venture underneath your nonprofit ID, you can do that, but it has to be tightly related to your mission. Whatever you're selling needs to fit your mission to make your structure work. You're going to have to keep separate records/income and separate management for your venture, because you don't want to put everything underneath the weight of your nonprofit. For instance, Goodwill's mission is to put disadvantage people to work, so it's a natural fit for Goodwill to operate thrift stores and contract out janitorial services, but if Goodwill wanted to create income by real estate, then it would really need to set up a totally separate operation because it could risk losing its IRS tax-exempt status. The IRS says that your venture must be "substantially related" to your mission. This is a broad term, but implied in this means there has to be a pretty close relationship. So you want to make sure this is the case, if you are not sure, check with the IRS. The governing structure requires a separate management, whether the venture is under your org or not, you are going to want to consult an accountant about tracking money. For instance, if you have a grant that is restricted to meals for the homeless, you don't want to use that grant money to finance a bakery, even though there seems to be relativity, because the fund-er might not like the idea of their money going to start a business, they want people to get fed. So you want to make sure that you don't commingle money in such a way that you use nonprofit grant money from other sources to finance a for-profit venture—might get you into trouble."

"The best ventures don't just make money for the organization; they also serve or engage the client base. Clients just go along for the ride on your road to success. Now the Enterprising Kitchen, which is a venture we featured last time, had a client base of low income woman, and they make soap and spa products that the organization sells. Well clearly those women are fully engaged in the mission, and Enterprising Kitchen is upholding its mission to put women to work. So there is a natural fit there that shows a clear correlation between mission and venture. The next question is what is the potential SROI? (Social Return on Investment) How does society benefit by your venture? For ventures that are aiding workforce development—people get to work (build versus drain tax base), if working then less likely to commit crimes, have more stable families, cultivate community. SROI is quite considerable. Determine real dollar measures to legitimize these claims. You do not want to fake this; people who scrub the books will be able to determine if you are lying. Likely supporters for workforce development are donors. Donors can become customers; they are also grant makers who are concerned about employment. They could also be banks and other businesses. The support base for your venture can be way beyond your target customer. A business and its employees that become customers can also be supporters of your venture. Do not think of your venture as part of your nonprofit. It is a for-profit engagement; businesses that you seek out for help will expect something out of this engagement. Beyond assessing venture feasibility for your mission, you must assess for the products that you will sell. How will these products benefit your customers? To determine this: research industry studies, conduct focus groups, study the competition. Industry research can answer what it will cost, what are the risks, who are the competitors, what is the profit potential? The research must be done very seriously."

"Next item: Assessing feasibility for your market. I call this the "road test." Assess how far on the road to success your venture will go if fueled with the proper money. In order to look at the market, ask yourself who desires this product? Who benefits from this product? In the Enterprising Kitchen example, it would be women with sensitive skin (naturally organic soap). You need to prove the buying power of your product/service. This requires market research and trend analysis. For Enterprising Kitchen, they might find a trend that the older baby boom population prefers organic soap to regular soap to stop wrinkles. Start thinking about the needs and why they want you're your product. Then ask yourself, what is the proof that they are going to buy now, and proof they are going to buy from you? What is your product's unique sales advantage? This is not easily determined all the time; it requires a lot of in-depth market research. Example, when I assisted Home for USA launch its nonprofit operation that charges fees for home buying help, we had focus on what would make people pay for this service when other organizations do it for free. We found that we had to promote the fact that clients would be paying for insurance of success in their mortgage venture. We developed a feeling of hands on help all the way home. This is the kind of thing, you need to use in assessing your venture."

"Part of assessing venture feasibility is the delivery aspect. Who might finance this venture? How are you going to deliver it with costs minimized and profits maximized? The key to getting your venture financed is developing something that is efficient and cost effective. Think about how you're going to market and sell it, based on market analysis. What are people going to respond to? Use this to shape your plans to sell your idea. How much does it cost to start this type of business? It might be helpful to contact an industry association that could share information on becoming successful. What is your minimum sales threshold? It is the least you must earn to make your venture worth doing. Who are going to be your stakeholders? Why is everybody coming to the table? You do not want people in the process that are only concerned about what they are getting out of the process."

"Developing the Business Plan: Business plan approaches very. They generally consist of: cover sheet/purpose statement, table of contents, an executive summary, a business overview, and supporting documents. Different entities present this information in different formats, all contain these components."

"In the overview (big section)—description of business, market opportunity, management, implementation, and contingencies. Under the description part: what is the business all about? How does it relate to your mission? How will clients be engaged? How are you suited to deliver? What is the project's financial and social return on investment? What's the benefit to stakeholders? Assessing your venture feasibility, answers all of these questions; this is why assessing your feasibility can greatly help your business plan."

"Market opportunities: Who wants the product/service? Why do they want it? Who is selling it successfully? What is the proof they will buy now rather than later? Why will they buy from you rather that the competition? What's the minimum sales threshold? Once again, all questions that are answered by assessing feasibility."

"Management: (important) Poor management can kill the business. Nonprofits do have the ability to seek out other organizations to help assist in the management of the venture. Who will run the business? You do not want to have the same people running the nonprofit, running the venture. What are their qualifications? They must be well qualified. What support staff will be required? What is the organizational hierarchy? (org chart-who reports to who) What other stakeholders will provide what types of assistance/support?"

“Implementation: (operations plan) + (marketing plan) + (financial plan) How will you deliver efficiently? How will make the costs of location, equipment, and process all low? What staff and salaries are required? Be realistic with salary projections. Check with IRS about amount of volunteer hours a person can work for a for-profit venture. What is the start up plan? What are the start up costs, other key considerations? What performance measurements? Initial market investment is significant but very very important. How will you distinguish your business over competitors’ in the customer’s mind? (brand identity or USA (unique selling advantage)) What’s your overall marketing strategy and timetable? How will you measure marketing effectiveness? Implementation—financial plan: (this is the standard) 3 year income statement, 3 year cash flow analysis, year 1 monthly cash flow statement, sources-and-uses statement, financial summary, breakeven analysis, notes to financial statements. Sources-and-uses are who is giving you money, and what that money is being used for. How many people are you serving? What are the assets in your org that can be transferred into money?”

“Contingencies: This is where you take a look at risk. This is where you set forth your risk management strategy. This is where you cover you and your investors in the event that the whole thing blows up. You need to have an exit strategy. Anybody who looks at your business plan, especially banks, will want to see what the risks are. Even if it is profitable, if the risks are more serious, then the interest in financing will wane. As I mentioned with the supporting documents, you will want to look at regulations and insurance, and cover those. There is a lot to look at when dealing with contingencies. The supporting documents include your resume of management and key staff, site plan, equipment list, insurance requirements and costs, and pertinent regulatory issues. This is serious business.”

Erica: “One thing I want to add about regulatory issues, if you go to DOL.com, there are tools that can help understand what regulations apply to your nonprofit.”

Bernice: “Thank you for adding that Erica. Also, there is standard information on DOL.com that all businesses have to post. (work laws) Make sure you make note of this. You will want to have all of the information ready from a regulatory standpoint for your business venture.”

“Securing Capitalization: How are you going to get the money to launch your business venture? Some of the common ways of gaining capitalization from an internal perspective, these internal sources include, operating reserves, building equity (equity in the building that you have), discretionary funds (money that is not particularly earmarked for something), flexible grants, and board/committee investments and loans. While it is easy to frown on this piece, the reality is for outside banks and businesses to take you seriously, you need to have “skin in the game.” If you’re not willing to invest in the venture, then why would anyone else want to invest. It is important to make a good faith effort of internal sources for capitalization. Another way of securing capitalization is to look at loans from your bank or SBA loan guarantee. It is best to deal with a bank that your nonprofit has a long history with. The SBA loan provides loan guarantees and has a lot of paperwork involved. You can find more information about SBA loans and small business plan development at www.sba.gov . We mentioned earlier that some grants are flexible, but you will want to check to make sure. If your business venture proves profitable enough, you might find some board members that will back your venture. There are more grant makers that favor backing ventures that create job opportunities and facilitating community development. There many venture friendly private and community foundations. There are also sources that provide stipends for leaders who are engaged in leading venturing, these include the Ashoka organization and Echoing Green. You can get more information from their sites and my resource library. Another source could be venture capitalists; however, they mostly deal with the big deals. You need to have a really good business venture for venture capitalists to get involved. There is also venture philanthropy. This is where there are grantors in the business of making loans, or PRI (program related investments). PRI is done by foundations to further the causes that they value. The money that is a loan is generally at a lower rate, set to be paid at a certain time. Not many foundations give PRI's, but those that do usually give the loans to an organization that they know. It is becoming a little more attractive though, because since the money is repaid, they can recycle the money. The ability to access PRI's or any capital is dependent on whether you can prove your venture can make money, if it will be well managed and well marketed. There is also something called competitions, the Yale School of Management/Goldman Sachs National Business Plan competition awards money to ventures that have the best business plans. There is also a Skoll Foundation award. Also through SBA, there is the SBRI award. There are a lot of opportunities for funding, but you must prove that your venture is worth doing."

"If you want to save yourself from time and money, I would suggest getting help through a venture coach. A venture coach can help you get the hard stuff done faster; they are professionals, like myself, who do this kind of thing on a regular basis. It is important to get professional help. If you wind up getting the help, then you can you focus on three things that are critical for you to focus on: entertain only realistic ideas (venture coach can research preliminary venture ideas), make informed decisions (focus group surveys can give you real market data), and plan a more profitable venture. For those of you interested, all of these presentations done with the DOL are at my website, www.saintwallstreet.net, I have added two pages to my site, one which is called "shortcuts," gives information on how to make shortcuts are your way to conventional business venturing, as well as the "resource library," it provides where to go for more information and provides a short description of a book called Venture Force by Ralph Larson, which helps present some of the information used in this teleconference. For additional information there is www.sba.gov . SBA SCORE can provide free business venture coaching. Transcripts of the calls will be posted on www.dol.gov/cfbci/venture.htm by March 23rd. That wraps it up!"

Questions:

Bernice: "How does one calculate the dollar value of the SORI? It is a formulaic process, part of that involves understanding what are the costs of the venture not providing that social value. For example, the average cost for crime against an individual is $6000, well if your venture reduces crime, you can use this dollar figure as a basis for establishing a dollar value for the SORI. You have to look at what problems you are solving and what this costs. Where can you go specifically to get research to develop your planning? Federal government sources such as the Census Bureau and DOL are good sources, as well as the private associations in that particular industry. You can reach me through my website, www.saintwallstreet.net . How do you find a venture coach? Look at the DOL Small Business Administration SCORE program and the Small Business Development Center, also look at your community entrepreneurs. Also visit your local chamber of commerce to find a business that might be similar to your venture."