



DOING WELL WHILE DOING GOOD

How to Launch a Successful Social Purpose Enterprise

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ARE YOU READY FOR SOCIAL PURPOSE ENTERPRISE?

A social purpose enterprise is a revenue generating venture founded by a not-for-profit organization or charity to create jobs or training opportunities for very low-income individuals.

Since 2000, the Toronto Enterprise Fund (TEF) has provided support and grants to not-for-profit organizations to help them launch and build social purpose enterprises that employ people who are homeless and low-income in Toronto. TEF makes a long-term commitment to supporting these enterprises, through renewable annual operating grants, generally ranging from \$50,000 to \$100,000 per year. Over the years, TEF has gained many insights into what works when launching and running a social purpose enterprise, as well as the common pitfalls encountered.

Let us start with the hardest fact of all: launching and running a social purpose enterprise is extremely challenging work. It isn't similar to adding a new program to a not-for-profit agency. It requires considerable energy, resources and a significant shift in thinking about how the mission is delivered. As challenging as these businesses are, successful social purpose enterprise managers universally agree that they are equally rewarding and worth the intense effort involved.

Although there are myriad resources available on starting and running a small business, the implications of doing so within a not-for-profit context and with marginalized populations are unique, wide-ranging and less well-documented. This primer shares what TEF has found are the six common mistakes made by organizations that embark on social purpose enterprises:

- The enterprise is not the right approach for the agency.

- The enterprise is not sufficiently connected to the industry in which it operates.
- Agency staff and the business manager treat the enterprise as a project, not a business.
- The right people are not hired to lead the enterprise.
- The agency has unrealistic expectations for social and business outcomes, often underestimating how hard running a social purpose enterprise will be.
- Key staff have poor financial literacy.

To help you avoid these common pitfalls, this book shares the perspectives, challenges and lessons learned from fifteen social purpose enterprises that have received funding from the Toronto Enterprise Fund. Additional information from funders, consultants and sector leaders rounds out the advice within.

Actively engaging in a social purpose enterprise is the only way to accurately reveal what works best for you, but this primer is intended to set you on a surer footing by sharing useful ideas to prepare for, launch and expand your social purpose enterprise.

For more details on the Toronto Enterprise Fund and the organizations profiled in this book, visit www.torontoenterprisefund.ca.

“Perhaps if managers could see there is a real possibility that after three years they will only employ four people on sales of less than \$20,000 – and that this happens all the time – they would pay attention to [what other social purpose enterprises have] learned.”

– Allan Day, Consultant

TEF-FUNDED ENTERPRISES DISCUSSED IN THIS BOOK

Big Sister Thrift Shop was planned as a youth-run store, developing retail and business skills for at-risk youth.

Phoenix Print Shop is a commercial print shop that provides training and transitional employment to youth who are homeless or at-risk of homelessness.

Furniture Link operates a furniture pickup and delivery business providing permanent employment to people with limited employment opportunities.

Growing Green Jobs is an urban farm operating a greenhouse and a garden, providing temporary part-time employment to people with severe persistent mental illnesses (including those who are still hospitalized).

Haween Enterprises creates employment opportunities for immigrant women in the sewing industry.

Inspirations Studio is a women's entrepreneurial initiative that brings participants together in a common studio space to produce arts and crafts for sale.

The Mill Centre is a woodworking shop that provides transitional employment to homeless and at-risk youth.

Out of this World Café is a food services company located within the Centre for Addiction and Mental Health and providing employment for consumer/survivors - people who have had personal experience with the mental health system.

Parkdale Green Thumb Enterprises provides planting and plant maintenance services to Business Improvement Associations and other businesses, employing consumer/survivors.

Protégé Media was planned as a recording studio to provide youth with technical, life skills and employability training to make a transition into the recording industry.

River Restaurant is a fine-dining restaurant and lounge that provides training and transitional employment to youth who are homeless or at-risk of homelessness.

Set Monkeys was planned as a youth-owned business that would provide set location and support services to the film industry in Riverdale.

SKETCH Connections is a self-employment development program for street-involved youth who are interested in building a livelihood in the arts sector.

St. John's Bakery is a wholesale and retail baker of organic, artisan-style bread that offers permanent employment to people in the community who are marginalized.

Tumivut Earthkeepers is a horticultural and landscaping enterprise that addresses the social and economic issues faced by homeless youth by providing on-the-job experience.

WSC Logistics provides training in logistics to immigrant women who participate in a complementary job training program.

THE TOP 6 KEYS TO LAUNCHING A SUCCESSFUL SOCIAL PURPOSE ENTERPRISE

When launching a social purpose enterprise, it is inevitable that mistakes will be made. While we may learn from mistakes, they cost time, precious resources and, if serious, can end the business outright. The following critical activities are commonly ignored or neglected by social purpose enterprise managers, adversely affecting the business and social goals. More detail on each is provided in this primer.

1. Make sure it is a good fit with the agency. The tremendous impact that a social purpose enterprise can have on the lives of marginalized clients can cloud an agency's judgment as to whether it is the right approach for the agency. Parent organizations must carefully examine their own environment as well as the proposed enterprise to determine if it is a good fit.

2. Know your industry. Initial and ongoing industry research is critical when starting and running a social purpose enterprise. Being poorly connected to the enterprise's industry can lead to a variety of roadblocks, including discovering too late that job opportunities are scarce, that available work is low-paying, that industry changes negatively affect your business or that the resource demands of running the business are not sustainable by the agency.

3. Treat your enterprise as a business. Treating an enterprise as a project is the most detrimental and common mistake made by non-profits. Many agencies look at social purpose enterprises as employment training programs and design them from a social service perspective. To run an effective enterprise, the business side is mission-critical and cannot be ignored. A primary focus on business operations may seem counter to your social goals, but it actually drives the enterprise's ability to deliver on the

social mission. Adopting a business mindset is often a significant challenge, but one that must be overcome if the enterprise is to thrive.

4. Hire the right people. Hiring the right people for each position and the right mix of people for the whole enterprise is critical. In particular, the choice of enterprise manager is an essential one, as this individual will largely drive the entire business. Individuals with strong business knowledge and a social focus are required, and may demand financial resources that challenge the parent organization's capacity and culture.

5. Set realistic expectations. Social purpose enterprises are often expected to be a social and financial windfall for the agency. Without realistic, long-range planning, agencies overestimate the potential of the business and are unprepared for its demands. Launching and running a social purpose enterprise is extremely demanding and challenging work. You must juggle business imperatives with social needs, work long hours, constantly employ creative thinking, be marketing, sales and business savvy and demonstrate sensitivity and flexibility while negotiating the ongoing full support of the parent agency.

6. Improve financial literacy. Proper financial management is critical to business success—it supports funding requests and paints a clear, up-to-date picture of the enterprise's ongoing viability. For many social purpose enterprises, however, financial management is a significant challenge. Equipping your business with the right financial tracking tools and training enterprise managers in financial management can increase chances of success.

READINESS DIAGNOSTIC

Having gone through the experience of launching a social purpose enterprise, some agencies in the TEF portfolio recognize in retrospect that asking some key questions up front would have made the process smoother. Preparation is vital, and taking a “temperature check” of the agency can help determine whether you are organizationally prepared for the challenges of starting a business. Eva’s Initiatives, one of the most successful TEF-funded enterprises, conducted two years of preparation before launching Phoenix Print Shop. Other enterprises that subsequently closed or lost their funding only began their planning process in response to TEF’s request for business proposals. Below are some questions that can help determine your readiness.

- Is our board of directors and parent organization supportive of the idea of social purpose enterprise and willing to give us the room to make critical decisions to ensure its growth?

Eva's Initiatives' leadership has been completely on-board with the agency's Print Shop enterprise, supporting its success. Set Monkeys' Board was not fully comfortable with the business design and operation, contributing to its closure after two years.

- Knowing that the business will likely take five to seven years to get off the ground, are we prepared to invest this time in the business? Do we have enough committed individuals?
- Is the proposed business the right fit with our agency's mission?
- Are we able to bring the right combination of skills and connections to the planning table?
- Do we have access to business expertise?

- Are we willing to make changes to adopt the business mindset needed for this venture?
- Are we prepared to involve our target community in development activities? Are they prepared to be involved?
- Are there any significant changes planned within the agency that could distract from this project? (e.g. physical move) If so, are we able to work around them (e.g. is lengthening the start-up process a sufficient solution?)
- Do we have the ability (human, physical space, financial, capital resources) to produce, store and distribute marketable products/services to meet demand?

Phoenix Print Shop operates within a 400 sq. ft. space, which is inadequate for the print equipment and storage of printing materials and projects.

- Have we discussed and are we prepared for the risks inherent in starting a business?
- Are we prepared to accept failure and have we discussed how we will make the determination to exit the enterprise?

IS IT A GOOD FIT WITH YOUR AGENCY?

"At the beginning, it was very important that we had the support of Eva's Initiatives' [Executive Director] and the Board of Directors. That kind of support is crucial. If you don't have senior level support, don't even bother. It's not a one-to-two year thing; it's more like a seven-year thing. We have had full support to explore and get it running."

– Phoenix Print Shop

Launching a business is a risk-taking venture that brings with it the possibility of failure. Fifty per cent of the enterprises in the TEF portfolio have not become viable businesses. While this is a better statistic than the nine out of ten businesses that fail in the private sector, it should still be significant enough to give you pause.

Support of Parent Agency

Business managers in successful TEF-funded enterprises universally acknowledge that support for the business across the parent agency—especially at the Board level—was imperative. The Board of Directors needs to understand and support the direction, goals and requirements of the business. The enterprises that lacked full Board support eventually closed as standard business activities were perceived by the Board as too risky and were not approved, which jeopardized business performance.

WSC Logistics' Board of Directors was unwilling to change existing debt policies to accommodate the business needs of the enterprise, which prevented it from securing large contracts and contributed to lack of commercial success.

Some enterprises found that significant problems also resulted if everyone affected did not fully understand what would be involved in running an enterprise and were not ready to work through the challenges.

YOUTHLINK looked to transform its thrift shop, which had been run by longstanding elderly volunteers for more than two decades, into a social purpose enterprise that employed the youth population the agency served. The agency underestimated the strength of volunteer ownership in the shop, however, and volunteer staff strongly resisted the change. Without enough consultation, transparency, and time for the volunteers to adapt, the agency had to abandon this business idea.

STRONG FIT: The Somali Women and Children's Support Network supports recent refugees to Canada through the settlement process. Its social purpose enterprise, a sewing business called Haween, provides employment opportunities for new immigrant women to use the sewing training and experience they had in their native country.

WEAK FIT: Set Monkeys, a social purpose enterprise initially funded by TEF, employed youth to provide set location and support services to the film industry. The lead partner agency's competency was in helping people and organizations build small businesses. The board was not comfortable with youth ownership of Set Monkeys and the agency reconfigured the business as a placement agency that it controlled, which moved the business model away from the agency's core strengths.

Decide on Business Model

The not-for-profit environment is typically one that is consultative in its approach and risk-averse in its decision making. Social purpose enterprises, in contrast, need to be agile and risk-taking. They need flexibility to make decisions at speeds that might not be traditionally found in their not-for-profit parent and often these decisions are motivated by business interests over social ones. The tension between business and social needs is an ongoing battle that these enterprises have to manage. TEF has found that social purpose enterprises benefit from a clearly defined decision-making structure for the board and the enterprise manager that is established at the outset and outlines roles and accountability.

In addition to board support, it is necessary for agencies to have a clear sense of the kind of business that best suits the organization and its target population. Many failed social purpose enterprises had terrific business concepts that simply did not fit into the organization's goals and core competencies.

Linking enterprises provide transitional job experience and programs that build employability and other assets for the marginalized population to move to mainstream employment.

Marginalized youth are generally suited to a linking enterprise to build their capacity to participate in the labour market. Tumivut Earthkeepers, a social purpose enterprise of Native Men's Residence, works with street youth and provides them instruction and hands-on experience in landscaping and horticulture. Through an arrangement with the City of Toronto, Tumivut Earthkeepers' participants gain full-time summer employment with the City and have the potential for permanent positions.

Parallel enterprises provide permanent accommodating employment for marginalized populations who would likely be unable to work without specialized supports.

Out of this World Café, a food services company run by the Ontario Council of Alternative Businesses and operating primarily within the Center for Addiction and Mental Health, has an employee population of psychiatric consumer/survivors who require accommodating employment.

Linking enterprises discovered that in addition to providing skills to link participants to mainstream employment, it is equally important to understand what they are being linked to and how much training and work experience is required to make the transition.

Protégé Media was a fully operational recording studio funded by TEF that provided youth with a full-year of on-the-job technical, life skills and employability training to make a transition into the recording industry. This approach had been successful for the parent agency with other social purpose enterprises in the restaurant and carpentry sectors, however a year of training wasn't enough for participants to get a job in the recording industry. The youth discovered that returning to school for technical training in the field was necessary to access entry-level positions.

For parallel enterprises, the organizations needed to adequately plan for people to continue to work with them.

Out of this World Café has become a popular opportunity for consumer/survivors and has reached the saturation point of being able to employ people. There are 40 part-time employees with little turnover of staff.

Another common pitfall many agencies encounter is developing a social purpose enterprise around a product or service that has little market appeal. It is important to fully research the demand for a product or service. Is any other company addressing this need? How much can realistically be sold by the enterprise and at what price point? This kind of analysis will help you determine whether a business can be sustained.

In the early days, the Mill Centre encouraged participants to create woodworking projects for sale. One of the biggest problems with the enterprise was that the Centre was making products that it had trouble selling. Participants simply wanted to do woodworking, but in order for the business to have revenue and continue to be viable, the resulting products had to be sold to the marketplace. The enterprise would have therefore benefited by identifying and selling products that met market demand.

Working in a Partnership

When working in partnership with another organization, establishing clear guidelines for responsibilities from the outset helps establish the foundation for a smooth working relationship. Identify the expectations of each party and on what grounds the relationship will be terminated. Schedule a timeframe to review and update the parameters of the partnership.

FoodShare and the Centre for Addiction and Mental Health (CAMH) are partners in Growing Green Jobs. At the start, CAMH and FoodShare made decisions collaboratively about the business, and each had its areas of responsibility. Frequent meetings between the two helped develop procedures and systems that worked well by the end of year one.

Most business decisions moved to FoodShare, but both organizations collaborate to solve problems. While FoodShare is a quick acting, community-based organization and CAMH a larger institution with slower processes, they have managed to make timely decisions that respect the needs of participants and the cultures of both partners.

Each year they review their partnership agreement. Substantial changes have not been made, but revisiting them annually has proven useful as a renewal of commitment.

KNOW YOUR INDUSTRY

“Anybody who wants to start a business should consult with people in the field in which they want to start their business. You have to research and understand your field very well.”

– Haween Enterprises

Once an agency has an idea for a social purpose enterprise, it is natural to want to jump into action, but the most important part of establishing a successful business is the preparation phase. This phase, if done properly and thoroughly, can take up to two years and may even lead to the decision not to start the business. It is clear to TEF that organizations that invested considerable time and effort into the preparation phase were better equipped to deal with the challenges of running a business. This planning is so important that TEF only considers applicants that have begun the process well before applying, and even then offers a six-month long business development program prior to accepting funding applications.

Because of the time investment, many not-for-profits make the mistake of rushing through this phase or doing the bare minimum to obtain funding. Proper preparation, though, helps agencies understand the industry they are entering, set realistic expectations for the business and avoid unnecessary business shifts after the launch. Enterprises that devoted the time, energy and resources to understanding the industry they were entering—and accurately reflected the realities of the marketplace and their own abilities in their planning—were able to make sound decisions about whether to proceed and how to make their businesses sustainable.

The initial feasibility research for Set Monkeys, a business to give youth jobs providing set support to the film industry, was insufficiently detailed. Once the partner agencies got into the details of business planning, the limitations of the business as it was originally conceived became clear: there was not enough of a market for set support services. The partner agencies subsequently had to broaden the social purpose enterprise's scope to include film production work and invest additional effort into developing new contacts in this area.

Protégé Media, which introduced youth to the recording industry, was advised upfront that the business would face three significant challenges: 1) competing with the monolithic recording industry, 2) producing good quality recordings, and 3) building a viable business and marketing strategy. The agency forged ahead instead with a strategy to provide “good enough” demo recording services to emerging artists. The enterprise soon found that new musicians could not afford to pay enough to generate significant revenue. Eventually, the parent agency acknowledged that the business was not viable—a reality that might have been evident through more thorough research.

Well-executed research gives agencies a clear picture of the risks, opportunities and viability of the business. Successful organizations spoke to or involved people from outside the agency to fill knowledge gaps and provide industry and operational advice.

Establish an Advisory Committee Early

Many TEF-funded enterprises established advisory committees early. These committees are separate from the board of directors and provide directional support to enterprise managers. Committee members with a broad range of experience and

knowledge can help to inform the research phase, provide industry expertise, support the development of a realistic business plan and engage participants.

Inspirations, an art-based social purpose enterprise that involves women marginalized by poverty, set up an advisory committee when it converted its art therapy program to a business. The presence of participants on the committee helped promote trust and understanding of the business shift and its objectives early on. Today, the committee includes external business experts. "Including external expertise earlier on our advisory committee would have been good. We ended up in the early stage doing a lot of things that we would not have done if we had external members on the committee to tackle marketing and art production issues and to look beyond ourselves. We have this now and it is much better."

Phoenix Print Shop's 12-person advisory committee is comprised of six graphics professionals, four business professionals and two youth graduates. The committee's role is to support the Print Shop team in making good decisions to achieve stated goals. Although they meet just once a year, they attend Print Shop events, such as graduations, and members are available to the business manager to provide support related to their unique assets. For example, one advisory member has been able to facilitate information sessions and entry into university programs, while another has provided key industry contacts and high-profile access to a national tradeshow.

Many social purpose enterprises can be constrained in their decision-making flexibility by the organizational structure of the parent organization. Some enterprise managers have found that

having a Board member on the advisory committee has helped the parent agency better understand the challenges of the business and the need for quick decisions.

You Need a Plan

Many not-for-profit organizations approach the task of developing a social purpose business plan from the perspective of justifying the agency's business idea and thereby obtain funding. Agencies are better served when they develop the business plan as a means to discover whether or not the enterprise idea is actually a viable one. The plan should inform the "go or no-go" decision.

A well-developed plan can:

- Ensure that the agency fully considers the critical elements involved in starting the business.
- Help the agency identify factors for success and encourage realistic actions and expectations.
- Demonstrate that the social purpose enterprise is viable and worth funding.
- Establish a foundation for the business that managers can return to, and provide a clear path to move forward on goals and objectives.
- Help the agency avoid a false start and unnecessary mistakes.

All TEF-funded enterprises are required to develop business plans as a condition of obtaining funding. The Toronto Enterprise Fund supports this process with a six-month intensive business development program that includes workshops and one-on-one consulting.

Even with seemingly comprehensive business plans, enterprises can struggle to get off the ground, which highlights how important it is that the plan accurately reflect the agency's realities. An additional lesson learned was that developing the plan collaboratively with individuals who will be charged with launching the enterprise allows staff to deepen their knowledge in advance of the roll-out. Hiring a consultant during the business planning stage can be very useful, but agencies should not rely on consultants to develop the plan for them.

WSC Logistics was the fourth business launched by the Working Skills Centre. The business seemed like a strong fit because it could build on the participants' multilingual and cross-cultural knowledge to gain a competitive advantage, however business planning proved very difficult. The agency was not familiar with the culture and operations of the logistics sector and eventually it contracted an advisor who worked and taught in the field to develop the business plan for them. Once the business launched, the enterprise managers, who had no experience in the sector were forced to rely heavily on a business advisors group, and found themselves constantly having to learn "on their feet."

The business plan is a living document that changes as the enterprise grows and learns. Revenue targets in the initial year, for example, are typically more modest, with more aggressive targets added as the enterprise develops and growth becomes a priority. Similarly, initial capital expenditures recognized in the launch plan may not need to be included in subsequent plans until such time as there is a need to replace equipment or other capital items.

Phoenix Print Shop, which employs homeless youth, revisits its business plan every year. With advisory board support, the business manager and technical staff review the long-term vision and goals and map out the objectives for the year. Regular updates to its business plan enable the Print Shop to stay on top of industry changes and assess such issues as the relevance of its training and the need to reinvest in equipment. Key initiatives for the year arise from this analysis.

More Heads are Always Better than One

Most of the successful social purpose enterprises TEF works with continue to involve participants and advisory committees in determining business direction. While each organization approaches this differently, the importance of gaining from the perspectives of others is universally acknowledged. Continued connectivity with industry members, potential customers and participants increases organizational responsiveness to changes in the business environment.

Parkdale Green Thumb Enterprises' parent agency, the Ontario Council of Alternative Business (OCAB), runs a variety of businesses. Managers from each business meet regularly to strategize together. It's a group process of planning and identifying new opportunities for the businesses. One advisory committee supports all of the OCAB businesses around marketing strategies and community opportunities for business.

At Out of this World Café, another OCAB-run business, all staff and management make day-to-day menu decisions together. Regular staff meetings enable hourly employees to provide significant input into the business from a front-line

perspective. The management team reports to OCAB and its board as part of the regular management meetings. Substantial decisions are made through OCAB.

Haween, a sewing enterprise, involves an advisory group and its Board of Directors in annual planning. It also routinely consults people who are in the manufacturing business to get an industry perspective. Participants, staff and Board all work together with regard to decisions about the business.

The Advisory Committee for Inspirations Studio, an artist's collective, is a very hands-on committee that initially included an Inspirations member and staff from Community Resources Consultants and the Community Mental Health Resources Centre. It has since added a gallery owner, an independent jeweller and the manager of a museum.

Your Enterprise Should Mirror those in Your Sector

A simple rule for social purpose enterprise management is that the business should emulate others in the sector as closely as possible. Well-run enterprises look at what competing businesses are doing—what software they use, how employees are allocated, how products are developed, produced and delivered to customers—and mirror their business model as closely as possible. Industry members on the advisory committee can facilitate this process.

Haween Enterprises, which sews garments and bags, operates in a highly competitive, increasingly global market. It will always struggle to compete with similar businesses since its mandate is to accommodate participants with flexible work hours so that the female participants can meet their family obligations. The women arrive for work after their children are

dropped off at school, and leave in time to pick them up when the school day ends. In an industry that typically runs three shifts a day, and has employees working as much as 75 hours per week, Haween's model is a competitive disadvantage.

Of course, social purpose enterprises inevitably face unique challenges and tensions arising from their dual mandate of accommodating participants' needs while running a successful business. Still, trying to emulate the business practices of other successful companies in the sector results in a more viable enterprise.

Industry Knowledge Checklist

Your research should paint a clear picture of the industry and the opportunities and challenges you will face. It should answer at least the following questions:

- ✓ Is this sector growing, shrinking or stable?
- ✓ What are the annual revenues?
- ✓ Who are the key players? Who among them will be our main competitors?
- ✓ How profitable were those companies in their start-up years?
- ✓ How do they get their product/service to market? (e.g. storefront, distributor, direct to client)
- ✓ What are the biggest challenges facing the industry?
- ✓ What and where is the demand for the product/service?
- ✓ Who and where are the target customers? Is there an identifiable niche within this group that we can tap into?
- ✓ What are their spending habits?
- ✓ What are the average wages in this field?
- ✓ What specialized expertise is required on staff?
- ✓ How much are these specialists typically paid?

- ✓ How much training is required to enter this field and obtain sustainable employment?
- ✓ What risks might we incur if we start up an enterprise? (product liability)
- ✓ What are the risks if we fail?
- ✓ What are the benefits to launching an social purpose enterprise?
- ✓ What business licenses, name registrations, health regulations, WSIB rules and industry laws will apply to us?
- ✓ What upfront expenses will we incur?
- ✓ What are the ongoing expenses? (e.g. is new equipment released annually?)
- ✓ What are the tax implications of launching a business?
- ✓ What are the day-to-day tasks that employees would have to do for the business to operate?
- ✓ Are our participants capable of these tasks (tasks that require repetitive fine motor skills may not be appropriate for a target group with physical disabilities)?
- ✓ What limitations do our participants face that may affect their work performance?
- ✓ How many participants would we therefore need to meet product/service demand?
- ✓ How much space will we require to run the enterprise?
- ✓ Are we able to support participants to find and maintain work? How?
- ✓ How many staff are needed to run a modest enterprise? What responsibilities do they have?
- ✓ What external funding is available? What is the funding period? (e.g. 1-year, 3-year, 5-year funding)
- ✓ What internal funding is available? How long will that level of funding be available?
- ✓ In terms of scale, what is an acceptable cost per participant for us?
- ✓ Should we pursue a partnership with another non-profit organization to launch and operate the enterprise? If so, who is a good fit?

YOUR ENTERPRISE IS A BUSINESS

“If there is a direct conflict between the business versus the social goal, the business has to take precedence or the enterprise will eventually fail.”

– St. John’s Bakery

Social purpose enterprises commonly make the critical mistake of treating the business like a social program. TEF’s experience has shown that enterprises that pursue profits are ultimately better able to maximize their potential to support their client group.

“You have to balance a non-profit mentality and business sense. When you are sitting with a corporation who wants a product, you have to act like a business and not a non-profit. You have to learn to think like a business and not like a social service agency.”

–Haween Enterprises

The tension of juggling the contradictory demands of the enterprise’s social and business objectives is a constant struggle for the social purpose enterprises TEF works with. The most successful businesses—those that are able to deliver social outcomes as well as solid business performance—all recognize that focusing on business success is the number one priority.

The Mill Centre’s most successful business activity was producing a large order of beds for a shelter. The order required repetitive work, stricter discipline and meeting deadlines, all of which participants were not accustomed to, and created a high degree of stress among the workforce. Because of this, the Mill

Centre decided not to pursue large volume orders, and has since achieved fairly low levels of sales that create low levels of meaningful work.

Generally speaking, social purpose enterprises evolve slowly and carefully, typically focusing on developing a product or service then identifying “easy” customers—individuals or businesses already acquainted with the parent agency. Some organizations stall at this point, but developing a true market orientation—focusing on improving sales, developing and following business plans and responding to industry demands—is what determines whether the enterprise will have longevity and success.

Know Your Business and What Success Looks Like for You

TEF has found that quite often agencies conceive social purpose enterprises purely with the intention to provide employment opportunities for marginalized communities. The subsequent enterprise offers beneficial activities for participants but the agency cannot clearly define what the purpose of the business is beyond social results. Even when the business intention is clear, a focus primarily on social outcomes will be to the detriment of business results. It is important to be able to define exactly what the enterprise does (e.g. residential landscaping, runs a restaurant, etc.) and how best to deliver on that business to optimize performance (e.g. maximum 12 employees, three shifts to accommodate attention deficiencies, two staff for training, one for business development, etc.)

The intensive in-studio training approach employed by Protégé Media demanded a lot of staff time. Staff played the role of mentor, coach and trainer, while also being expected to build the business. With the heavy requirements of working with participants and a tendency to prioritize this over business development, customer acquisition and service suffered and the business ultimately failed.

St. John's Bakery, Phoenix Print Shop and Out of this World Café are three of the most successful social purpose enterprises in the TEF portfolio. Each adopted a business orientation early on and continually makes adjustments to increase business success. The Print Shop adjusted participant recruitment to employ youth with basic numeracy skills to ensure the business was productive (and the youth were more likely to succeed). Out of this World Café focused on managing inventory, reducing waste, improving cash management and increasing sales, all of which would lead to better pay and longer hours of employment for employees.

“[At the start,] I would have had a better sense of how to get a good balance between the number of skilled and capable people you have and the number of less skilled workers. This balance is important so that people don't get burnt out. There is a tendency to want to help everyone, but the ones doing the most work will burn out and that has happened to us before. You need to know what you can do well, and not what you can do for the sake of doing it. There is no point doing something unless you can do it well.”

– St. John's Bakery

These enterprise managers found that inevitably there is an element of trial and error in improving business performance, but a learning attitude, particularly in the start-up years, and a willingness to take risks to develop the business helped to propel their success. Social purpose enterprises should always be making changes and learning from mistakes to find new opportunities.

The Toronto Enterprise Fund makes technical assistance grants available to enterprises in addition to operating grants to support business growth. These grants have been used in a variety of ways, including developing a production manual, a website, brochures and marketing tools. Since 2005, TEF has also offered strategic investment grants of up to \$50,000 for purchasing capital or strategic expertise. These grants are specifically

intended to improve business performance, and recipients need to show that the investment will be returned to the business over the course of three years. Parkdale Green Thumb Enterprises requested strategic investments to purchase wagons and watering machines. Obtaining this equipment has enabled them to get new business and each year it has won a new contract worth \$15,000 to \$20,000.

Separate Social vs. Business Costs and Successes

There are costs and revenues associated with running a social purpose enterprise that are in addition to those of operating a regular businesses. For instance:

Regular Business	Social Purpose Enterprise
Sales revenue	Grant revenue
Capital repair costs	Training materials costs
Material Costs	Transportation supports
Rent	Salaries for life skills trainers

It is important to treat social and business operations as separate functions to understand how well the business is doing as a business. Enterprises that can draw a clear line between social and regular business costs are able to determine whether they have the capacity to generate enough revenue to cover business expenses (a sustainable enterprise) or eventually cover all costs (a self-sufficient enterprise.)

Funders are increasingly demanding to see separate accounting for social and business costs and are reluctant to fund enterprises that do not demonstrate a desire for greater self-sufficiency.

“[TEF is] looking for social benefits: individuals are earning income, improving their housing situations, going back to school, etc. But we are also looking for real businesses that have a real business foundation and are working towards business cost recovery. You can’t [continue to receive funding] if you are just doing one thing really well and not the other. You have to be showing progress on both fronts.”

– Toronto Enterprise Fund

When TEF began, the thinking mirrored the typical thinking of many social agencies that launch enterprises. During the first three years, TEF focused primarily on the businesses’ start-up and social outcomes. The evaluation model was framed around social benefits. What became clearly evident was that the work of TEF-funded enterprises was valuable but the businesses were not succeeding.

In the three years that followed, TEF shifted its focus to supporting and evaluating business performance to make sure the enterprises stayed successful and survived. TEF provided enterprises with a business consultant to assist the organizations, required the enterprises to build marketing and development strategies and invested in technical assistance for that. Today, TEF’s focus on this has intensified.

Because TEF recognized the value of social purpose enterprises taking risks and adopting a learning posture, the Toronto Enterprise Fund has also taken risks. TEF is comprised of several funding partners. Individually, they are not highly risk-taking organizations, but sharing the funding mitigates the risk and allows them to let enterprises have more opportunities to explore their potential. If there are flaws in an organization, it doesn’t preclude them from receiving TEF funding. The commitment to learning and disseminating what TEF has learned also supports this risk-taking approach.

Sell, Sell, Sell

Social purpose enterprises often develop more slowly than traditional businesses, primarily because of a lack of market focus. Many agencies thought that customers would be drawn to their enterprise because of its social mission but, once they launched, they discovered that they had to seek out new customers and actually sell their services. Eventually, successful enterprises realized that their focus had to be on finding ways to penetrate their market and sell their goods or services.

Out of this World Café has a somewhat captive customer base within the Centre for Addiction and Mental Health. The gentrification of the Queen West neighbourhood where CAMH is located however has increased dining choices outside of the building. Keeping its market focus, the social purpose enterprise received a grant from TEF to purchase a refrigeration display unit. The unit enables OTW to sell food at the espresso bar located at the entrance to the building and get customers to purchase more items more often from them. It has also entered into collaborative catering activities with another social purpose enterprise in the food industry to extend the range of catering contracts that it can take on.

St. John's Bakery hired one of its participants as sales manager and he has significant input into seeking out new market opportunities and securing new contracts. The bakery also opened a retail store in the front of the building, with the next step being to develop new products and then market the store aggressively.

Building awareness of the business was the second-most significant challenge for Phoenix Print Shop (after getting the business model right.) Today, its main customers are large corporations, and three years of work went into developing

those relationships. It took a lot of personal exchanges, bringing people in to show them the facilities and business capabilities, to build trust. In the coming years, developing a brand and brand awareness is a key priority to grow revenues.

Even among successful TEF-funded enterprises, the ability to go into the marketplace and sell products and services is the weakest aspect of business operations. In TEF's opinion, all social purpose enterprises would benefit significantly from hiring individuals early on who have the skills and desire to make sales and develop business opportunities.

Customers are Not Donors

In social purpose enterprises, as in all businesses, product and service quality are vital to business growth. Enterprise customers may feel better about patronizing the businesses because of their social goals, but they still expect to get the most for their money, regardless of the workforce. The employee population within a social purpose enterprise may have greater-than-average difficulty achieving consistent quality. It is therefore up to the enterprise manager to demonstrate creativity to meet this business imperative.

While achieving consistently high quality may appear to be in conflict with social objectives, it actually supports the business outcomes. On the social side, it prepares participants in linking enterprises for the demands of the traditional workforce and contributes to a sense of accomplishment for those working in parallel enterprises.

Is it Time for a Consultant?

Consultants can provide valuable input into your business at any stage of its development, from business plan preparation to helping the enterprise grow once it's off the ground. TEF brought

an external consultant in at the latter second stage, once business managers had a strong sense of how their business worked and its challenges. At this stage, a consultant can help the manager focus beyond day-to-day operational issues. He or she can help identify new markets and process efficiencies, control costs or set better goals.

Through a grant from TEF, Inspirations Studio engaged a marketing consultant to help the organization develop a marketing plan. The consultant helped Inspirations better understand its primary market segment and identified opportunities within two previously untapped markets, professional women's associations and individuals in charge of purchasing gifts within government ministries. The two groups have proven to be very responsive to Inspirations Studio participants.

Parkdale Green Thumb Enterprises worked extensively with a consultant on marketing materials, developing contracts and learning how to identify labour costs so that the social purpose enterprise could know how much it was spending on a contract-by-contract basis. Because the relationship was a positive one, it continued over a period of three years and the consultant developed a deep knowledge of the organization.

It is best to seek a business consultant who also understands that the social objectives of your organization are important. A consultant is unlikely to revamp your entire business, but they can provide incremental suggestions or recommendations based on their industry-wide perspective that, when tailored to the individual enterprise's situation, can have significant positive effects on the business.

Perspectives on Quality: Learnings from TEF-Funded Social Purpose Enterprises

Haween Enterprises

"It is hard for non-profit organizations to run a for-profit business because you have to learn to act like a business. People don't care who is making the product. You just have to make a good product and you have to change your view to understand that."

St. John's Bakery

"[In addition to other customers,] we target a customer who is interested in supporting a social enterprise. We don't sell ourselves that way unless we feel there is a customer who has a similar philosophy and will want to consider that. But it boils down to having a good product - no one will buy bread from you if it is bad. The bottom line is that if you send stuff out that is not good, you will spell the end of your business."

Phoenix Print Shop

"Being a social purpose enterprise is a factor for some [customers] and they give us business because it. On the flip side, some customers think that it's a social service agency and that it's going to be half-assed and they don't give you time-critical work. We have the benefit of being able to appeal to social and environmental conscience, but we have the battle for people's confidence in quality and delivery."

Growing Green Jobs

"Quality control is important, so jobs must be done perfectly or almost perfectly. This attention to detail can be difficult for participants to master. For example, cutting all the sprouts evenly is hard for participants whose fine motor movements are hampered by medication. One employee figured out that simple tools could help the job. The market garden supervisor realized that people had trouble concentrating on digging if everyone had a different tool; so the program went out and bought 12 rakes, 12 hoes, and 12 shovels. Now everyone works together and in unison in the garden."

HIRE THE RIGHT PEOPLE

“The person managing the business has to be completely dedicated to it and have a lot of time to devote to it, a lot of flexibility. He also has to have an entrepreneurial streak. He has to wear a lot of different hats and have a sense of where the market is going and how to tap into that. It has to be someone willing to persevere because this takes a long time to build.”

– St. John’s Bakery

In general, there are four functional roles within social purpose enterprises:

The Business Manager – This role is akin to an executive director and responsible for overall direction of the enterprise.

The Financial Officer – This role requires a strong financial and business background.

The Business Developer – This role needs a strong market orientation and strong sales skills. He or she is able to bring new customers to the enterprise and identify new business opportunities.

Support Services – This role varies depending on the social purpose enterprise. The individual(s) has expertise relevant to the enterprise (either sectoral expertise or experience with the participant group) to support the enterprise’s goals.

Although there are four roles, a social purpose enterprise is a small business, and small businesses are generally driven by the owner/operator. Roughly, one-third of social purpose enterprise

success is related to the person running it, another third is related to the business idea and the rest is a combination of how the business is executed. With scarce financial resources, the business manager often ends up wearing more than just the business manager hat, therefore hiring the right person to lead the enterprise is a critical launching decision.

The Entrepreneurial Spirit

It's tough to hire for social purpose enterprises. There's a tremendous amount of work, juggling many things and [your staff] could have fewer responsibilities and make more money elsewhere. If they're good and you're hiring them, they have made a clear compromise to work with you. It's a delicate balance. We have financial limitations and organizational standards and this is technically just a program within Eva's Initiatives, so you can't pay the business manager more than the [Executive Director]."

– Phoenix Print Shop

A strong business manager possesses the vision to move the enterprise forward and the ability to contribute to the day-to-day running of the business. Successful managers in the TEF portfolio can be characterized as having an entrepreneurial spirit. A critical aspect of this spirit is that they do not feel the need to take the easiest path, but are instead motivated by challenges and the opportunity to prove the impossible can be done. They are not easily defeated by adversity and are able to deal with the unexpected. They need to understand sales and be able to switch at the drop of a hat from a salesperson to a funding organizer. Moreover they clearly see that social success is linked to business success.

While it's not unusual for the business manager to juggle a number of roles, you must be careful not to overburden them or other staff members with too many responsibilities. Put careful consideration into designing realistic positions for people.

Initially, Phoenix Print Shop instructors were also operators responsible for producing commercial work. This proved to be too much responsibility and staff were pulled between teaching and production. The Print Shop restructured its model to have a dedicated instructor and a dedicated operator. Occasionally, there is overlap and operators supervise and mentor participants but the clarified roles and responsibilities under the new model have enabled them to know what success looks like for their jobs.

Many social purpose enterprises have difficulty accessing staff who have both business and social service credentials. When they do, the enterprise may not be able to afford them. In the majority of organizations in the TEF portfolio, the feeling was that hiring individuals with sector or business experience and then educating them on the social aspects of the work was the more favourable route.

As TEF's experience with successful and unsuccessful social purpose enterprises has grown, it has become increasingly apparent that hiring staff who have a strong ability to sell the business' products and services should be a main priority. Both during the start up phase and as the business grows, business development and product sales are critical to enterprise viability and this aspect of the business has been a challenge for all of the TEF-funded enterprises.

SET REALISTIC EXPECTATIONS

“In the outset, [our] dreams were big and expectations were high: we would make money and train youth and then begin other businesses. But [a social purpose enterprise] involves serious commitment to work through the hurdles and seriously understand what it means to run a business.”

– Phoenix Print Shop

Even with thorough business planning efforts, setting realistic expectations is a challenge that all social purpose enterprises face. In general, not-for-profit organizations are overly optimistic about what their enterprises will accomplish, both financially and socially, and how quickly this will take place. Managers said successfully establishing a social purpose enterprise takes approximately five to seven years, and could take longer. Having staff and board commitment to stick with the process over several years is critical.

TEF-funded enterprises that embraced business planning and invested significant energy into the planning stage were better equipped to understand the limitations and potential of the social and business sides of the business. Those that did not, encountered significant challenges in achieving their desired results.

“Throughout the project there has been resistance to business planning. The main challenge for the business is how to generate higher sales when working with this challenging population. I wish we’d known how impossible it would be to get sales up to the level that we said we would in the [funding] application.”

– Growing Green Jobs

To set realistic expectations, a good start is to gather information from industry contacts on standard start-up revenues, expenses and challenges and then adjust those expectations to reflect the accommodations necessary for working with the target population. Consulting with the participant community also helps to accurately forecast who can benefit from the enterprise and anticipate what the social outcomes can and should be.

At Phoenix Print Shop, success with early trainees was mixed because literacy and math skills were lower than required. The intensive learning environment of the Print Shop meant many of these participants did not make a successful transition into ongoing employment. Print Shop staff had to subsequently refine and improve the design and delivery of the training and also adjusted their selection process to ensure that they involve participants who are ready to benefit from employment in the business.

Despite working with a population that suffers chronic mental illness, Growing Green Jobs was established as a linking business. Experience with its participants has shown that people with these illnesses typically do not want to go off social assistance but wish to earn limited additional income and contribute something to society. Growing Green Jobs struggled to find part-time accommodating placements for graduates in mainstream jobs, and many participants who experienced improved quality of life through better social connection, food and housing struggled to maintain these assets once they had completed their term of employment with the enterprise.

Know What to Expect from Your Participants

Be prepared for how working with your target population may affect the day-to-day operations and business decisions of your social purpose enterprise. These are some common accommodations:

Higher than average staffing You will likely need more employees on any given shift to accommodate sporadic participant attendance and lower productivity while meeting the demands of the market.

Higher than average spoilage Your participants may not always be able to deliver a quality product at the frequency required. Plan to order more supplies and have more spoilage than the industry standard.

Additional social supports Your participants may need such supports as TTC tickets, food allowances, intensive and/or personalized training and flexible scheduling.

Varied individual challenges Depending on your target population, you may encounter shorter attention spans, limitations due to medication, violent outbursts, or other person-specific issues, all of which must factor into your scheduling and the duties you give each participant.

Varied skill levels As in any company, not all of your employees will perform at the same level.

St. John's Bakery discovered that striking the right balance between more capable and less capable employees was ultimately better for the business.

Shifting your model In the first years, you will likely have to refine and scale your business to adapt to your participants' behaviour.

Phoenix Print Shop and Tumivut Earthkeepers, which both work with marginalized street-involved youth, found that their participants were not able to concentrate and absorb what was being taught for prolonged periods of time. Classes were therefore shortened and teaching methods refined.

Evolving your supports As the enterprise progresses, the social supports needed by the participants may change or you may identify needs that were not apparent at the outset. Be attuned to how participants are responding to their employment and training, and consult with them to identify what new supports will improve your social outcomes.

Women who graduated from Haween Enterprises identified a need for additional support with their transition out of the business into self-employment or mainstream employment. As a result, Haween obtained funding to set up a self-employment program tailored to these women.

When Tumivut Earthkeepers participants moved from the social purpose enterprise's gardening/landscaping business to making union wages through summer employment with the City of Toronto, participants did not know how to manage their sudden increased income and were spending it as quickly as they earned it. Tumivut subsequently launched training in budgeting, saving and opening bank accounts.

Although many social purpose enterprises initially intend and design their business to have the broadest social reach, the target group often eventually narrows to people who are ready to handle the demands of supported work, mainstream work and/or self-employment. People who are not ready for such a move are referred to other appropriate

programs. The decision to focus on specific, employability-related social outcomes pushed the social purpose enterprises' structure and operations in a more business-oriented direction.

Better Safe than Sorry: Prepare for Failure

One in every two TEF-funded enterprises has faced viability questions or closed down when their funding from TEF ended. When an enterprise fails, it has implications for the agency, the staff and the participant population. It is important then to set realistic expectations so that you avoid failure, but also equally important to examine the risks involved and ask “what does failure look like and what happens if we encounter it?” Are there other programs for your participants to access? Will the Board be supportive of closure? Is there a means to recoup capital expenses? Out of this World Café, which has been very successful, provides part-time employment to 40 consumer/survivors. If the business ceases to exist, these participants are unlikely to all find accommodating work in another context, which could have seriously harmful effects on the social advances now being achieved through the enterprise.

Flexibility

Flexibility is critical in the start-up phase, when you are going to encounter numerous obstacles.

Many TEF-funded enterprises restructured aspects of their business—from the decision-making processes that they originally devised to the market focus of the business—in order to deal with the challenges that arose in the process of running the enterprise.

“Be aware of different model possibilities. Investigate them. I wish I had known how much better [our business] model would work with a clear delineation between social and business departments. May not be true of every social purpose enterprise, but in this situation it would have been lovely five years ago to understand it as deeply as I do now.”

– Phoenix Print Shop

IMPROVE YOUR FINANCIAL LITERACY

“In 2003, none of the enterprises knew whether their businesses were profitable or not, nor which products and services were making money. After several years of building financial literacy, we now have several enterprises that are suddenly doing very well, and a metric for measuring business progress that we call Business Cost Recovery.”

– Toronto Enterprise Fund

Accounting practices in the business world are very different from those in the non-profit sector. An agency first determines the costs required to provide the services it offers, then seeks to offset these costs with revenue from grants, donations and fee-for-service; a business, on the other hand, seeks to maximize sales while spending as little as possible to obtain those sales. A social purpose enterprise has the unenviable task of doing both: ensuring adequate supports for participants in the enterprise (“human development costs” or “social costs”) while trying to make a profit on the business.

Learn About Business Financial Management

TEF found that managing business finances was a significant challenge for enterprise managers. Many lacked an understanding of the financial drivers of their business, and most did not have an in-depth knowledge of basic financial calculations.

Business managers need to understand and continually monitor financial indicators in order to immediately identify unusual activity and respond appropriately. Taking a course or reading a book on financial management is a great way to gain a quick understanding of fundamental indicators and learn how to establish a profitable price for products and services. TEF has

offered additional coaching to individual managers to identify their unique drivers and indicators, and to develop systems to measure and track this data.

Set up Your Own, Separate Financial Management Systems

Your parent organization's accounting and planning tools are likely to be inappropriate for your business, and the timelines for providing financial information out of step with the more immediate needs of the enterprise. Social purpose enterprises, like all businesses, require business-specific planning and accounting tools, cash flow summaries, and detailed information on sales margins, sales targets, capital investments, assets and equity.

Setting up and maintaining separate, thorough and up-to-date records of such things as sales, invoices, expenses, inventory, contracts, employee attendance and activity, and payroll provides a clear picture of business health. Enterprises can then track key success drivers and indicators as well as identify and separate business costs from human development costs, accurately calculate the profitability of business operations and plan for the future.

Once You Start Your Business, Keep a Paper Trail

Social purpose enterprises are often driven by the business manager, who holds the bulk of the organizational knowledge. As TEF-funded enterprises refined their approaches and negotiated their reporting structure with the parent organization, some discovered the hard way that maintaining records of how and what decisions were made and updating the business plan accordingly was essential. It not only confirmed how the business was to be run but ensured that organizational memory remain with the enterprise in the event of staff departure.

“In this sector, you tend to go along until you need formal policies on employment standards, health and safety etc. and then when you do, it can be a disaster. Looking back we should have had those policies in place from the start. [Now] we document the evolution of the business and don’t take anything for granted. You can’t assume that people will be there forever. People leave jobs and if you don’t have the processes and policies in place, you can lose everything.”

– Out of this World Café

IT'S EVEN HARDER THAN IT SOUNDS... BUT IT'S WORTH IT

“The most satisfying thing is when I see someone who has been on welfare for a long time and has resigned themselves to that and then we give them a job. Seeing the pride they take in their work and the sense of accomplishment they have is the best thing. That filters down to people who might have a learning disability or a handicap and they come and work and have pride in the work they do – even given their limitations they are a part of doing good work and that gives them a sense of dignity.”

– St. John’s Bakery

Social purpose enterprises are a powerful way to engage marginalized citizens. They help reduce poverty by providing participants with employment opportunities, work experience, skills training and additional income. Participants also benefit from improved life skills, greater self-esteem and better connections to their community and the labour force.

“At the start, I wish I’d known how many kids we actually would help. The second year was really successful. We helped a lot of kids and they are really thankful for the program.”

– Tumivut Earthkeepers

Launching and running a social purpose enterprise is not a walk in the park, however. It often takes a lot longer than initially planned for the enterprises to reach their operational goals. The learning curve is steep and one-year plans turn into three-year plans and then seven-year plans with great frequency. Challenges come from a variety of fronts, and addressing them requires flexibility and patience. But even in the face of persistent

challenges each of the enterprise managers currently in the TEF portfolio felt that launching a social purpose enterprise was a good decision and the effort involved well worth it because the social outcomes are clearly evident.

“We have had some great speakers come out of Out of This World, who realize the need to speak out and educate the public on mental health issues. The more we can draw from the most marginalized the better we are doing.”

– Out of this World Café

A Final Thought

“[Running a Social Purpose Enterprise] is very tough work, it takes a long time and it’s not about social services. You need to invest in business planning and business skills. You need to think about the risks from the beginning. A learning orientation is also really important. The business should always be looking for and open to making changes and to learning from mistakes. The model that you use should fit with your community and its goals – no one model will work for everyone.”

– Toronto Enterprise Fund

