Business Planning for Social Enterprises

By Sutia Kim Alter

Nonprofit programming is changing. There is now widespread agreement among agencies that it's important to operate in a "businesslike" way, and with more and more enterprise programs being added to the nonprofit program agenda, tools and methods borrowed from the private sector have become increasingly familiar to nonprofit managers. At the same time, many grantmakers and donors are viewing proposed interventions through a business lens--looking for evidence of performance-based objectives, results-oriented outputs, and financial viability.

But standard business tools are not traditionally distributed through normal nonprofit channels; nor are they readily translated for use in the nonprofit context. In fact, business terminology and a focus on the single (financial) bottom line often act as a smoke screen, blocking nonprofit professionals from utilizing the important resources available in the private sector. To bridge this culture gap dividing the business and nonprofit sectors, nonprofits need a modified business planning tool that addresses the double bottom line--one that takes into account social goals as well as financial goals.

Developing that kind of business plan does not mean sacrificing or compromising your organization's social objectives for the sake of financial gain. On the contrary, the business plan becomes a tool that improves overall performance and increases the overall impact of a social enterprise program. A good business plan should be customized to fit your program, embodying its goals, culture, and values. At the same time, it will help you operate your program more effectively--serving your clients while making your enterprise more competitive in the marketplace.

What is a Business Plan?

In the context of social enterprise, a business plan is the road map that gives direction in executing an intervention, managing a program, and ultimately realizing the program's goals and objectives. An effective business plan:

- Articulates the mission of your program

- Defines a strategy based on needs of the target population and customers, market conditions, industry forces, operating environment, and institutional profiles

- Outlines specific actions to achieve program goals and objectives

- Establishes targets for planning, measuring, and improving performance

- Motivates employees

- Communicates your ideas and plans to your stakeholders (board of directors, donors, partners, clients)

- Projects the necessary resources, costs, and revenues of your program

- Provides a basis for sound decision-making

Fundamentally, a business plan allocates resources and measures the results of your actions. It helps you set realistic goals. A good business plan is a multi-faceted tool:

Design Tool - The rigors of developing a business plan help you think through the design of your intervention and conceive a program that is realistic and achievable. In order to create a business plan, you need to analyze the market, the operating environment, your partners' capabilities, and your financial needs. Having done this, you are better able to see your program from an objective, critical perspective. You can determine whether the enterprise you are planning is truly feasible, and how it can best be implemented.

Strategic Planning Tool - The combined tasks of inward and outward examination required to produce a business plan--from institutional self-assessment to competitive analysis--help you plot a strategy for your social enterprise program. Strategic thinking is necessary if your enterprise is to survive in a competitive marketplace. Business plans pit your products or services against those of competitors, examine your market position, and keep you abreast of the twists and turns in a dynamic operating environment.

Performance Tool - A business plan guides the management of your social enterprise program and helps you work effectively toward its success. It sets realistic targets and provides a basis for measuring and monitoring your program's performance against these targets. Using the business plan as an ongoing performance tool helps you modify future targets based on actual performance of the enterprise.

Communications Tool - A business plan communicates your program's mission, management approach, objectives, and proposed methods of achieving the objectives to staff, leadership, clients, and donors. A business plan also helps you gain credibility with potential partners and donors by demonstrating that your enterprise has a clear direction and a well-conceived strategy to achieve its ends.

Financial Tool - A business plan's budget establishes how resources will be allocated. Financial statements help you understand your financial position and the cash needs of your business. Calculating your enterprise's break-even point tells you how much income is required to cover expenses and gives you a basis for pricing services or products. Finally, the financial section of the business plan provides estimates of how much money is needed for financing start-up expenses, day-to-day costs of running operations, and income.

Management Tool - A business plan tells stakeholders where you are going and how you plan to get there. It is important for the management team to continually check the business plan to ensure that the enterprise is not going off course and that the business plan accurately reflects changes in market conditions. This process of creating and then continually revisiting and refining the business plan hones critical thinking as well as analytical and decision-making skills, enabling management to troubleshoot problems related to competitors or changing economic factors. It also helps you take advantage of new promotional or product opportunities.

Human Resource Tool - A well-articulated program mission, clear goals and objectives, and a comprehensive plan are the keys to inspiring teamwork in your social enterprise program. Low motivation stems, in part, from poor planning and ambiguity in the workplace. If staff, management, and leadership do not know precisely what they are trying to achieve, it is hard to create a collaborative, productive work environment. Business plan targets and outputs are used to create human resource plans; they can also be used as performance measures for individual and collective performance.

Marketing Tool - The target market segment of the business plan gives you important information from which to derive a marketing plan. Market research techniques help you identify who your customers are and where they are located, in addition to distinguishing their preferences, needs, and desires. The marketing plan that results is a strategic guide to reaching your customers through promotional efforts, product enhancements, and changes in price and distribution channels.

Donor and Investor's Guide - In the private sector, a business plan is used to attract investor financing. It's a prospectus of sorts for financiers to verify that the entity seeking funds has (1) a solid business idea built on a market that is big enough to support continued viability; (2) a concrete plan to reach that market and manage operations; and (3) realistic financial forecasts of the enterprise's future profitability. In short, investors want a return on their investment, and a sound business plan is the best means to communicate that potential to investors. In the context of a nonprofit business venture, donors or grantmakers are the equivalent of investors. As a return on their investment, they want recipients to meet targets for social impact, cost-effectiveness, revenue, cost recovery, and scale.

Business Plan Brass Tacks

The business planning process for new social enterprises is somewhat different from what it is for existing enterprises. Established social enterprises have a track record and historic information to draw from regarding their operations, costs, marketing experience, and staff; this information contributes to the development of a solid business plan that is based on more than speculation. If you have been involved in an existing social enterprise, you should be able to make fairly accurate projections and devise strategies based on experience. On the other hand, if yours is a new business, it's best to develop your plan for the first year of its operations only.

The process of preparing a business plan should start with extensive market research. This can take weeks or months, depending on the techniques chosen (surveys, questionnaires, or focus groups) and the availability of information. To some extent, time needed for market research will be determined by the number of products or services you are offering, the location of your target market, the complexity of the industry, and the competitive and operating environments. When it comes to market research, don't take short cuts; a common reason for the failure of many social enterprise programs is inadequate market research prior to launching the program.

Business plan preparation is largely dependent on coordinating the available time of key participants. If you are planning to hold a series of workshops, meetings, discussion groups, or mini-retreats with participants, allow a minimum of six to eight weeks to complete the business plan. Consensus building takes time. What's more, the process often illuminates the need to go back and do additional research.

Because pre-program research and business plan development take time, you need to allocate a budget for the expenses to be incurred during this period. Although the upfront costs may be considerable, careful planning will pay off in the long run. A business plan must be thorough, which will be a factor in its length. It should be long enough that your information is complete but not so long that it becomes redundant. There is no hard-and-fast rule, so you must use your own judgment.

Business plans need to cover a specific period of time. Although there is no prescribed duration, most are developed for one to five years of operation. As with private companies, a social enterprise's business plan may be linked to financing needs for a certain stage of enterprise development, such as start-up or expansion. If you are writing a business plan as part of a grant application requirement, it may coincide with the funding cycle. But it should still reflect business reality and not be driven solely by a time frame or budget dictated by the donor-investor.

A business plan is a fluid document, one that must be revisited and modified periodically. Modifications usually result from changes in the operating environment, industry forces, client needs or customer preferences. For example, a new law regulating health and safety standards, an increase in direct competition, or an upturn in economic conditions could positively or negatively impact your business. When this happens, it is essential to make changes to your business plan to reflect the current reality as well as projected future trends.

Consensus throughout the business planning process and ownership of its conclusions by key stakeholders are essential at each stage. A business plan unilaterally developed, or one prepared despite discord, is bound to fail during implementation. Stakeholders of the social enterprise must be on board before the venture is launched. In addition, to encourage ownership, the social enterprise stakeholders should be the ones who actually write the business plan, regardless of whether you hire a consultant to help facilitate the process.

Most nonprofit organizations are well versed in participatory processes. Use your discretion, style, and experience to approach business planning with your partners and clients in a participatory way. Common methods include workshops, discussion groups, meetings, retreats, and collaborative fact-finding or research.

Because a business plan contains segments dealing with marketing, production, finance, operations, and human resources, you should involve key decision-makers, staff, and external resource people knowledgeable about each function to help develop the related plan. For example, to develop your marketing plan, include the business and marketing manager, the sales staff, and an independent market researcher or specialist, if appropriate. Whether or not you choose to use an external specialist depends on the level of in-house expertise your organization has. Also, include input from your target population whenever you can. If your social enterprise is rendering services directly to the target population, they will contribute greatly to your market research and product strategy.

Assessing Social Impact

Financial profitability is gauged easily enough using traditional business measures. But the second half of the double bottom line--positive social impact--is far more elusive. After all, how do you prove results such as peace of mind, increased confidence, or greater self-esteem? Although social entrepreneurs may never succeed in quantifying all levels of impact, it is possible to measure certain social indicators with relative accuracy in order to assess the social value created by an enterprise.

Here are some suggestions:

- *Begin with a Baseline Study* - The baseline study looks at the target population before they become beneficiaries of the social enterprise program. Start by gathering baseline data. Questionnaires, survey tools and interviews may be used, but be consistent in the tools you use for client intake throughout the process.

- *Work with Well-Defined Indicators* - It is important that indicators be clearly defined and understood by those who collect information as well as by those who use it. An impact monitoring system is dependent on the depth of understanding on which it is built. If indicators are ambiguous, interpretation of data will be equally ambiguous. If you cannot set concise parameters to measure increases in social impact understood by all users, discard the indicator.

- *Gather Information Systematically Linked to an MIS* - Enterprise staff with regular direct client contact (e.g., production supervisors or loan officers) should be charged with systematically gathering impact information as part of their responsibilities. Data should then be entered into a Management Information System (MIS) that can be viewed by different users.

- *Be Time Savvy* - Monitoring social impact can be time consuming! Limit the time spent on data collection and data entry to the minimum necessary to track core indicators. The majority of staff time should be devoted to running the enterprise and working with clients. The law of diminishing returns kicks in when too much extra effort is devoted to impact monitoring. You may get marginally better data, but it will come at the expense of the program itself.

- *Support Data Interpretation with Dialogue* - Data alone is often insufficient to interpret social impact. For example, if clients report increases in family food expenditures, you may need to conduct interviews with the clients to determine why these increases occurred (e.g., higher disposable income, increased food prices, change in number of dependents, seasonal factors).

- *Choose Appropriate Tools/Sample Size* - There are numerous impact-gathering methods and measurement tools available. It is essential to have the right mix of surveys, interviews, questionnaires, data checklists as well as an appropriate sample size to validate findings.

- *Develop Case Studies* - A balanced approach, using both quantitative and qualitative data, is necessary to accurately capture changes in social impact. Case studies create reader empathy and understanding by bringing the story of your social enterprise to life for a larger audience. Case studies have a dual purpose: They serve as anecdotal measures of impact for donors, investors and peers, and they also serve as marketing and public relations vehicles. They humanize statistical data at the same time that they substantiate it.

- *Remember, It's Still an Imprecise Science* - Until significant methodological advances have been made, assessing and monitoring social enterprise impact will remain an imprecise science. As social entrepreneurs document and publicize their results, however, the methodologies will become more precise and a reliable set of best practices can emerge.

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