

Putting the pieces together



This guide is proudly brought
to you by Social Ventures Australia
and Parramatta City Council



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This section sets out what we mean by social enterprise, explains who this guide is for and describes how it is structured.

What is a social enterprise?

Social enterprises are businesses that trade for a specific social, environmental or cultural purpose.

Like all businesses, social enterprises operate in commercial markets, generating a profit from their trade. However, unlike other businesses, social enterprises exist to fulfil their overriding and specific social purpose and this is at the heart of every social enterprise, driving everything it does.

Around the world social enterprises have lots of different kinds of social, environmental and cultural purposes, reflecting the diverse needs and interests of the communities they work in. This guide focuses on social enterprises in Australia that provide employment for people who are excluded from the labour market. Of course, many of the principles will also be useful for other social enterprises.

This guide focuses on social enterprises in Australia that provide employment for people who are excluded from the labour market.

Who is this guide for?

The guide is primarily aimed at people and/or organisations interested in starting a social enterprise and who don't have experience of doing this before. It is a step-by-step guide to thinking about, researching, planning for, starting and then growing a social enterprise, which will help you to:

- ▶ create a rigorous business plan for a sustainable social enterprise
- ▶ obtain support for your social enterprise e.g. from partners
- ▶ secure investment for your social enterprise
- ▶ monitor and evolve your social enterprise in future years.

It is also designed to be a useful resource for more experienced practitioners, acting as a reference point and refresher.

How to use this guide

This guide focuses on the extra things that you need to think about to develop a social enterprise compared to a straightforward commercial business. It should be used in conjunction with standard business planning guidance. Business Enterprise Centres provide excellent materials to help with this, available online at www.becaustalia.com.au. In addition the Brotherhood of St Lawrence has produced guidance on developing community enterprises which you may find useful. This is in the Tools and Resources section of the Social Traders website at www.socialtraders.com.au.

In our experience, it is important to work through a staged process to developing and growing a social enterprise. We have broken this process down into four stages:



We recommend you start at the beginning and work through the issues raised in sequence, rather than trying to jump forward too quickly.

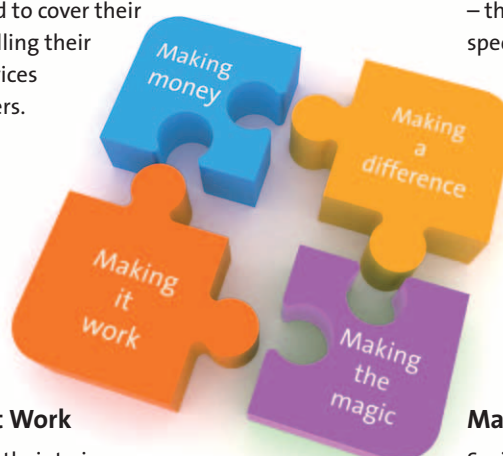
We have also learned that developing a social enterprise involves fitting together different ‘pieces of the puzzle’. As you move through each stage, you will find that you have more and more pieces to fit together. This can be overwhelming. To avoid this, we find it useful to organise the things you need to think about under the four main pieces of the puzzle that every social enterprise has to wrestle with:

Making Money

Social enterprises are businesses like any other – they need to cover their costs by selling their goods/services to customers.

Making a Difference

Social enterprises are businesses with a difference – they exist to fulfil their specific social purpose.



Making it Work

Because of their twin business and social aims, social enterprises are complicated to run – making it work means managing operations, finances, compliance and people.

Making the Magic

Social enterprises rarely succeed without a little bit of magic – and that almost always comes from the person or the team of people driving the whole thing.



The first step in developing a social enterprise is to get your imagination going!

This is where you should start thinking creatively about different ideas for your social enterprise – and it's also where you need to start imagining the reality of running a social enterprise to make sure you're ready for the challenges ahead.

Whether you are an individual starting out on your own, someone working for a non profit wanting to develop a social enterprise or a team of people thinking of developing a business you will need to be clear about your motivation for starting your social enterprise. The following questions should help you with this.

Is social enterprise for you?

Before you get too carried away, it's important to think hard about why you want to develop a social enterprise in the first place and to be honest with yourself about whether you've got what it takes to make it work.

Here are some reality checks that you should consider before you go any further:

Social enterprises are not a quick fix to a funding problem.

One of the biggest mistakes that non profits make when developing a social enterprise is thinking that it will generate big profits to plug gaps in funding – this is a very dangerous misconception. If anything, social enterprises will cost you money, at least in the short term. Most businesses take years before they start covering their costs to break even, let alone generating profits.

Social enterprises are not the only way to make a difference.

Is a social enterprise really the best way for you to achieve your social aims? Are you genuinely committed to providing jobs for people who are long-term unemployed or excluded from the labour market through running a business. There are alternative ways to get people back into work. And there are alternative reasons for setting up a social enterprise. Be clear on your motivation for wanting to make a difference. If employment creation through running a business is not your passion, you might be better to do something else.

Social enterprises are expensive to run.

Employing and supporting people who are excluded from the labour market comes with additional costs like reduced productivity and additional management for providing on-the-job support. There are no simple ways to fund this extra cost - are you prepared to juggle the cocktail of funding that might be needed?

Social enterprises take a long time to get going.

You should expect the research and development process to take at least six to twelve months before you come close to starting your social enterprise. It will probably take another three or four years before your social enterprise covers its own costs. This is the time it takes to research, plan, develop and grow a successful social enterprise – there are no short cuts. Are you prepared to do the hard yards? Are you prepared for the bumps along the way?

The hard work never stops.

Running a business, particularly a social enterprise, doesn't get easier with time. Even successful social enterprises which have been around for years are still vulnerable to failure – competition gets stronger, the cost of production rises, key staff move onto other jobs, a supplier goes bust, the market for their product changes and so on. You can never afford to take your eye off the ball – are you prepared for the long haul?

Generating ideas

It doesn't really matter where your ideas for a social enterprise come from. Some people seem to come up with ideas all the time, others find it really hard to think of anything. Some people are obsessed with coming up with new ideas, others are happy to copy and borrow ideas from anyone and everyone. There is no right or wrong way to get ideas for your social enterprise – but you will need some.

You can generate business ideas in all sorts of ways:

- ▶ Look around you – what businesses do you encounter every day?
- ▶ Talk to friends, family and colleagues – maybe someone you know has that magic ability to come up with great ideas.
- ▶ Look at businesses for sale online and in newspapers – this will show you the most common types of business and give you some sense of what they involve.

- ▶ Ask the people you want to create jobs for what kind of business they'd like to work in – there's no point in coming up with a great idea if it's of no interest to the people you want to benefit.
- ▶ Look at other social enterprises and think about whether their business ideas are relevant for you.

Remember that very few ideas for businesses come from a "lightbulb" moment – most are an evolution of existing businesses or have emerged from trying and testing other ideas.

You might already have a firm idea in mind, but it can be useful to have more than one so that if you later find that your original idea won't work, you have something else to fall back on.

It's useful to capture all your ideas on one big sheet of paper, or in a notebook, or on your computer. If you're working as part of a team, think about how you can all share this and add to it as you come up with more ideas.

This doesn't have to be a long process but don't try to do it all in one afternoon – give yourself some time and space to let ideas emerge, particularly from other people, before you move onto the next step – testing your idea.

Testing your idea

Once you have a good spread of social enterprise ideas, you will need to decide which ones you are going to focus your attention on. Don't try to develop more than a couple of ideas at any one time – you simply won't have enough time and energy to do this.

The best way to prioritise your ideas is to run them all through some basic 'filter' questions. We've identified a few questions you should think about for each of your ideas, grouped under each 'piece of the puzzle' that we discussed in Part 1.

As you work through the filter questions for each idea, you should get a sense of whether your idea has potential or not. Some ideas will probably be ruled out very quickly, others might have some potential and a few might stand out as having clear mileage. **Pick the one or two ideas that seem to have the most potential.** Keep the others on file, but put them to one side for the moment.

It can be hard to let go of ideas that you are attached to, but the best social enterprises are those that have been based on realistic answers to these questions. So be honest and be tough!



Making Money

Questions to ask yourself:

- ▶ You might have a great idea, but will anyone really pay for what you want to do?
- ▶ Will enough people pay enough for your product to cover your costs?

You don't need to go into much detail here, but try doing some quick 'back of the envelope' calculations of roughly how much you think it would cost to do what you want to do. Then work out roughly how much you think people will pay for whatever you're selling. By dividing one figure by the other, you will see how many customers you will need – is this realistic?

Lots of social enterprise ideas fall at this hurdle but don't despair – think about how you could change your idea to make it more financially realistic.

If you find your eyes glazing over at the talk of numbers and money, you need to think very carefully about going any further – social enterprises are businesses, just like any other, and that means they need to make money. If you're not confident about dealing with the finance aspects of business development, think about getting some basic financial training as a first step and/or find someone with financial skills to help you.

AN ILLUSTRATION



A SANDWICH SHOP

A catering social enterprise wants to set up a sandwich shop to create jobs for people with mental health problems.

They estimate that their rent, power, insurance and salary costs will be \$100,000 per year. These costs are fixed no matter how many sandwiches they make.

On top of this, each sandwich costs \$3 to make. This is the cost of bread, fillings, spreads and wrappers.

Looking at local competition and prices, they think they can sell each sandwich for \$5. This gives them \$2 "gross profit" on each sandwich.

By dividing their fixed costs of \$100,000 by the \$2 gross profit made on each sandwich, they work out that they need to sell 50,000 sandwiches each year, or around 200 sandwiches each trading day, simply to "break even" (that is, to cover their costs).



Making a Difference

Questions to ask yourself:

- ▶ How do you know that your social enterprise idea will make a difference?
- ▶ Have you consulted with training providers, Job Services Australia providers and most importantly, the people you want to create jobs for, about whether they want to work in a social enterprise?
- ▶ How many jobs, training opportunities or work experience placements can you realistically create?
- ▶ If the idea is for a very small business, is it really worth it to create only a small number of jobs?
- ▶ Why will this kind of social enterprise be suitable for the people you want to employ?
- ▶ Have you thought about what kind of training or qualifications people will need to work in your business?
- ▶ What kind of work environment will your social enterprise have, and is this suitable for people who may need extra support with work?



Making it Work

Questions to ask yourself:

- ▶ What do you know about the industry your social enterprise would operate in?
- ▶ Is there likely to be a lot of technical expertise required and will this be expensive or time consuming?
- ▶ Do you have contacts, partners or networks in the industry, or any other 'natural advantage'?

Obviously you can't be an expert in everything and you might find it best to focus on ideas where you already know something about the industry – or if this isn't possible, at least start thinking now about how you can learn about the ins and outs of this type of business.



Making the Magic

Questions to ask yourself:

- ▶ Do you want to run this type of business?
- ▶ Are you realistic about your capabilities?
- ▶ Are you prepared for the long haul?
- ▶ Do you find change exciting?
- ▶ Can you motivate and lead others?
- ▶ Have you got the drive and self-belief to keep going in the face of adversity?

If several of you are working together:

- ▶ Do you have complementary skills and attributes?
- ▶ Do you all understand how much work will be involved?
- ▶ Do you have clear roles and responsibilities?

Developing and running a social enterprise takes certain personal qualities. Motivation and passion are absolutely critical – without these, you are wasting your time. Not many people can answer yes to all of these questions – if you have doubts about yourself, it may be worth talking to other people who have developed and run social enterprises to get more advice before you go any further.

By running your ideas, and yourself, through this set of filter questions, you should now have a good sense of the one or two ideas that you want to focus on – and a better idea of whether you're the right person to be leading this process. If you've made it this far, now you can start to get stuck into the next stag stage – exploring!



Exploring your social enterprise idea is absolutely crucial to its future success.

As you work through this stage, the aim is to get to know all the ins and outs of your potential social enterprise in as much detail as possible.

The exploration process

While the Dreaming stage needs only limited resources, Exploring is much more intensive in terms of staff time, research costs and investigation of the feasibility of your social enterprise idea.

The exploration stage should not be rushed. You might find yourself getting impatient, or your Board or funders may be putting pressure on you to get the enterprise started, but it is important to manage your own expectations, and those of others. It's easy to start a social enterprise that subsequently fails, but it's much harder to start a social enterprise that is successful and sustainable in the long term.

During the exploration stage, you will find yourself gathering lots of detailed information which you will need to collate and analyse for an eventual business plan. Everyone manages information differently but you might find it helpful to file information using the sections of your eventual business plan as a guide. Have a look at the section on Business Planning in the next part of the guide for more details. We have also provided a Business Plan Template.

You will find that some of your early assumptions about your social enterprise turn out to be completely wrong – don't be put off by this! The whole point of this stage is to find out the things you don't already know, and to test the things you think you know. One of the biggest mistakes that people make when developing a social enterprise is holding onto preconceived ideas about their customers, the market or how the business will work in practice. Remember that your social enterprise is there for two reasons – to provide employment for people who are excluded from the labour market and to provide goods or services that customers want to pay for. Listen to what your research in this stage tells you about how likely you are to achieve these aims through this particular social enterprise idea. Try to get a colleague, mentor or advisor to provide a critical ear as you develop your plans at this stage – they will soon see any blind spots that you might have missed.

We have organised the Exploration stage into four sections, reflecting the four 'pieces of the puzzle' for any social enterprise.

Making Money

By now you should have given at least some thought to how your social enterprise will make money. Now it's time to drill down into more detail about this crucial part of any business. This means getting to know your market inside and out, understanding the forces that affect your market and starting to work out your finances.



Getting to know your market

In simple terms, getting to know your market means working out who your potential customers are and why they will buy from your social enterprise. The work involved in understanding your market is no different for a social enterprise compared to a commercial enterprise. Remember that there is lots of information available to all businesses about markets, market research and marketing. This section aims to give you a quick taste of what you need to think about.

There are three steps involved in defining your market:

1. Segmentation

Understand who the potential customers for your goods or services are and categorise them into logical groupings. This should be based on understanding what people want, how they behave and what their attitudes are. Be aware that there may be more than one market for your products, depending on your business. For example, you may be able to sell your products to other businesses or social enterprises, as well as direct to the public.

2. Targeting

Pick one of the groupings in each of your markets as the customers you want to focus on exclusively. This will be based on your capabilities and your social objectives.

3. Positioning

Determine how you would like your product or service to be perceived by your target customers. Your position should answer the question of why customers would buy from you instead of other competitors (i.e. how you are different).

The Australian Bureau of Statistics (www.abs.gov.au) has lots of data on areas, locations and demographics, which will help you to build up a good understanding of your market segmentation and targeting.

CASE STUDY



AFRICAN WOMEN'S SEWING CIRCLE

The African Women's Sewing Circle is a community based social enterprise for women of refugee background with textile skills in the Illawarra of NSW. It is operated by SCARF (Strategic Community Assistance to Refugee Families)

What is the overall market for your social enterprise?

"Illawarra and Sydney women aged 18 – 55".

Which segment do you target, and why?

"People with an interest in the arts, fashion, fair trade, cultural diversity and social justice. Women within the sewing collective create designs that capitalise on the group's unique African fabrics and a range of culturally fused summer dress styles. Selling at local markets has allowed the women to trial and test different designs locally, within this broad demographic."

How have you positioned your social enterprise in the market?

"As a collective of unique and stylish fusion fashion designs made locally by women of refugee background.

Designs cater to local markets, art events, musical festivals and selected boutiques. These venues are popular and well attended by our targeted market. This positioning also allows the women to have a presence at local markets and festivals providing a face to the refugee based collective, and a story to the unique African fabrics and designs.

Some higher end designs from the group target specific stores in Sydney and Wollongong that attract higher prices."

www.scarf1.org.au

Market research

Your social enterprise needs to be based firmly on market reality and there is no better way to do this than getting out there and doing market research.

Primary research includes talking to customers, observing the competition and potential customers and testing your product with real customers.

Secondary research includes information from trade journals, competitors' price lists and literature, government reports, surveys and questionnaires, and the internet.

You should do as much market research as you can, particularly as much of it can be done quickly and cheaply. Build up as much knowledge and understanding as possible to help you answer the following questions:

- ▶ What will you have to do to sell to these customers?
- ▶ Why will customers buy from you?
- ▶ How many potential customers are there for your product?
- ▶ How will you reach them?
- ▶ What potential share of the market can you expect to get?
- ▶ What price should you sell your product or service at?

Understanding market forces

Now that you have done some research and got to know your market in more detail, you need to think about the broader forces that will affect your social enterprise. This will help you understand how your social enterprise will be affected by a whole range of factors that you may not have thought about so far.

One popular way of analysing these factors is to use a model developed by Michael Porter, known as the "Five Forces" model¹. According to this model, there are "Five Forces" which affect any business in any given industry. These are shown below, along with some key questions that you should work through for your own situation. The answers to these questions will help you build a better understanding of your market.

Force	Key questions
Competitive rivalry	<ul style="list-style-type: none"> ▶ Are there many competitors providing the same or similar product/service in the same market? ▶ Is price the main way customers determine who they buy from? ▶ How much scope is there to increase profit by increasing quality or performance relative to competitors?
Supplier power	<ul style="list-style-type: none"> ▶ Is there a small number of key suppliers in the market (relative to the number of businesses that buy from them)? ▶ Are the materials/services sourced from suppliers the critical factor in delivering your product/service?
Customer power	<ul style="list-style-type: none"> ▶ Is there a small number of key customers in the market (relative to the number of competitors that provide to them)?
Barriers to entry	<ul style="list-style-type: none"> ▶ Are there high capital requirements to become a competitor in the market? ▶ How hard is it to get access to prospective customers and suppliers? ▶ Are there licensing or regulatory restrictions that must be met before a business can operate in the market?
Potential for Substitutes	<ul style="list-style-type: none"> ▶ Are there similar product/services competing for attention with your target customers?

Think about whether each force is high, medium or low in your market. Don't worry if your analysis reveals that your social enterprise is working in a market with high competition or low profitability. The real attractiveness of your market is determined by whether you can successfully compete, and whether you can change the market to your advantage. Think about how your market can evolve and what you need to do to take advantage of this.

Working out your finances

Now that you have a better understanding of the likely market for your social enterprise, including numbers of potential customers and how much you should charge them, you can start to build up a financial model for your social enterprise.

¹ Michael E Porter (2008), "The Five Competitive Forces that Shape Strategy", Harvard Business Review

You may not have all the information you need to prepare a full set of financial forecasts straight away, but you can start to construct a basic picture of how much income you think you can realistically generate from sales each week, month and year. You should also estimate your costs, including establishment costs like buying equipment, fixed costs like rent, rates and advertising, and variable costs that go up and down in proportion to sales, like stock and taxes.

You should also be able to identify other issues that might affect your finances like whether it is normal to pay suppliers in advance, and when you will be paid by your customers. Managing this cash flow is an important factor for all businesses and getting it wrong can lead to business failure, so make sure you are thinking about it even at this early stage of exploration. Another area to think about is the additional support you may incur in relation to supporting people who are excluded from the labour market.

At this stage, it is useful to start a spreadsheet which lists all of the assumptions that affect your financial forecasts, like the number of customers you will serve each day, the average value of each transaction, the number of days before you will receive payment etc. You can then create a separate spreadsheet using formulas to calculate your forecast income and expenditure from these assumptions.

The advantage of building your financial model this way is that if you find out later that your assumptions are wrong, you can change them easily and see quickly how this change affects the overall 'bottom line' of your social enterprise.

This might all sound complicated and many people are uncomfortable using Excel or other spreadsheet programs. However, it is well worth spending some time working on it, as it will be time saved in the future.



STREAT

“STREAT is a social enterprise dedicated to providing a supported pathway to long term employment for homeless and disadvantaged youth. Through its food business, recently launched at Federation Square in Melbourne, STREAT will combine social support with industry training and employment opportunities to young people at risk.”

How is STREAT's financial model constructed?

“For confidentiality reasons, the numbers provided are NOT real.

A number of simple assumptions are described below. These assumptions are highlighted indicating those numbers with which you can play around.

- ▶ Sales growth rate per year: 15%
- ▶ Inflation rate per year: 3%
- ▶ New carts per year: 2 (the P&L is assuming that STREAT installs the new carts the first day of each year, thus accounting for sales over the whole year, of course this could certainly not always be the case)
- ▶ STREAT will operate 80% of the days of the year (considering bad weather and holidays)
- ▶ Set up costs per cart: \$20,000 (affected by inflation)
- ▶ Sales as the one source of income
- ▶ Average Sale Price per item: \$6.00 (affected by inflation)
- ▶ Total sales per day per cart: 100 (affected by sales growth rate)
- ▶ Average Cost of Sale: 30%
- ▶ No. of Employees per Cart: 2
- ▶ Average Wage per Employee: \$40,000 (affected by inflation and assuming no administrative staff)
- ▶ For simplicity, we have short listed the fixed costs and assumed they do not change and are only affected by inflation.”

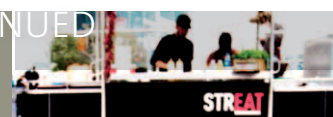
www.streat.com.au

STREET

Why is using Excel good for this?

“The advantages of having your business model in an excel sheet is that you can run sensitivity analysis with your variables (assumptions), and thus get a better understanding of which ones can have the most positive or negative impact in your

AN ILLUSTRATION CONTINUED



profit and loss statement. You can also have a go at running various scenarios (the negative case, the base case and the positive case) which will allow you to be better prepared for future circumstances.”

Assumptions – Base Case Scenario

Sales growth rate	15%					
Inflation rate	3%					
		1st yr	2nd yr	3rd yr	4th yr	5th yr
Cart Data						
New Carts	2	2	2	2	2	2
Total Carts operating		2	4	6	8	10
Days open per year (80%)	80%	292	292	292	292	292
Fixed Cost per Cart		\$20,000	\$20,600	\$21,218	\$21,855	\$22,510
Sales Assumptions Per Cart						
Average Sale Price		\$6.00	\$6.18	\$6.37	\$6.56	\$6.75
Total Sales per Day		100	115	132	152	175
Average Cost of Sale (\$)	\$30%	\$1.80	\$1.85	\$1.91	\$1.97	\$2.03
Average Profit per Sale		\$4.20	\$4.33	\$4.46	\$4.59	\$4.73
Salary and Wages						
No. of Employees per Cart	2					
Number of Employees in Total		4	8	12	16	20
Average Wage per Employee		\$40,000	\$41,200	\$42,436	\$43,709	\$45,020
P&L – 5 yr projections						
		2010	2011	2012	2013	2014
Income						
Sales		350,400	830,098	1,474,876	2,329,321	3,448,850
Cost of goods Sold		105,120	249,029	442,463	698,796	1,034,655
Gross Margin		\$245,280	\$581,068	\$1,032,413	\$1,630,524	\$2,414,195
Expenses						
Equipment		40,000	41,200	42,436	43,709	45,020
Marketing		2,500	2,575	2,652	2,732	2,814
Trading License		10,000	10,000	10,000	10,000	10,000
Rent		25,000	25,750	26,523	27,318	28,138
Salary and Wages		160,000	329,600	509,232	699,345	900,407
Total Expenses		237,500	409,125	590,843	783,104	986,379
Net Profit		\$7,780	\$171,943	\$441,570	\$847,420	\$1,427,816



CASE STUDY

FAIR REPAIRS

Fair Business was conceived in April 2008 by Alex Shead, an entrepreneur with extensive experience of buying and growing businesses. Keen to make a positive difference to people's lives, Alex saw an opportunity to apply his skills for a social purpose – buying businesses to create new jobs for people facing barriers to employment. Alex was joined by Marc Manion, an experienced commercial manager and business developer who had most recently been working with a range of social ventures.

Supported by a wide network of partners, Fair Business was formally established in October 2008 as a non-profit organisation to provide opportunities for disadvantaged people to secure employment. Fair Business (Australia) Pty Limited was established as a separate entity to acquire existing commercial businesses and create new jobs.

As one of the subsidiaries of Fair Business, Fair Repairs is a social enterprise, which helps unemployed public housing residents get jobs and carry out repairs and maintenance in their local area. Fair Repairs takes a unique approach to addressing unemployment in social housing areas in South West Sydney by creating opportunities for local people to do local work for real pay. The model is based on a partnership between Fair Business, a not for profit organisation with experience in running a range of social enterprises, Housing NSW, one of the largest providers of public and community housing in the world, and Spotless, a multinational property services company which currently holds the major contract with Housing NSW to provide repairs and maintenance in South Western Sydney.

The success achieved by Fair Repairs in the short period of time since it was launched in October 2009 has received significant attention from the social enterprise sector, community organisations and government agencies active in the greater Sydney region. The Fair Repairs model has strong potential for replication in additional public housing areas and this has

FAIR REPAIRS

CASE STUDY CONTINUED



created the need for more information about the approach taken and the key lessons learnt. This case study addresses this need by considering the perspectives of key stakeholders to evaluate the approach taken, the impact of the organization, the challenges faced, the key lessons learnt, the replication potential and the risks posed by the current model.

The core components of the Fair Repairs operations include the recruitment of long term job seekers, providing both personal and professional support and giving access to real work for real pay. Fair Repairs operates using a financially self-sustaining fee for service model with the majority of work undertaken sourced from Spotless through their contract with Housing NSW. Close to 1100 work hours are currently being completed each month by a staff of 25 part time employees from the local Campbelltown area who were previously long term unemployed. A second intake of 22 employees is currently in training and will commence work in July 2010.

Positive impacts have included helping to overcome barriers and transition back into the workforce, providing certificates and training to build up key qualifications, feeling like they are part of a social network in a welcoming and open workplace, providing access to a variety of work, providing direction and stability in their life, being able to keep busy and active, increased pride and self confidence and a greater level of happiness and optimism about their future. These impacts have gone on to impact the employee's families and the wider community, contributing to more stable households and a stronger community.

Being a startup social enterprise, the organisation has encountered a number of challenges in the few months that it has been operating. These challenges were overcome in a number of ways, most of which relate to the 5 critical success factors that were identified for the organisation.

These include:

- ▶ Having the right people in management positions
- ▶ Diversity of backgrounds in employee
- ▶ Partnership approach
- ▶ Social obligations in Housing NSW contracts
- ▶ Access to networks.

The Fair Repairs model has strong potential for replication in additional public housing areas based on a on a successful partnership approach. This process is already underway in Redfern, Sydney and in Wollongong, with Redfern commencing in July 2010. Spotless is interested to have a Fair Repairs established in one of each of the seven areas that they currently maintain for Housing NSW by 2013. Through replication and expansion Fair Repairs has the potential to employ hundreds, if not thousands, of less advantaged people around Australia. It is envisaged that Fair Repairs could be established across 30 different centres around the country, while still taking a partnership approach.

www.fairbusiness.org.au



Making a Difference

While making money is crucial to the sustainability of your social enterprise, it means nothing unless you can also be sure that your social enterprise is making a genuine social impact.

During the Dreaming stage, you began to think about how the business you want to run will create jobs and training for people excluded from the labour market. Now that you have started to think in more detail about your social enterprise, it's crucial to make sure that you don't lose sight of the social purpose driving the whole idea in the first place. It's surprisingly easy for your social aims to get confused and mixed up once you start getting wrapped up in the commercial side of your business planning, but it's important to spend some time setting up a clear and simple framework for judging the social success of your social enterprise.

There are many different ways of measuring social impact. You may come across tools and frameworks like program logic, social accounting and audit, social return on investment and others. There is no single 'right' way of measuring your impact and each approach differs slightly. However, there are some key things that any approach to measuring impact includes. Thinking about these areas, and recording your thoughts now, will put you in a good position to use one or more of the various impact measurement tools once your social enterprise is up and running.

Understanding your stakeholders

A stakeholder is anyone who has an interest in, or is affected by, your social enterprise. Consulting with your stakeholders, particularly those most affected by your work, is important to make sure that you are really making the difference you think you are. Think about who your stakeholders are, what kind of difference you will make to them and how you will get their feedback on how your social enterprise performs.

Common stakeholders for social enterprises include:

- ▶ Employees & trainees
- ▶ Members & Board Directors
- ▶ Investors (including grant funders, social investors and purchasing bodies)
- ▶ Partners
- ▶ Suppliers
- ▶ Customers
- ▶ Competitors

It can be helpful to draw a diagram showing your social enterprise in the middle and placing stakeholders around it, with the most important ones being closest. You can then 'map' the difference you think you will make to them, and show visually how you will keep engaging with them.

CASE STUDY



OUTLOOK ENVIRONMENTAL

“Outlook Environmental’s objectives are to divert waste from landfill through the process of resource recovery, to provide low-cost goods to the community at Outlook market stores and to create meaningful employment and training opportunities for disadvantaged workers.”

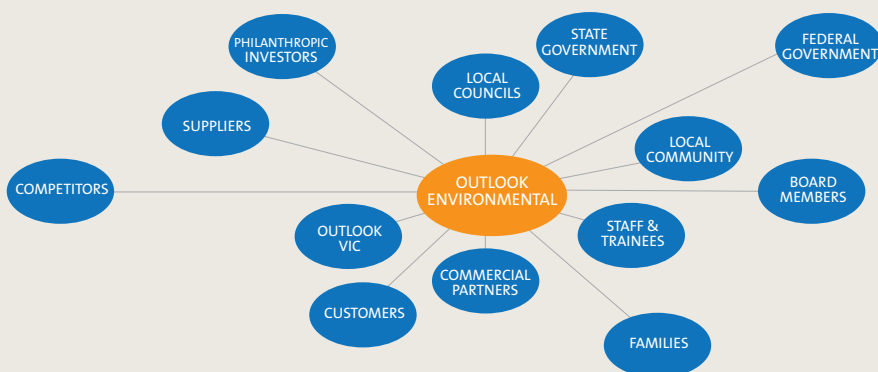
Who are your stakeholders?

“Outlook Environmental provides training and long-term employment opportunities for disadvantaged people at its five sites around Victoria. Nearly 120 disadvantaged workers are employed and trained at Outlook Environmental sites, in retail, distribution and warehousing, machinery use, waste management and work preparation.

To facilitate its work, Outlook Environmental has partnered with local councils and commercial waste management organisations. In addition to removing tens of thousands of material from the waste stream that would otherwise end up in local land fills, Outlook Environmental also operates Outlook Markets that sell recovered recyclable goods at low prices for productive reuse in the community while diverting additional tonnages from the landfills.

All the profit derived from the work of Outlook Environmental is invested into Outlook Community Services, a community organisation dedicated to creating opportunities for disadvantaged people through employment, training and social integration.

The following diagram shows an example of Outlook Environmental’s stakeholder map.”



Understanding your outcomes

Your outcomes are the changes you expect your social enterprise to lead to.

It’s important to think in terms of outcomes – or change – because this is the whole reason why you are doing what you do. If you’re not going to change anything, then there’s little point in going to all the trouble of running a social enterprise!

The most important outcome for social enterprises providing employment for people excluded from the labour market is usually increasing employment participation for a particular group such as people with mental health problems or people with disabilities. Related outcomes might be improving health and wellbeing for employees, reducing drug and alcohol misuse by employees, reducing homelessness for employees and so on.

Try to write out a few key outcomes that you hope your social enterprise will achieve. Remember to think about what your stakeholders might want, or expect, in terms of outcomes. For example, if one of your stakeholders is the local TAFE, they might expect to see increased qualification levels among your employees or trainees. It can be useful to link outcomes to stakeholders in a table.

It can be tempting to come up with lots and lots of outcomes in an attempt to make your social enterprise seem more ‘impressive’ or because you can see how your work will affect so many aspects of people’s lives. However, this is a potential pitfall as you can end up making life more complicated for yourself than it needs to be – try to focus on two to four main outcomes of your social enterprise, as that will be more than enough for you to measure in the future.

Relating activities to outcomes

Once you've thought through the changes (outcomes) you want to achieve, you can start to think about how your social enterprise will actually make these happen – i.e. what are the activities that will take place to lead to these changes?

Perhaps you will provide on-the-job training and mentoring (an activity) to help improve people's confidence (an outcome). Or perhaps you will provide access to housing advice (activity) to help reduce homelessness (outcome).

Again, try to 'map' your activities to your outcomes, making sure there is a logical connection between the two. If you find that you have planned activities that don't seem to lead to any outcomes, you should re-think whether there is any point in doing them!

There are a number of tools available to help you with this. For example, the Logical Framework Approach ('log frame') is used extensively to develop and manage projects using an objectives-oriented approach, while Social Return on Investment (SROI) is a framework that has been developed specifically for enterprises and projects in the social sector, that uses impact mapping to link stakeholder objectives to activities to outcomes. See Appendix 1 for details of where to find out more about these approaches.

Collecting information

The final thing to think about, even at this early stage, is how you will collect information to provide evidence about whether or not you are achieving the outcomes you've identified above.

Systems for collecting information don't have to be complicated but they do have to be consistent and easy to implement. You could think about basic things like recording information about people's situation when they start working for your social enterprise, then interviewing them again after six or twelve months to see what's changed. You could hold an annual meeting to gather feedback from other stakeholders. You could use case studies of a sample of employees. Whatever you decide will be driven by your own outcomes and the specific circumstances of your social enterprise; the important thing is to have a plan now.

It is important to protect and respect people's privacy. Respecting privacy is an important part of building trust and empowering your employees and trainees. The Privacy Act may also apply to your organisation (see www.privacy.gov.au for more details). Therefore, if you plan to collect or use personal information about your employees, you must make sure you have a way of storing it anonymously or making sure that access is very restricted. You must also ensure that you respect people's confidentiality when making public statements.

Working with people excluded from the labour market

There are many things you should consider in relation to creating jobs and training for people excluded from the labour market:

- ▶ How can you work with Job Services Australia providers, TAFE and other employment and training projects to avoid reinventing the wheel and to help make sure your employees and trainees get as much support as possible?
- ▶ How will the training or employment you provide help to create a pathway to longer term employment for people – think about the skills shortages in your area and how you can help to address these?
- ▶ What sort of support systems will you put in place to set up your employees and trainees for success? Remember that people experiencing barriers to employment often need significantly more support and supervision than other employees. You will need to factor in these additional employment support costs to your operating budget.
- ▶ How can you develop partnerships with other employers to create an 'exit' route for your employees and trainees? Employers can also help with things like interview preparation, and work experience and shadowing.



Making it Work

Now that you've done lots of thinking about how your social enterprise can make money and make a difference, you need to give some thought to how you will actually make it work! This involves thinking through the practicalities involved in starting and running your social enterprise and then thinking about what your strengths and weaknesses are in relation to these. You will also need to think about the business model and legal structure you want to use for running your social enterprise.

Thinking through the practicalities

From your market research and observing other similar businesses, you should have some idea of the practicalities involved in running your social enterprise, as well as an ongoing list of things you need to find out more about.

Make sure you record all the things you think you will need to get the enterprise going and everything you learn from your research, thinking in particular about:

Staffing

- ▶ Who will manage the business?
- ▶ Do you need to recruit someone with commercial expertise to run the social enterprise?
- ▶ What kind of staffing structure will you need?
- ▶ Do you need additional staff to supervise trainees/employees with support needs?
- ▶ If the social enterprise will be part of a bigger organisation, do you need to build in extra management time for it?
- ▶ Are there any industry-specific training requirements you need to comply with?

Premises

- ▶ Where will the business be located?
- ▶ What kind of premises will you need?
- ▶ How long will you need to lease premises, and how much will this cost?

Equipment

- ▶ What kind of equipment do you need?
- ▶ Is this readily available and how much will it cost?
- ▶ Are there suppliers you can visit to get advice from?
- ▶ Can you lease instead of buying?

Licenses

- ▶ Do you need any special licenses to operate the business?
- ▶ How long do these take to get?
- ▶ See www.business.gov.au/BusinessTopics/Registrationandlicences for guidance on this area.

Financial modelling/forecasting

As you build up your knowledge about the practicalities of your social enterprise, you should start to plug in your assumptions and calculations to your financial model (see Making Money above). Financial models are never static and you will find that even the best forecasts are only ever forecasts, but the more detail you can include at this stage, the more reliable they will be.

You should also be starting to think about how much investment you are likely to need to start your social enterprise, and starting to make contact with potential investors (grant funders, social investors, banks) who may be able to support you. Remember that social enterprises need significant investment in their early years and that they are NOT a way to solve a short-term funding gap in another part of your organization!

Business models

A business model is simply the particular way a social enterprise is structured and operates to achieve its aims. One of the most important elements of a social enterprise's business model is the way in which it creates a supportive working environment for people who are excluded from the labour market.

Although there are some specific business models for social enterprises (social firms, Intermediate Labour Markets, co-operatives), it can be dangerous to become too involved in selecting the ‘right’ one. The social enterprise sector is still maturing and there is little evidence about which business models are ‘better’ than others. Getting caught up in definitions of business models can be a distraction that takes your time and energy away from the more important aspects of planning your social enterprise – making money and making a difference. You need to think about what outcomes you want to achieve and the model will follow this.

Nonetheless there are important lessons to be learned from people who have used particular approaches in the past, particularly in relation to creating a supportive working environment for people excluded from the labour market. Therefore it is worth spending some time reviewing advice and guidance from organisations with specific expertise in particular business models. More information about different sources of support is given in Appendix 1.

Legal structures

Choosing the right legal structure for your social enterprise is an important decision, as it will have long-lasting consequences and it can be difficult and expensive to change at a later date.

Appendix 2 provides an overview of the main options for legal structures for social enterprises in Australia. However, it is important to take legal advice from a specialist in organisational structures, as the legal situation varies from state to state, and the right structure for your social enterprise will depend on a number of factors including your motivations, the relationship between you and other partners and the relationship between the trading activity of the social enterprise and other parts of your organisation.

Making the Magic

People are the magic ingredient in making social enterprises a success. In the Dreaming stage, you should have already considered some key questions about yourself (or your team). At this stage, it’s important to carry out an honest self-assessment of your strengths and weaknesses. This will help you understand your capabilities better.

Don’t be tempted to imagine you don’t have any weaknesses! Everyone who has ever developed a social enterprise has weaknesses – the people who are successful are those who recognise this, and then find a way to address them.

Some questions to ask about yourself (or your team) include:

- ▶ How successful am I at delivering current activities?
- ▶ What skills do I have?
- ▶ What experience do I have?
- ▶ What resources can I bring to the table to develop the social enterprise?
- ▶ What is involved in running the type of business I have in mind?

Draw up a list of your strengths and weaknesses and reflect on these to help you refine your social enterprise idea. Think about how you can get help to address your weaknesses, perhaps by getting advice or training. You should also think about where you can get support from other people, including your peers, as this can be invaluable as you get closer to starting up your social enterprise. See Appendix 1 for sources of support.

If you are not going to be the person running the business, you need to start thinking about who will be. If you need to get someone on board with commercial expertise and/or skills you do not have, it is best to recruit them early in the process, so they can help you make crucial decisions.



Feasibility Study

By now you should have built up lots and lots of information about your potential social enterprise. You're almost ready to put everything together into a full business plan. However, before you leap into the business plan, it is worth stopping to take stock of what you've learned to make sure your idea is *really* feasible – and whether you have the capacity to make it happen.

Here are some questions to help you take stock of your social enterprise idea. Asking and answering these honestly will help make sure you haven't got carried away by your enthusiasm!

The Market

- ▶ What is our business idea?
- ▶ What market research have we done?
- ▶ Who will our customers be?
- ▶ Who do they buy from now and why?
- ▶ Why should they swap their custom to us?
- ▶ What is our Unique Selling Point?
- ▶ How will we get your products to our customers?
- ▶ What is our marketing strategy?

The organisation and the idea

- ▶ What is our social purpose?
- ▶ What is our motivation to start a social enterprise?
- ▶ What do we want to achieve?
- ▶ How will we measure the social impact we want to achieve?
- ▶ Do we have the drive and determination?
- ▶ Does it suit the skills, experience or ambitions of the organisation?
- ▶ Are any other social enterprises doing this? If so what do they get out of it?
- ▶ Are the key stakeholders (staff/board/beneficiaries) on board?
- ▶ Do we have the capacity to deliver?

Employing people excluded from the labour market

- ▶ Have we got a clear idea of how to support people who are excluded from the labour market?
- ▶ What additional support costs will there be to do this?

- ▶ Have we developed partnerships with other agencies e.g. TAFE, Job Services Australia?
- ▶ What kind of policies and procedures will we need?
- ▶ How will we create a supportive working environment?
- ▶ Have we identified good practice from other social enterprises?
- ▶ How will we measure our social impact?

Costs

- ▶ Have we considered and added up all the costs?
- ▶ Have we got accurate cost information?
- ▶ Do we know the 'cost of sales'?

Profit

- ▶ When will the social enterprise make a profit?
- ▶ When will it break even?
- ▶ Does it have targets?
- ▶ What will the margins be?
- ▶ Will that be enough to make a profit?
- ▶ What will we do with the profit?
- ▶ Is there a margin for contingency in the plan?

Capital and cash

- ▶ How much funding is needed for start up?
- ▶ How much funding will be needed until we reach break even?
- ▶ Will there always be a need for funding the additional costs of providing employment support and if so, how will we get this?
- ▶ Have we considered the cash flow implications?
- ▶ Has enough background research been done to access funding/finance?

Premises and equipment

- ▶ Do we need premises to get started?
- ▶ Is the location right?
- ▶ What equipment or tools (including transport) will we need?

Staff

- ▶ Will we have to recruit staff?
- ▶ Can we find people with the right skills?
- ▶ What further training requirements are there?
- ▶ Do we have a health & safety policy?

Finance and Banking needs

- ▶ What financial support do we need? How much?
- ▶ Where will we get it?
- ▶ Have we explored *all* funding possibilities?
- ▶ Will a funder or social investor approve of the plans?
- ▶ Will the bank approve of the plans?

Legislation

- ▶ Has a legal structure been formed for the social enterprise?
- ▶ Have we taken all necessary legal advice?
- ▶ Do we need to register for GST?
- ▶ Do we need planning permission?
- ▶ Has the ATO been informed about the business, including registering the business name?
- ▶ Have we made arrangements to pay superannuation and PAYG?
- ▶ Are the right insurances in place?
- ▶ What regulations do we need to comply with? OHS, industry-specific, etc?

Critical Success Factors

- ▶ What are our critical success factors?
- ▶ Do we have alternative plans if we miss our targets?

Suppliers

- ▶ Who are our main suppliers?
- ▶ Are there other suppliers we could use?
- ▶ Have we set up accounts with our suppliers?
- ▶ Are we getting the best terms?

Business Systems

- ▶ Do we have a bookkeeping system in place? Do we have the expertise to use it effectively?
- ▶ Have we opened a business bank account?
- ▶ Is cash control tight enough?
- ▶ Do we have a system for credit control?
- ▶ How will we monitor business performance?
- ▶ Have we put security precautions in place to protect our systems?
- ▶ Do we have a back-up system and/or a disaster recovery plan?

As you can see, there is a lot to think about!

You may also want to consider using standard planning tools to help you organise your thoughts.

A **SWOT Analysis** is a method of strategic planning which involves identifying your own Strengths and Weaknesses and any external Opportunities and Threats in relation to achieving your business objectives. It is common to arrange the factors you identify in a grid format to help give you a visual record of your analysis.

Strengths	Weaknesses
Opportunities	Threats

Your eventual business plan should build on your strengths and maximise the opportunities you identify, while addressing your weaknesses and minimizing threats.

A **PEST Analysis** is a framework for analysing your external environment in relation to Political, Economic, Social and Technological factors. A PEST analysis can be extended to include Environmental and Legal factors to become a PESTEL analysis.

- ▶ **Political** factors include government policies and laws that may affect your social enterprise. For example, employment law and policies can have a major impact on your social aims, while tax policies can affect your financial model.
- ▶ **Economic** factors include inflation, interest rates, economic growth or recession and other trends in the economy. These factors can have a major impact on your ability to raise capital and on levels of demand in your market.
- ▶ **Social** factors include population trends, demographic features and general social attitudes that might affect your business.
- ▶ **Technological** factors include technological changes and trends, levels of research and development and innovation that is particularly relevant to your industry.
- ▶ **Environmental** factors include weather, climate, climate change and environmental trends which may affect particular industries such as recycling.

- **Legal** factors are the laws that affect your business including employment law, consumer law, health and safety law, charity law, company law and any particular regulations or legal considerations specific to your industry.

It is helpful to pull your SWOT and PESTEL analysis, as well as the more detailed answers to all of the earlier questions you explored, into a written document – a feasibility study. This will give you a good insight into how ready you and your organisation are to set up your social enterprise and it will be a good summary of the external factors that will impact upon the enterprise. It will also identify any gaps you need to address before you go on to complete your business plan and may be a useful document to share with your partners, Board and investors. Finally, most of the answers will also need to go into your business plan, so it is time well spent.

Preparing a Business Plan

A well-written Business Plan is a crucial tool as you move from Exploring to Starting Up your social enterprise. A good Business Plan is a living, breathing document that you constantly refer back to, continually scribble on with new ideas and suggestions and that guides your daily work.

However, many Business Plans are not like this at all. Many Business Plans are weighty documents, filled with impressive charts and diagrams and statistics and tables, that simply sit on a shelf and gather dust. This often happens because they are written too early in the social enterprise development process, so that they are too theoretical or too far removed from reality to be relevant on a day-to-day basis. Sometimes they are written by the wrong person – someone who isn't involved in the daily reality of the business, like a consultant or fundraiser. If you are using consultants you need to think through how to use them to support you and brief them accordingly.



PPM SANDBAG

What does your social enterprise do?

“Parks & Property Management (PPM) Sandbag is a start-up social enterprise which aims to employ people in the local community who have been long term unemployed due to mental health conditions, disability or addiction.”

How did your feasibility study help you develop your social enterprise?

“The process of setting up PPM occurred after a two-year feasibility study, assessing the market for the purchase of an existing business. After financial and social screening, carrying out due diligence on several opportunities, they could not find a suitable business in the market place. It was then that they decided to look at the model of parks and property maintenance that had been successfully developed by Nundah Community Enterprises Co-op. The social screening process also provided PPM with a tool to determine the suitability of businesses in relation to matters such as employee access and the ability for people to gain the necessary skills required to carry out the work.

PPM as a social enterprise started in October 2009 with 3 part-time employees and 1 supervisor. The enterprise now provides quality maintenance services including lawn mowing, rubbish removal, edge and branch clipping, mulching watering and replanting for parks as well as building and property maintenance services.”

www.sandbag.org.au

To avoid this, it is best that you write your Business Plan yourself – even if you get support from other people at points. Writing a good Business Plan is not all that difficult if you've done all the preparation beforehand – and if you've followed this guide, you will have!

Remember to write the Business Plan with your audience in mind – this might include funders, partners, staff or your Board. Sometimes you might need different versions for different people – that's fine, but try to have a 'master' version that you use as the base for others.

Your Business Plan can and should change as you move into the next stage – Starting Up. But don't forget to update the 'master' copy regularly, so that you have an up-to-date document for your own reference, and for other people.

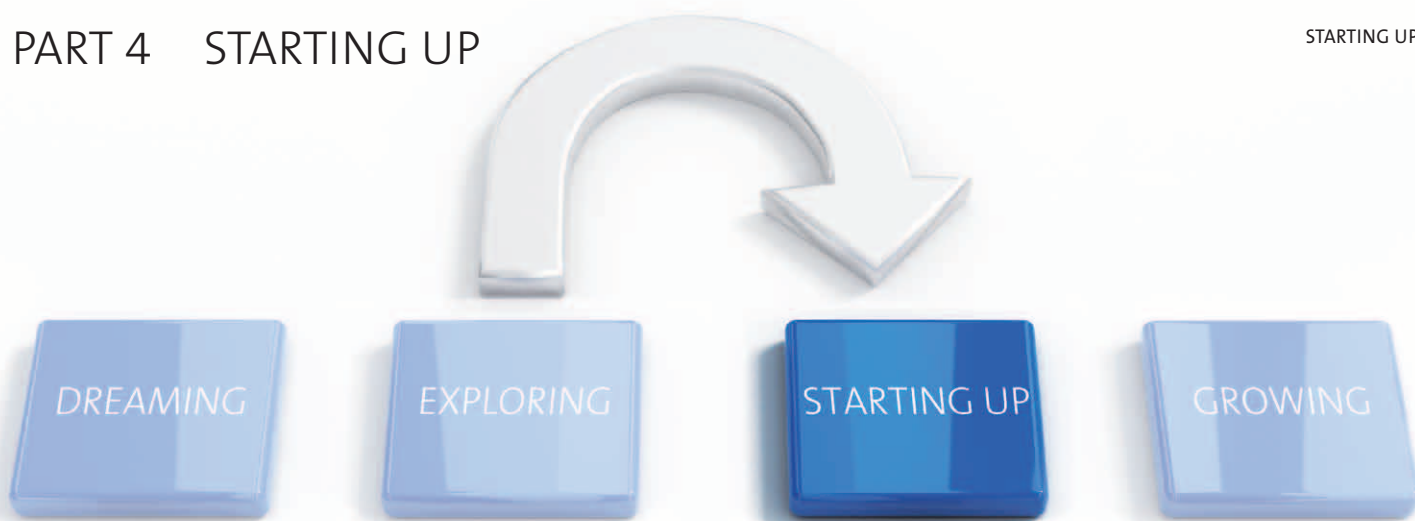
We have provided a Business Planning Template in Appendix 3 – but remember this is for guidance only. Every social enterprise is different so some sections will be more or less relevant for you.

Summary

This stage of developing your social enterprise involves doing lots of research, analysis and thinking about your social enterprise. By the end of it, you should feel you have a good grasp of the ins and outs of your industry, a good knowledge of your market, a strong understanding of how you will make a difference and how you will measure this, and a good idea of all the nuts and bolts that will be involved in making the whole thing work. All of this should be wrapped up into a realistic and comprehensive Business Plan.

As you go along, you will almost certainly find that you have to change your initial assumptions or preconceptions about your social enterprise. You might even find that you have to scrap the whole idea and start again with another one – this is a common tale from those that have started successful social enterprises.

Exploring a social enterprise takes time, effort, perseverance, commitment and dedication, but now the hard work really starts – Starting Up!



Starting up your social enterprise is a big step.

Making the transition from an idea on paper, even a well-researched and properly planned one, to a living, breathing social enterprise involves taking a deep breath, crossing your fingers, and jumping in!

From idea to reality

At this stage all your research and planning will be tested in real life and one thing is guaranteed – there will be surprises along the way. One of the keys to making the start-up phase successful is being flexible and adaptable, changing your plans and actions in response to the reality of your market, your customers and your staff and trainees. It often takes three or four years to reach full financial viability. During this time, you will need to be constantly revisiting and revising your business plan to take account of the dynamic and fluid environment that is the real world!

You should also remember that there is a high risk of failure at this stage – just as there is for any business starting up. If things don't work out, try not to be too disheartened – instead, think about what you've learned and how you can apply this to another social enterprise in the future.

Starting up any business involves a constant juggling act – balancing limited time and money with the pressure to get your products out of the door. For social enterprises in the employment creation field, this is made even more complicated

by the need to recruit and support a workforce that will almost certainly have additional needs compared to other businesses. It's important to keep focused on both your financial and social goals. As before, to help with this, we have organised this section according to the 'pieces of the puzzle' of social enterprise development.

Making Money

All new businesses need money to get started. There is almost always a delay between the point at which you will have to spend money (on supplies, premises, staffing) and the point at which you will generate enough income from sales to cover your costs. Funding this gap is crucial to enable your social enterprise to start up successfully.

It's also worth remembering that social enterprises often have higher costs than other businesses when starting up. There are several reasons for this:

- ▶ Social aims of employment creation mean the business is likely to have more employees and trainees than most start-ups.
- ▶ Additional costs of supporting employees and trainees who are excluded from the labour market need to be covered up-front e.g. support workers. This may also include dealing with fluctuating or reduced productivity for some people who have not worked for a significant period or have specific issues that they need support for.



- ▶ Likely to need a salaried manager rather than an owner-manager model common in private sector start-ups.

During the Exploration stage, you should have developed a financial model for your social enterprise, showing your profit and loss and cash flow forecasts. This should have identified the funding needs of your social enterprise during Starting Up. Now is a good time to go back through your financial model to double check your income and expenditure assumptions and to make sure you have built in some contingency. Err on the side of caution – it is better to overestimate how much funding you will need, rather than underestimating and being left short of cash.

Try to get feedback on your financial forecasts from a business advisor, or a mentor with experience in your industry or in social enterprise generally. Remember that you will be asked detailed questions about your finances from potential funders – so make sure you know the answers!

Types of funding

There are many different types of funding available from a wide range of sources. However, not all of these will be suitable for, or available to, all social enterprises. You should research which options are best for your purposes, bearing in mind the issues highlighted below.

Type	Description	Source	Issues
Grants and donations	Capital with no repayment obligation	<ul style="list-style-type: none"> ▶ Philanthropic trusts and foundations ▶ Government programs ▶ Individuals 	<ul style="list-style-type: none"> ▶ Limited supply and strong competition ▶ Can involve restrictive terms and conditions ▶ Can lead to ‘bending’ aims to meet funding criteria
Patient Capital	<p>Long term unsecured loan with principal and/or interest repayment holidays.</p> <p>Flexible to the needs of the organisation.</p> <p>Might include grant portion.</p> <p>Might be a repayable grant or zero-interest rate loan.</p>	<ul style="list-style-type: none"> ▶ Social Investors ▶ Community Development Financial Institutions ▶ Microfinance providers ▶ Other non profits running financial programs 	<ul style="list-style-type: none"> ▶ Limited supply in Australia ▶ Repayable concept might seem risky for the enterprise ▶ Difficulties aligning investor’s flexibility with enterprise’s needs
Soft Loans	<p>Loan at below market rates.</p> <p>Can be secured or unsecured.</p> <p>Can be short term or long term.</p>	<ul style="list-style-type: none"> ▶ Social investors ▶ Micro-finance providers ▶ Community Development Finance Institutions ▶ Credit Unions ▶ Retail banks 	<ul style="list-style-type: none"> ▶ Limited availability in Australia ▶ Need to be more certain around the repayment capabilities of the enterprise
Quasi-Equity	<p>Loan repayable by royalties related to the sales of the social enterprise.</p> <p>Allows the investor to share the risk and reward by taking a share of future revenue streams rather than share ownership.</p>	<ul style="list-style-type: none"> ▶ Social investors ▶ SVA and other intermediaries testing this products 	<ul style="list-style-type: none"> ▶ Limited availability in Australia ▶ Investors need clarity and certainty around the business plan and cash flow projections

Type	Description	Source	Issues
Commercial debt (loans, overdrafts)	Commercial loans at market rates	<ul style="list-style-type: none"> ▶ Retail banks ▶ Other financial institutions (credit unions) 	<ul style="list-style-type: none"> ▶ Need to be secured against assets and/or based on track record of cash flow ▶ Risk assessment based on commercial business models ▶ Limited understanding of social mission
Equity (shares or other interest in the business)	Ownership through shares	<ul style="list-style-type: none"> ▶ Owners (e.g. ‘parent’ organisation or founders) ▶ Socially Responsible Investment funds ▶ Venture Capital or Private Equity Firms 	<ul style="list-style-type: none"> ▶ Need dividend or profit share to be paid ▶ Prevented by non-profit legal structures ▶ Might jeopardize the social mission ▶ No clear exit strategy for investors

WUNAN FOUNDATION

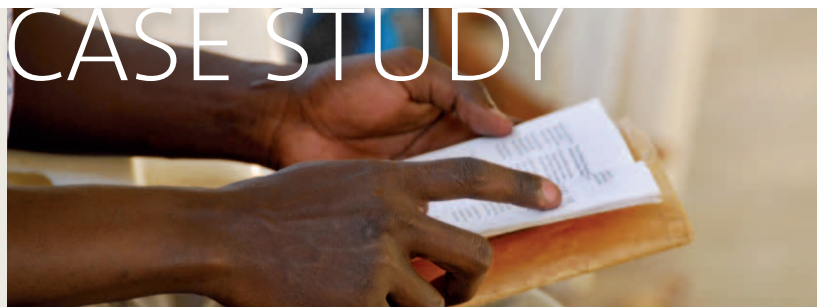
What does your social enterprise do?

“Wunan is a social enterprise in the East Kimberley which creates opportunities for Aboriginal people to reach their potential in life, based on a good home, proper education for kids, and real jobs for adults. Wunan also works to support local leaders to make changes in their community by building a local “culture of success” and by supporting reforms that encourage aspiration, responsibility and independence.”

What kind of start up funding did you have for your social enterprise?

“Wunan was established with government “seed capital” that was combined with commercial debt to acquire a range of commercial investments. The purpose of this commercial strategy was expressly to provide a level of financial independence and stability so Wunan could develop and pursue a long-term strategy for change without being dependant on the vagaries of government programs.”

CASE STUDY



What were the advantages of this approach?

“While the income from commercial assets is relatively modest (less than 10% of total revenues), it has provided Wunan with the rare ability to “put its money where its mouth is” by seeding new innovations such as Stepping Stone Housing, which links social housing to ongoing participation in employment and education.”

www.wunan.org.au

Marketing

Of course, a crucial part of starting up successfully is to turn all of your market research and knowledge into real sales from real customers so that you meet your income forecasts!

Marketing is vital to securing sales. During the Exploration stage, you developed a good understanding of your market and how to position your social enterprise in it. As you start your social enterprise, you will need to have a very strong marketing plan in place and you will need to focus, in particular, on promoting your social enterprise.

Promotion can include advertising, direct mail, public relations (PR), cold calling, trade fairs, networking events, word of mouth and so on. The best strategy for your social enterprise will depend on your product and what you know about your customers.

Try to avoid spending money on unnecessary or irrelevant promotion – instead, focus on the things you can do that will have the most impact. Remember that word of mouth is often the best form of advertising – and that word of mouth is driven by good customer service.

PR is also a good way of getting low-cost exposure for your enterprise while still achieving the positioning in the market you are looking for. Have a look at Handle Your Own PR (www.handleyourownpr.com.au) for practical tips on how you can do this.

Monitoring and reporting

Once you have secured start up funding and you begin selling to customers, it's important that you keep track of your finances using a clear and consistent system of monitoring and reporting. Accounting packages and software like MYOB are an important part of this, but you will need to make sure that you set up your reporting system carefully, so that it gives you timely and useful information. Consider your stakeholders here, particularly those with a financial interest in the enterprise – what information are they going to require and when? Getting this right at the early stages of starting up will save you a lot of headaches further down the track.

If your social enterprise is part of a larger non profit organisation, it is highly unlikely that their systems will be sufficient for your purposes. This is because monitoring budgets for non profit programs and projects is quite different to monitoring income and expenditure in a commercial business. You may need to set up a parallel system, or work closely with your in-house finance person to adapt their existing system for your purposes.

Making a Difference

As you start up your social enterprise, your plans for making a difference – for achieving your social aims – will be well and truly tested. Making a genuine and long-lasting difference in people's lives is no easy thing to do. While every situation is different, here are some common problems that social enterprises encounter, particularly those that are working in the area of employment and training for people who are excluded from the labour market, as well as suggestions for overcoming them.



Potential Problem	Suggested Solutions
Many people who are excluded from the labour market have become discouraged by previous efforts to find work, or are sceptical about training courses and programs.	Try to form strong links with the community you are working in. Try to work with other people who have already gained the trust and respect of the community. Build up as wide a network of referral partners as possible, and advertise through this network.
Making the transition to employment can be difficult for people who face barriers to working.	Talk to people about their expectations of work and training, and be clear about your expectations of them. Find out what support is available to help people with any barriers they experience (childcare, transport, literacy, numeracy etc) and make this information available to your employees and trainees. Work with partners like Job Services Australia providers and the local TAFE – find out how they can help you.
People who are excluded from the labour market may be less productive than others.	Try to factor this into your planning and costing assumptions. Consider employing a mixed workforce, with a balance of people in your team from different backgrounds.
People may not understand or support the social aims of the enterprise, and may be resentful of ‘special treatment’ for employees and trainees who are excluded from the labour market.	Try to recruit people who share the values of the social enterprise. Consider some kind of team-based rewards system to create incentives for working together. Create systems for all staff to access support.

Monitoring and reporting

Just as it is crucial to monitor and report on your finances, it is also vital to monitor and report on your social outcomes. In the Exploring stage, you should have set up a basic framework for this. As you start up, you will need to implement this framework and make sure you provide regular reports on how you are progressing against your goals. You may also find that different stakeholders have different information needs, and this should be factored into your reporting style, content and frequency.

You may want to consider having an independent evaluation carried out to help lend credibility and evidence your social impact.

You should also make sure that you keep in touch with all of your stakeholders as regularly as you can. This might involve a short newsletter or an annual event where you involve people in your planning for next year.

Making it Work

Underpinning everything during the Starting Up stage is your ability to make it all work – i.e. to turn plans on paper into a living, breathing social enterprise.

Because the operational side of every business is different, it's impossible to be prescriptive about what this will involve in your particular case. However, there are some key tips for success that have been gathered from observing the successes and failures of social enterprises over the years.

Make sure you have the right person at the helm

The right person can make or break a social enterprise. You will need someone special who can combine day-to-day management common sense with the ability to lead and inspire people at all levels. Choosing your manager may be the most important decision you make – do it very carefully.



Build the right team

Even the best manager will need a good team around him or her. You will need to be able to draw on a whole range of skills and areas of expertise, so make sure you have people around you who can give you solid and strong input in marketing, finance, human resources, social impact, operations and business development.

Plan and review

You should make sure you have an action plan and a timetable to cover all the things that you need to do, and when. However, things will change constantly so make sure you have a system for reviewing progress regularly. You also need to ensure that you are involving the key people in reviewing the business performance.

Communication, communication, communication

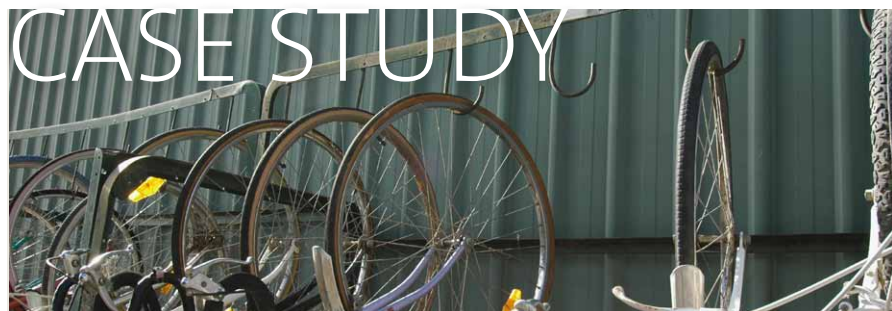
Make sure that there are simple and clear 'flows' of information through all levels of the enterprise, so that everyone gets the information they need, and so that feedback makes its way to the managers and decision-makers. Remember that different people communicate in different ways, so you will probably need a mixture of ways to make sure everyone feels included – team meetings, memos, noticeboards, one-to-one meetings and so on.

Marketing never stops

Don't think that just because you have put effort into market research and promotion at the beginning, that you can now sit back, relax and wait for the money to roll in. You have to stay on top of how your market is changing, and you must stay focused on your customers.

Make sure you can make decisions quickly

Being able to respond to changes in your market or to problems with staff, suppliers, products or customers, is critical. Make sure the right people can make the right decisions quickly. This is particularly important where a social enterprise is part of a bigger non profit organisation, which



FEO (FUTURE EMPLOYMENT OPPORTUNITIES)

What does FEO do?

"FEO provides training, employment placement services and enterprise activities for all ages, primarily in Central and Northern Victoria. FEO has a robust operational model that supports business start-ups and establishes social enterprises that are financially sustainable (75 per cent of all FEO expenditure is funded by its own revenue). A key factor in the model is to ask jobseekers to participate in the start-up of the social enterprise and to gradually receive wages as the business creates revenue. FEO provides a 'stepping stone' to further employment. It has a policy to give preference to those not in the paid workforce for all positions in its organisation.

FEO continues to demonstrate evidence based social impact, while growing social enterprise revenues and partnering with a high performance board and support networks."

What are your top tips for social enterprise success?

- ▶ "A strong governance committee who have the skills and endeavour to operate the enterprise.
- ▶ Never do anything alone. Develop partnerships where everybody is a winner.
- ▶ Make the enterprise accountable in meaningful financial data and outcomes. There always needs to be someone supervising the big picture.
- ▶ Allow jobseekers to own the enterprise. Provide them with all the necessary information to make decisions.
- ▶ Be sustainable. Only accept funding for start up and not for long term operational costs. Trust your business plan!"

www.feo.net.au

may have complex and multi-layered management. It's difficult, but you must find a way to empower people in the social enterprise to do what they have to do.

Create the right culture

Social enterprises need to combine a business culture with the culture of making a difference. If you're a non profit organisation trying to develop a social enterprise, you will find the business side of this tricky, and if you're a private entrepreneur or business trying to transform into a social enterprise, you might find the culture of making a difference hard to develop. Think about how you'd like people to describe the feel of your enterprise and then provide leadership to drive those values through every part of the enterprise.

It takes time

Experience from across Australia and internationally has shown that it can take 3-4 years for a social enterprise to move from start-up, through survival stage to break even. There is usually no quick fix to this as you have to do the 'hard yards' to build the business. You need to be prepared to be in this for the long haul.

Making the Magic

Throughout this guide, we have emphasised how important your leadership is to developing successful social enterprises – you are the magic spark that makes things happen, sometimes against all the odds.

By this point, you may be feeling a little drained and tired by the effort involved in taking what seemed like a simple idea and developing it into a real business. Equally, you might be overcome with excitement and enthusiasm that your enterprise is becoming a reality. Or you might feel both at the same time – a very common experience!

Developing a social enterprise can be lonely and stressful, even when it is exciting. It's important that you make sure you get support through the Starting Up process. Even though your social enterprise is unique, other people developing other social enterprises will be experiencing similar things – and it can be incredibly useful to talk things over with them from time to time.

Try to make time for networking and informal socialising with other people doing similar things – half an hour over coffee with someone who really understands your frustrations and your enthusiasm can help enormously. Most people will be happy to share their experiences in return, and this kind of peer support has been found to be extremely valuable in helping people 'stay the distance'.

Summary

Starting Up a social enterprise is an exciting, exhilarating and exhausting time. As you grapple with the realities of running a business, with all the commercial pressures that go along with that, as well as the extra pressures of creating employment and training for people excluded from the labour market, you will come up against all kinds of obstacles and challenges that require perseverance, creativity and resolve to overcome. The first year of any business is critical and social enterprise is no different. The risk of failure is high but if you can keep going and make a success of it, you can look forward to taking your social enterprise to the next level – Growing.





Congratulations! If you've reached this stage, you've already done a lot of hard work and achieved something very special by starting your social enterprise.

Growing your enterprise means you can create a bigger social impact – which is what it's all about. There are many ways to increase your scale but they all need careful thought and planning.

Is Growth Good?

There is no right or wrong answer to whether you should grow or not – and there is no right time to go for growth. Every social enterprise is different and you will need to decide for yourself if, when and how you want to grow your business. Here are some things to think about.

There are good reasons for growing your social enterprise:

- ▶ You can create more jobs and training opportunities for people excluded from the labour market.
- ▶ You might be able to achieve economies of scale – for example, by negotiating better deals with suppliers for bigger orders, or by reducing the relative costs of management overheads.
- ▶ Funders and investors might want to see you grow so that they can get a bigger social and/or financial return.
- ▶ A bigger enterprise can have a bigger margin of error, or a 'comfort zone' for when times are tough.

There are also good reasons for staying small, particularly in the early years of your social enterprise:

- ▶ You may not have good evidence of your social impact for a few years, or you may not fully understand how you are achieving it until you spend some time evaluating your work – and you need to have some 'runs on the board' before you can do this.
- ▶ You may want to consolidate your position in your market before you risk taking on too much – customer service can suffer if there are too many customers and not enough focus on operations.
- ▶ Working in a new location, or with a new customer or staff base may be quite different to what you're used to. Jeopardising your core, successful operations by spreading yourself too thin or taking on markets that are not well understood is a real possibility.
- ▶ You might not have access to funding to grow.
- ▶ You might want to build up some reserves to protect the core enterprise, instead of putting everything into growth.
- ▶ Your social purpose and/or relationship with your beneficiaries may be best suited to a small operation.

There are also different ways of growing.

Expansion in current location

This is possible in two main ways – either your market is growing and you grow with it, or you increase your share of the current market relative to your competition. Of course, you may also be in a position to do both.

Replication

You may be asked to, or choose to, replicate your social enterprise in a different area. This often happens when government departments or non profits see what appears to be a successful social enterprise and are keen to have one 'on their turf'. Or you may identify opportunities for replication yourself, particularly if you are part of a larger organisation operating in multiple locations, or you are just the type of person who thinks big!

Franchising

Franchising is a particular type of replication, which involves giving other people a license to set up branches or franchises of your social enterprise in other areas.

Each approach to growth has particular advantages and disadvantages. Appendix 1 has details of further reading on each.

If you do decide to embark on a growth spurt, bear in mind that you will have some new challenges to think about. As before, we've organised this part using the 'pieces of the puzzle' approach.

Making Money

There are several financial considerations to think about when it comes to growing your social enterprise.

Are you growing from a solid, sustainable base?

Before you even think about embarking on a growth strategy, you should make sure your current social enterprise is genuinely sustainable. If you are struggling financially and think that growing your social enterprise is the way to solve your financial problems, be very careful. While it is true that 'critical mass' can help to achieve economies of scale and improve profitability, this is by no means always the case.

Growth is no solution to a weak business model; so make sure that you are not trying to grow to avoid dealing with an inherent flaw in your social enterprise. A small, unsustainable social enterprise that grows may simply become a big, unsustainable social enterprise. It has sometimes been said that 'profit is sanity, turnover is vanity'!

How much will it cost to grow?

Rather than being the answer to your financial prayers, growth often needs additional investment and can put pressure on cash flow in the short term. Planning for growth will involve some careful financial forecasting to identify how much cash flow you will need in the short term.

Try to avoid attempting to grow 'on a shoestring' – just as it was important to be realistic about your financial needs in the Starting Up phase, it is important here too.

Remember that there are 'opportunity costs' to growing your social enterprise. Your time, and that of your staff, is valuable and growth can divert time and attention away from running the core business. Think about whether growing the business is worth it. What else could you do with that time and energy?



How can you raise investment to fund your growth?

Raising funds may be easier now that you have established your social enterprise and can demonstrate a track record of commercial success and positive cash flow. Philanthropists may be keen to support expansion of a successful model or you may be able to approach a commercial lender for debt or equity finance to fund your growth strategy. Bear in mind that anyone looking to invest on a commercial basis will need solid evidence that your growth will lead to a high enough financial return to repay any lending, or to deliver some form of dividend in the case of an equity investment.

If you are growing by replicating or franchising into new locations, you may be able to develop a funding model that includes a contribution from franchisees or replication partners – for example, a licensing fee. This can be complex and you will need to get proper legal and financial advice to make sure you set this up in a way that will avoid problems in the future.



Making a Difference

You should be sure that growing your social enterprise will make a real difference to the lives of the people you exist to help. Sometimes people assume that simply by growing, they can make a bigger difference. However, this may not be the case.

Can you prove that you are already making a difference?

Attempting to grow before you have really proved that your social enterprise works is a risk, both in terms of the potential to do more harm than good to people's lives, and in terms of your own reputation.

How do you know that what you're doing works? If you've followed this guide, you should have built an evaluation framework into your early planning – but have you followed through on this? If you haven't evaluated your impact at least once each year you've been operating, we would strongly suggest that you do so before you aim for growth.

Evidence of your social impact is likely to be important to funders, and evaluation can also reveal lots of very useful information about what you're doing well, and what you can improve. Although it might seem like an effort, most social enterprises who take the time to evaluate their work find it rewarding and illuminating. See Appendix 1 for sources of support with this.

Have you asked your stakeholders what they want?

It might sound obvious but have you checked that the people who are affected by your social enterprise – your stakeholders – want you to expand? Remember that growing will change the culture of your enterprise. For many social enterprises, having a 'family business' feel is an important part of creating a supportive environment for people excluded from the labour market, so it is worth thinking about how this might change or need to be managed differently. How do your current employees and trainees feel about growth? What about your funders or other partners?

Could someone else make a bigger difference?

If you are thinking about replicating into a new area, have you checked to see who else is already operating there? Perhaps there is another organisation that could replicate your social enterprise instead – they may have stronger connections and a better understanding of the local community. You should have a clear rationale for why you are the best organisation to replicate your model into a new area, or you should consider collaborating with locally based partners instead.



Making it Work

Scaling up operations is a major challenge to any growing social enterprise. It usually involves a shift from a situation where operations are managed by a small team of people, who know everything about everything, to a more systemised structure, where the sheer size and scale of what needs to be done is too much for one or two people to have full knowledge of the enterprise.

What makes things work at the moment?

Hopefully you are only thinking about growing your social enterprise because you have a model that's working already. But do you understand how and why your current business works?

It is crucial to develop an understanding of your **critical success factors** so that you can plan how to replicate these as much as possible in your expanded enterprise. Critical success factors are all those things that make your social enterprise successful. They can be almost anything, ranging from the particular skills and attributes of key staff, the connection between your product and your customers, your location, your ability to market yourself cost-effectively, the great deal you have with your suppliers, the investment you secured and many more. Think carefully about what the 'make or break' factors behind your success have been – and then think about whether these will need to be replicated as you grow.

You will also need to develop a **systems thinking** approach to your social enterprise if you want to grow effectively. This means moving away from a model where things work informally and in a relatively unstructured way, towards a model where everything that makes your business work – your processes and procedures – are documented and followed consistently by everyone. Many start-up social enterprises are heavily reliant on their manager or team leaders 'just knowing' how things are done. If you want to grow, you will need to capture this knowledge in written form and make sure it is accessible for everyone. Developing an operations manual or training package for key staff is useful at this stage.

Is your structure fit-for-purpose?

As your social enterprise gets bigger, you will have more staff, a bigger budget and more complicated operations to deal with. You may need to review your management structure to make sure you can cope with this as efficiently and effectively as possible. Try to avoid creating too many layers of management, but do make sure that you delegate responsibility where possible, and that you have clear lines of accountability for decision-making.

You may also need to think about how your Board is involved. In the early days of a start-up social enterprise, Board members are often very hands-on. This may not be appropriate as you grow and you may want to consider setting up sub-committees of your Board (e.g. for staffing and finance) to allow the full Board to concentrate on strategic issues. It will be important to work through any issues relating to changes to structure and/or process with your Board prior to attempting to take on the growth exercise. Otherwise lags in decision-making times may delay critical activities.

How will growth affect your working environment?

Creating a supportive working environment for staff and trainees is a crucial aspect of supporting people who are excluded from the labour market. In a small social enterprise, this can often be done through personal relationships and support, leadership by example and informal problem resolution. As you grow, these informal supports may become more difficult to achieve. The culture of a bigger business is inevitably more structured and less personal – what impact will this have on your workforce? Think about what you can do to minimise any potentially damaging consequences for staff and trainees as your enterprise grows. Remember that engaging them in the process of change is likely to be the best way to make them feel involved and supported along the way.



Making the Magic

The skills and personal attributes needed to grow a social enterprise can be quite different from those needed to start one. As you plan your growth strategy, think carefully about your own strengths and weaknesses and how you can bring other people on board to fill in any gaps in your skill-set.

Key things to think about include:

Leadership and management

In the early days of starting up, it's likely that you have been both leader and manager – setting the vision and driving it forward as well as overseeing all the ins and outs of the business. As you grow, you may want to separate some of the management of the enterprise from the leadership role. Think carefully about your own personal qualities when it comes to leadership and management. If you are recruiting someone new to take over some of the workload, what kind of attributes will best complement yours? Make sure you don't simply recruit someone 'in your own image' - but also make sure that you are compatible enough to work as a team!

Finance, HR, marketing and operations

As you grow, your business requirements in each of these areas will grow too. You may need to bring people into your social enterprise who are specialists in these areas, giving you a step-change in your capacity to manage and cope with growth. If this means you are moving to more of a team-based approach to managing your social enterprise, think about how you will cope with this, particularly if you have been acting as a lone social entrepreneur for some time.

Succession planning

You may decide that the challenges involved in growing a social enterprise are not for you. Many social entrepreneurs prefer to get things up and running and then leave them in the hands of other people to manage and grow. If this is the case for you, then you should plan ahead for replacing

yourself – succession planning. Even if you are planning to stick around, you should always be thinking about how you could be replaced in the future – this applies to other key members of your team as well. Grooming future leaders from within your social enterprise is one way to approach this – as you grow, you may be able to develop an in-house leadership and management program. Staying connected with networks is another way to spot talent and think about how you can bring fresh people into your social enterprise for the future.

Summary

Growing a social enterprise involves a step-change in how you approach all the pieces of the social enterprise puzzle. Just like starting up, growing successfully means thinking carefully and planning ahead. There will undoubtedly be growing pains along the way but with care and attention, these can be managed and a bigger and better social enterprise will emerge!





WORKVENTURES

“WorkVentures is a not-for-profit social enterprise that creates and runs business enterprises. We do this so that we can generate our own funding to create innovative and practical programs that can be applied within communities, and to create direct employment opportunities for our target groups.”

How has your social enterprise grown over the years?

“Our first steps in community engagement started in the late 1970s at St Mark’s Anglican Church in Malabar in Sydney, when some members of the congregation decided to take an active part in the local community. WorkVentures started life in 1979 as Peninsula Community Services, based in the Malabar/La Perouse area in Sydney’s southeast.

For many years now our focus has been on employment, training, technical services and narrowing the digital divide, but in the early days we ran a range of programs including holiday programs, a recycling venture, and other community-based projects.

In 1986 we began to work in skills training for employment, and in 1988 we started our technology repair business, which continues to operate as SIRC (Sydney ITeC Repair Centre) with locations in Sydney and Melbourne.

Over the past 30 years we have trialled a number of innovative projects, including a youth hospitality-training project, Newtons the Restaurant, in Newtown in Sydney’s inner west, and a business incubator facility to support small business development.

We were part of the JOBfutures national employment services network from 1997 to 2009, withdrawing from that business following the loss of our contract under the Federal Government’s tendering process for the provision of job services.

We continue to build on our heritage of testing and implementing innovative, practical ways to create pathways to employment, using technology and partnerships as the vehicles.”

How has your leadership and management team changed?

“For its first 27 years, WorkVentures was led by Steve Lawrence, who stepped down as CEO in 2007 and was replaced as CEO by Arsenio Alegre. Arsenio had been WorkVentures’ Chief Financial Officer since October 2004, which meant that our new CEO was already intimately familiar with the organisation and its mission. Rather than lose the knowledge, experience, and enthusiasm of the man who had led WorkVentures for so long, Steve Lawrence moved into the specially-created position of Founder and Social Entrepreneur, which he held until the end of 2008.

The current management team is now a mix of managers with long experience in the organisation, and relatively recent appointments who bring with them significant industry experience. The organisational culture continues to be one of identifying and nurturing people with potential and supporting them in their training and professional growth. For example, as well as placing trainees with external employers, WorkVentures takes on trainees within its own organisation, with many subsequently being confirmed in full time employment with the organisation.”

www.workventures.com.au

There is a wide range of support available to help you as you explore, develop and grow your social enterprise. The following list is designed to help you get started with finding appropriate sources of support – but it is not exhaustive or exclusive.

Organisation	Description	Focus	Reference
Social Ventures Australia	Provides investment plus support for social enterprises and social entrepreneurs including through a network of Social Enterprise Hubs.	Investment Business development support Support to scale and grow Place-based support for social enterprises (Social Enterprise Hubs)	http://www.socialventures.com.au/
Social Firms Australia (SoFA)	Supports development of Social Firms – businesses with minimum 25% permanent workforce who are excluded from labour market.	Business development support Workplace modifications support	http://www.socialfirms.org.au/
Social Traders	Promotes and supports development of social enterprise sector across Australia.	Business development resources and tools Funding Peer networks Information & signposting Policy development	http://www.socialtraders.com.au/
School for Social Entrepreneurs	Leadership and personal development for social entrepreneurs	Leadership program	http://www.sse.org.au/
Centre for Social Impact	Teaching, research and public engagement on theme of social innovation, entrepreneurship and impact.	Courses Research	http://www.csi.edu.au/

SROI Network	Network of practitioners of Social Return on Investment – approach to measuring social impact.	Measuring social impact	http://www.thesroinetwork.org/
Public Interest Law Clearing House (PILCH)	Provides access to pro bono legal advice. PILCH Connect provides community enterprise support.	Legal advice	http://www.pilch.org.au/
Flying Solo	Networking and support for people starting their own business.	Business support and advice	http://flyingsolo.com.au/
Business Enterprise Centres – Australia	How-to-guides, small business support, established centres all over Australia	Business support, training and advice	http://www.beca.org.au/
Australian Government – Business website	Official references and checklists to make sure you cover all your obligations as a small business starting out	Business support and advice	Http://www.business.gov.au/
Australian Bureau of Statistics	Population and geographic statistics on the Australian population	Market research	http://www.abs.gov.au/
Handle Your Own PR	Self-help PR website - resources and guidance for PR	Marketing - PR	http://www.andleyourownpr.com.au/
Marketing Angels	Information and guidance on marketing for new business Provides free resources and also offers and free half-day appraisal of your business marketing needs	Marketing	http://www.marketingangels.com.au/
IP Australia	Information and guidance on intellectual property for start-ups	Law – Intellectual Property	http://www.ipaustralia.gov.au/

There are many different legal structures available to social entrepreneurs and social enterprises. The guidance that follows is general in nature and you should make sure you get appropriate legal advice for your specific situation and circumstances.

This guidance note has been adapted from a more detailed document which was prepared for Social Ventures Australia by Mallesons, a legal firm with expertise in this area. We are grateful to Mallesons for their input and support.

We also strongly recommend PILCH Connect as a source of very useful information on legal issues for community and non profit organisations. While aimed specifically at organisations in Victoria, much of the information provided is relevant for all non profit organisations. Visit http://www.pilch.org.au/community_org/ for more information.

Considerations

When choosing the most appropriate legal structure for your social enterprise, you will need to consider various factors, including:

For profit or non profit?

You may wish to distribute profits to your members, or to yourself, or you may wish all profits to be reinvested in the operation and social aims of the enterprise. This is often a question of personal motivation but you should be aware that certain structures are reserved for not for profit organisations only, and vice versa. You should also be aware that to be considered a social enterprise by investors, government and support agencies, you will be expected to have a structure that restricts the level of profit that can be distributed to individuals.

Charitable?

A charity is an entity that is not for profit whose sole or dominant purposes are charitable. Charities may be able to access particular tax concessions. Charitable purposes recognised by law include the relief of poverty, the relief of sickness and distress or the needs of the aged, the advancement of religion, and the advancement of education. However this is not an exhaustive list and a social enterprise may be recognised as charitable if its dominant purpose is to benefit the public (or a sector of the public).

Public Benevolent Institution?

A public benevolent institution (PBI) is a non-profit institution organised for the direct relief of poverty, sickness, suffering, distress, misfortune, disability or helplessness. PBIs endorsed as such by the Australian Taxation Office (ATO) can access certain tax concessions.

Deductible Gift Recipient?

Deductible Gift Recipient (DGR) status is a special tax status that non profit organisations can apply for. There are over 50 categories of organisations which can apply for DGR status, with eligibility criteria for each.

DGR status means that people who donate to your organisation can deduct those donations when filing their personal income tax return. In addition, some funding bodies are only able to give money to organisations with DGR status.

Sometimes only certain activities of an organisation are eligible for DGR status. In these circumstances it may be possible to set up a separate entity with DGR status as part of a structure of related entities. You will need specialist advice on this.

More information on DGR is available from the ATO at <http://www.ato.gov.au/nonprofit>.

Trading

While most legal structures are suitable for trading activities, there may be some restrictions on the type of trading that a non profit organisation can carry out in relation to their social purpose. It is important to check the most recent legislation in your state for any restrictions for particular non profit structures. Where there are restrictions on trading, it is often possible to set up two related entities, one of which trades and distributes all profits to the other to further its social purpose.

Tax concessions

There are various tax concessions available to both small businesses and non profit organisations, depending on the exact legal structure chosen. While these have a clear financial benefit, you should consider whether there are any restrictions associated with the structure concerned which outweigh the benefit. Visit <http://www.ato.gov.au/nonprofit> or <http://www.ato.gov.au/smallbusiness> for further details of current tax concessions.

Administrative requirements

Some structures have greater regulatory and reporting requirements than others. You should consider the resources you have to deal with these.

Size and management structure

Your number of employees, turnover and decision-making structures are all important to consider when choosing a legal structure.

Risk and insurance

The potential liability for management and members should be considered, particularly with a view to the nature of your business. Some structures offer greater protection from liability for management, individual members or shareholders. The possibility and costs of insurance against certain risks should also be considered.

Fundraising

Some structures are more suitable for different forms of fundraising than others. You should think about the type of funds you wish to raise and what this means in terms of your structure e.g. raising funds from trusts might require you to be a charitable entity, while raising funds from private investors might be better served through a company limited by shares.

Geography

Companies can do business anywhere in Australia while state regulated structures may need further registrations if they conduct business outside of the state in which they are registered. This can cause complexity in reporting arrangements.

Strategic direction

Changing structure can be costly and time consuming. It is important to look at the big picture and consider which structure best fits the planned strategic direction for the social enterprise.

Options

The main legal structures available to social enterprises are:

- ▶ Sole trader
- ▶ Unincorporated association
- ▶ Incorporated association
- ▶ Cooperative
- ▶ Company limited by guarantee
- ▶ Company limited by shares
- ▶ Partnership
- ▶ Trust

Structure	Key Points
Sole trader	<ul style="list-style-type: none"> ▶ Any individual can set up and operate a business in his or her own name. ▶ There are no partners or co-owners. ▶ Cannot have not for profit or charitable status. ▶ No requirement to keep financial accounts except for personal income tax purposes (although good business practice to do so anyway). ▶ Individual is the party that enters into any agreements ▶ Individual is personally liable and should consider insurance against this. ▶ Unlikely to be considered a social enterprise by most investors, government and support agencies.
Unincorporated association	<ul style="list-style-type: none"> ▶ Only available to not for profit organisations – made up of individual members. ▶ Few regulatory or reporting requirements. ▶ Cannot enter into contracts or acquire property in its own name – only through its members ▶ Not a legal entity itself – i.e. members are not protected from individual liability ▶ Unlikely to be suitable for social enterprises because difficult to run trading business without own legal entity and ability to enter contracts
Incorporated association	<ul style="list-style-type: none"> ▶ Regulated under relevant state law. ▶ Only available to not for profit organisations. ▶ Management committee must be elected. ▶ Required to prepare financial statements which must be audited. ▶ Annual General Meetings must be held. ▶ Separate legal entity that can enter into contracts, acquire property and be sued. ▶ Members are not personally liable. ▶ Some restrictions on trading – can generally only trade with the public where trading activity directly serves the association's principle purpose. ▶ Requires special resolution to wind up.
Cooperative	<ul style="list-style-type: none"> ▶ Regulated under relevant state law. ▶ Open to both for profit and not for profit organizations. ▶ Can be trading or non trading. Trading cooperatives must have share capital. ▶ Must prepare financial reports and have them audited. ▶ Separate legal entity that can enter into contracts, acquire property and be sued. ▶ Member liability is limited to unpaid amount on shares owned in the cooperative. ▶ Can be wound up voluntarily or by special resolution.
Company limited by guarantee	<ul style="list-style-type: none"> ▶ Regulated under federal law. ▶ Open to both for profit and not for profit entities. ▶ As a public company, must prepare and audit financial reports, as well as an Annual Directors Report. ▶ Must hold an Annual General Meeting. ▶ Separate legal entity that can enter into contracts, acquire property and be sued. ▶ Member liability for debts on winding up is limited to guarantee, usually a nominal amount e.g. \$10. ▶ Can have only one member, therefore often suitable for subsidiary companies of non profits.

Structure	Key Points
Company Limited by Shares	<ul style="list-style-type: none"> ▶ Regulated under federal law. ▶ Open to both for profit and not for profit entities. ▶ May be either public or private company. Private company must have no more than 50 non-employee shareholders and must raise funds privately. ▶ Public companies are subject to investor protection provisions e.g. must prepare and audit financial reports, as well as an Annual Report. Must hold an Annual General Meeting. ▶ Member liability is limited to unpaid amount on shares owned in company.
Partnership	<ul style="list-style-type: none"> ▶ Regulated under relevant state law. ▶ Minimum of 2 partners. ▶ Must carry on a business in common with a view to profit. ▶ Can be incorporated or unincorporated. ▶ Can have limited or unlimited liability. ▶ No legal or accounting requirements other than record keeping for individual personal tax purposes. ▶ Unincorporated partnerships mean joint and several liability remains with individuals.
Trust	<ul style="list-style-type: none"> ▶ Regulated under relevant state law. ▶ Formed by any person or company entering into a trust deed which imposes an obligation on them to hold property or income for benefit of others. ▶ Can be formed for charitable purposes. ▶ Trustee(s) must keep various records and accounts dealing with trust money. ▶ Trustee(s) have power to enter into contracts and acquire property on trust's behalf. ▶ Trustee(s) must exercise rights in accordance with fiduciary duties and comply with Trusts Act. If no, the trustee(s) will be personally liable.

Related Entities

In some cases, there may be two or more related entities in your legal structure. For example, social enterprises can be operated as wholly-owned subsidiary companies of larger non profit organisations, or two organisations may set up a social enterprise as a joint venture with its own legal structure.

While this may appear complex, it is sometimes necessary where a non profit's existing legal structure does not allow it to carry on the trading activities of the proposed social enterprise. It can also be good practice to operate separate trading

businesses as separate legal entities, in order to 'quarantine' risk, particularly in relation to protecting the other businesses from liability should one fail.

In these situations you will need to make sure that ownership and control of any subsidiary company is clearly thought about, defined and understood by both the 'parent' organisation and the Directors and members of the subsidiary. This is particularly important in relation to joint ventures.

Every social enterprise needs a business plan. However, every social enterprise is different and your business plan should be developed to reflect your own enterprise in the best possible way.

Following a prescriptive business plan template is unlikely to lead to a good business plan. However, we realise that it can be difficult to know where to start and for that reason, we have provided a framework of some common and useful business plan sections. Under each heading, we have described some of the points you might want to cover in this section.

Bear in mind that one business plan may not be appropriate for several audiences, so consider having different versions for different people e.g. you may have a more comprehensive business plan for internal management purposes and a shorter version for investors or key supporters. Using appendices to provide detailed supplementary information where necessary, can be a useful way of maintaining a consistent format across different versions of the same business plan.

It can often be useful to have a look at other people's business plans to pick up ideas about format and structure, or even just to notice where other people have gone wrong!

You should also think about using photos and other visual images to help break up the text of your business plan, particularly if you have photos of your social enterprise 'in action'.

1. Executive Summary

This is the first thing most people will read and it's your chance to make a good first impression. Your aim is to hook people in so they want to find out more about your social enterprise.

This section should be short and snappy, giving a brief overview of what your social enterprise does, where you are at the moment, where you want to go and how you will get there.

2. The Social Enterprise

This is where you introduce the key facts about your social enterprise – the name, contact details, legal status, start date, structure and a few sentences to describe your business idea, your product or service and the social aims of the enterprise.

3. The Organisation

If your social enterprise is part of a larger organisation, it can be helpful to include a section about the background of the organisation, its aims and key details like number of years of operating, annual turnover, number of staff and management structure.

4. The Market

In this section, you should summarise what you have learned from your market research and analysis and then describe how you will apply this learning in your own marketing and sales efforts.

It can be helpful to arrange this in two sub-sections as follows:

Market Analysis

- ▶ Who will buy your products or services
- ▶ Why they will buy from you (your unique selling point)
- ▶ Trends in your market that you have identified from research
- ▶ Levels and types of competition in your market
- ▶ Results of any market testing you have done
- ▶ Lessons from similar businesses including social enterprises.

Marketing Strategy

You should describe the key elements of your marketing strategy (i.e. how you will respond to the learning above), including:

- ▶ Your routes to market (e.g. how will you distribute your products or services, including e-commerce options)
- ▶ Pricing
- ▶ Promotional mix
- ▶ Customer care policy
- ▶ Customer feedback
- ▶ Who will be involved in marketing
- ▶ How much you have budgeted for marketing.

5. Social Impact

In this section, you should summarise how you will make a difference i.e. what is the 'social' in your social enterprise?

Areas to cover include:

- ▶ Who will benefit from your social enterprise?
- ▶ Why is your social enterprise needed?
- ▶ How will your social enterprise meet that need?
- ▶ Your training and employment support model for people excluded from the labour market
- ▶ How you are working with different partners
- ▶ Who are your stakeholders and what type of consultation have you done with them?
- ▶ How will you measure your social impact and have you budgeted for this?

You may want to include a detailed stakeholder analysis and table of intended outcomes and activities as an appendix, or you may simply wish to reference this and say that it is available on request.

6. Business Development

This section is where you should summarise what you've learned about what you need to do to maximise the chances of your social enterprise succeeding.

You should identify:

- ▶ Key issues in the external business environment that may affect you
- ▶ Key issues in relation to your internal strengths and weaknesses
- ▶ Key issues which affect the industry you operate in
- ▶ The main critical success factors you have identified and your strategies to address these.

Much of the information from this section will come from the analyses you carried out during the Exploration stage, including your SWOT and PEST analyses and any feasibility study you completed. Rather than including all of that information in this section, you may prefer to summarise the key points and then include the more detailed documents as appendices.

7. People

This section should highlight the key people that will be involved in making your social enterprise a success. This may include staff, volunteers and Board members. You should consider including:

- ▶ A brief description of the roles and responsibilities of each person
- ▶ An organisational structure chart to show the relationships between people
- ▶ A summary of the skills, experience and knowledge of everyone involved
- ▶ Any training plans you have.

More detailed information can be included as an appendix if necessary including job descriptions and CVs.

8. Operations

This section is where you provide details of all the 'nuts and bolts' of your social enterprise. The type of information you need to include here will obviously depend on your particular business but your aim should be to give anyone reading the business plan enough information to make an informed assessment of how well you have planned your operations. It should also act as a useful reference point for your Board and staff.

Areas to think about include:

Premises

- ▶ Where your business is located
- ▶ Whether you are leasing or buying and why
- ▶ Whether you need to have any renovation or adaptation work carried out
- ▶ Regulatory, planning and OHS issues associated with your premises
- ▶ Insurances needed, and costs of this.

Suppliers

- ▶ Who are your main suppliers?
- ▶ Alternative suppliers
- ▶ Advantages and any problems with suppliers.

Equipment

- ▶ Description and costs of equipment and vehicles to be purchased or leased
- ▶ Any finance arrangements needed for equipment?
- ▶ What is your depreciation policy?

Production

- ▶ What are your production methods?
- ▶ Details of supervision arrangements
- ▶ Details of any quality standards for your industry.

External relations

- ▶ Details of your professional and legal advisors
- ▶ Details of any funders and investors
- ▶ Membership of any monitoring or quality assurance networks
- ▶ Membership of any trade associations
- ▶ Details of any other relevant networks.

9. Finance

The financial section of your business plan is, in many ways, the most important one. However, you will need to think carefully about how much financial information you share with different audiences as there may be commercially or personally sensitive information included in your financial forecasts (e.g. your supplier discounts or staff salaries).

You may want to provide a summarised version of your financial model, making more details available on request.

It can be useful to organise your financial information in three sub-sections:

Budget

As a minimum, you should include a forecast budget for at least 3 years, showing:

- ▶ Sales
- ▶ Non-commercial income (grants and donations)
- ▶ Expenditure
- ▶ Profit or loss.

You should also detail the assumptions that your budget forecasts are based on (e.g. inflation, sales targets, wages and salary levels).

You should also produce a cashflow forecast that estimates when money will flow in and out of the business. This will help you to identify any potential problems in terms of paying suppliers, meeting staff costs etc.

Scenario Planning

It can also be useful to show that you have considered different scenarios e.g. 'worst case', 'best case', 'most likely'.

This helps to show how sensitive your social enterprise is to different factors and to demonstrate that you have considered how you would address the 'worst case' scenario.

Investment and funding

Here you should summarise the level of any external investment required and identify methods and options for raising this finance.

It is useful to include details of any assets you can offer as security, as well as any track record you have of managing external investment in the past.

10. Appendices

We have already mentioned several areas where you may want to provide additional details in an appendix. Other suggestions include:

- ▶ References, testimonials and letters of support
- ▶ Quotations for equipment
- ▶ Professional advisers' reports
- ▶ Previous years' accounts if you have them.