

# **Social** Enterprise Planning Toolkit

a practical guide on how to prepare and write a  
feasibility study for setting up a Social Enterprise

# Social Enterprise Planning Toolkit

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# Section One

In this section we present a guide to how to use this toolkit and an overview of social enterprise and its history and background.

This Social Enterprise Planning Toolkit is a practical 'how to' manual for those wishing to form a new social enterprise or expand an existing social enterprise.

The Toolkit has developed from a series of practical training courses in social enterprise planning designed and delivered by the author on behalf of the British Council in five countries in the Balkans and Caucuses during 2010/11.

During the course of the training programme it was decided to consolidate the training material into the basis of a supporting Toolkit. This Toolkit is also based on the author's extensive knowledge and experience of supporting individuals and groups to plan and establish social enterprises.

The Toolkit has been designed to be used as supporting material for training in social enterprise planning; as a self-help guide to individuals and groups establishing their own social enterprise; or for those wishing to plan for expansion of their social enterprise.

## 1. How to use the Social Enterprise Planning Toolkit

The Social Enterprise Planning Toolkit is designed to be a basic process guide to carrying out a feasibility study of an enterprise idea, and then writing the enterprise plan in order to be able to present it to potential supporters. It can also be used as a guide to the basic systems for managing social enterprises.

The toolkit is divided into three sections:

**Section One** is an overview of social enterprise and the history and background.

**Section Two** is the main part of the Toolkit and provides the information and exercises for developing the social enterprise idea and testing its viability.

**Section Three** is the outline of the content required in a Social Enterprise Plan, to guide groups and individuals, as they bring the information gathered during the Section 2 processes together, in preparing and writing a plan.

## 2. A History of Social Enterprise

Social disquiet is driven by perceptions of unfairness, a lack of democracy, ownership and power in too few hands, and for many peoples few opportunities to acquire the resources needed to develop their own ideas. Consequently civil society worldwide is adopting the values of fairness, equality and inclusiveness, not only in parliaments but also in workplaces, where viability is now being broadened to include not only commercial independence, but also social wealth creation and environmental responsibility; a more generous approach. To facilitate this a new business model is being used.

Social enterprise was created to provide an alternative approach to the private sectors' narrow value of profit maximisation. Social enterprise provides fairness, democracy and social and environmental responsibility all in one method; it is the modern enterprise method for the 21st century, but one which basically maintains the good parts of market economics where anyone can freely trade based on supply and demand and open competition.

However, the origins of social enterprises and co-operative forms of activity are founded in the early social struggles of the 17<sup>th</sup> century. In the UK groups styled the Diggers took over land and cultivated it in common, organised themselves around the idea of one person one vote and equal distribution of wealth. This first experiment in co-operative forms of organisation established the idea of integrating social and commercial activities. What the Diggers lacked was ownership of the land they had taken over and thus they were eventually driven off.

In 1659 a Dutchman, Peter Cornelius produced a clear vision of how production could be organised in a way which was democratic and socially orientated; in his booklet 'A Way Propounded' he firmly stated the need for new forms of ownership if anything was to come of the then 'new ideas' of democracy. He proposed that there should be common ownership over land and certain commercial activities.

Much later on Co-operative forms of organisation began to appear; in 1830 a number of unemployed millers took over the operation of an old mill in Hull to provide flour for their families and other members of the community who were in need. As with the Diggers two centuries earlier their aims were more social than profit orientated, and like the diggers they did not own the mill and were finally moved out.

As capitalism gained ascendancy pioneers such as Robert Owen (1771-1858) influenced the newly formed trade unions to favour the establishment of an alternative means of organising society. Owen urged the working classes to set up groups of producers with common ownership of the means of production. He advocated the idea of co-operatives not solely for commercial purposes but as social enterprises reaching out to the community and integrating community and commercial values. Owen's ideas were extremely popular. As a

result many co-operative societies and shops were founded, "Labour exchanges" were set up, and the concept of socialism was developed.

Marx and Engels, throughout their writings, defined their idea of a socialist system as "a society composed of association of free and equal producers" a definition which in principle would apply without any difficulty to collectively-owned enterprises.

The Rochdale Society of Equitable Pioneers (1844) extended their influence beyond the immediate consumer to the wider interests of the community, the ideas on democratic management and voting rights were part of their doctrine; and many of the areas of the welfare state in the UK today were originally inspired from the co-operative societies and promoted through their free meeting halls.

The first major principle of the traditional co-operative movement was open membership to all on a voluntary basis. Over time, however, this created a large unwieldy consumer membership which overtime lost sight of its principles. In many countries co-operatives became uncompetitive and ceased trading or annexed as part of the state's instrument for organising small producers and exporting commodities such as coffee and cocoa.

In the co-operative enterprises based on collective forms of ownership by the workforces, a participatory principle was adopted which restricted membership to workers only.

In 1978 at Beechwood College in Yorkshire, UK, the Industrial Common Ownership Movement's (ICOM) training college the concept and structure of Social Enterprise was firmly established and defined. The then new Social Enterprise had the basic rules of co-operative and common ownership businesses, each member owning one share and each share giving each member one vote in the general governance of the enterprise, but the Triple Bottom Line was added whereby the enterprise took on responsibility for not only being financially viable but for creating social wealth and being environmentally responsible in the way it operated and from where it sourced its supplies. Movements such as Fairtrade were born out of wholefood workers' Co-operatives.

Social Enterprise today represents equal rights for people, society and the environment in a viable and sustainable way. It has become a global force where social enterprise organisations and networks are springing up as people come together to form realistic and permanent organisations. The rights of each person are of equal value in terms of ownership, having a voice and a vote, and contributing to social and environmental wellbeing.

### 3. A Definition of Social Enterprise

Social enterprise is a form of commercial enterprise where ownership, control and wealth distribution are more evenly spread, leading to a more inclusive and fair society.

Social enterprise is based on the values of equity in ownership and wealth distribution, equality of involvement, solidarity with people from all over the world, honesty in pursuit of objectives, openness about operations, and a balance between commercial trading, social responsibility and environmental care. Social enterprise is attractive to employees because they part own and democratically control the enterprise and know that the use of any profits, from their labour, is under their control. Social enterprise is also attractive to customers because they can provide more than just what the customer is paying for: the value added a customer gets from buying from a social enterprise is in knowing that some of the profits are used for social and environmental purposes.

From the late 1970s the following definition for social enterprise has been used.

***"A social enterprise is a legally registered organisation owned and controlled by its members based on the values of equity in ownership. It trades commercially, creates social wealth and reduces its environmental impact. Social wealth and environmental benefit can be created as an integral part of a social enterprise's operations or can be delivered through its profit distribution."***

***A social enterprise seeks to be commercially profitable, to be environmentally sensitive and to deliver social wealth, and social enterprises are measured by their success in achieving this "triple bottom line".***

**Social enterprise is based on the following principles:**

- owned by members equally on the basis of non-equity shares
- membership is determined by the organisation in its constitution; for example, open to employees, community residents, customers and users
- democratic decision making on the basis of one member one vote
- profits are reinvested in the organisation and/or for social or environmental purposes
- mixed receipt organisations which can receive earned income and grant funding
- both commercial trading and social actions are undertaken (sometimes combined into one activity)
- commercial, social and environmental performance are measured using financial and social audits
- committed to creating social wealth not private capital

Financial independence; social wealth creation; and, environmental responsibility should guide the planning, operations, and be the criteria for measuring performance. Social wealth can be defined as the benefit gained through groups of people organising themselves to achieve specific tasks and results that as individuals would be unachievable. How a social enterprise supports this will depend on what type it is and what commercial actions it carries out. It can be by providing support to staff in building their capacity, purchasing from certain suppliers sourcing Fairtrade, offering financial grants to local groups in the community or donating a percentage of profits to charity.

## **Social Enterprise in the UK**

Social enterprises can trade in any commercial area and/or support any type of social or environmental endeavour. Social enterprises can be co-operatives, associations, charities which also trade, community enterprises, common ownership and co-ownership types of businesses. They can be large or small membership organisations; and can choose from a range of incorporation systems, as is appropriate to the needs of the organisation, in the UK the regulatory options include: Company Limited by Guarantee; Community Interest Companies; Industrial and Provident Societies; Charitable Status; Incorporated Associations; and Companies Limited by equal share holding.

In each country the regulatory systems will determine the type of legal structure social enterprises can use. However, it is also the case that most regulatory systems will use constitutions or charters that will enable groups to describe a social enterprise design within the charter.

For example, it is possible to use a company limited by shares (a traditional private sector business model) by writing in the charter specifically who can be shareholders, such as only staff, or residents in a defined community, and limiting their share value to a nominal value so that all net profits are re-invested thus creating the basic defining elements of a social enterprise from a traditional business model. See Section 2 Chapter 11 Legal Issues for further information on the legal preparation for setting up a social enterprise.

## **Some Types of Social Enterprise in the UK**

Social Enterprise has become an umbrella term to define a range of different types of trading and social provision organisations and companies. In the UK we have many thousands of social enterprises from large department stores and supermarkets employing tens of thousands of staff to very small specialist support agencies employing 2 or 3 staff. Across the world, in Europe, Asia, Africa and the Americas social enterprise is on the agenda and they are starting to emerge as an important microeconomic force in establishing equitable commercialism.

Our understanding of Social Enterprises is that they are registered trading enterprises that adhere to the triple bottom line of commercial viability, social wealth creation and

environmental responsibility, and are owned in common by workers and/or a membership. Within this we see that there are four main types of social enterprise that are commonly operated in the UK and internationally. They all share common characteristics in the way they are equitably owned and governed, and have some form of social and environmental objectives.

### **The four types are:**

#### **Trading Enterprises**

Worker/employee owned trading enterprises, co-operatives and collectives. These are sometimes very large enterprises such as John Lewis Partnership in the UK and the Mondragon Co-operatives in Spain, to medium sized enterprises owned by their staff with traditional management hierarchies and pay differentials to quite small worker co-operatives with only a few director/employees who work in less hierarchical ways and practice wage parity. Within the Trading Enterprises there are employee own enterprises and membership owned enterprises.

Co-operatives Societies, first established in the UK in the 1830s, are trading organisations that usually have large memberships from their customer base who receive dividends on the amount spent over a year. Many have strong commitments to social and environmental good practices.

Social Enterprises work in all sectors although there are certain sectors such as health care and in environmental technology where there is a concentration.

#### **Financial Institutions**

Saving and Loans organisations such as credit unions, micro credit organisations, co-operative banks and revolving loan funds are membership owned social enterprises. Credit Unions were first established in the 1850s in Germany and spread internationally. Co-operative Banks have likewise been around since the 1870s, owned as a subsidiary of a membership co-operative. In recent times Microcredit organisations have sprung up in many developing countries to great effect. Local currency exchanges and social value exchanges are also being established.

#### **Community Organisations**

Many community organisations are registered social enterprises; community enterprises, housing co-operatives and community interest companies with asset locks, community centres, pubs and shops, Associations, Housing Associations and Football Clubs.

These are membership organisations that usually exist for a specific purpose and trade commercially. All operate to re-invest profits into the community. They have large memberships who are customers or supporters of the organisation's key purpose. There are examples of village co-operative in India and Bangladesh that were established as far back as 1904.

In the UK there are many multifunctional community based organisations with a geographical membership of local residents, usually holding assets such as community buildings, which use these to provide social care support to local residents.

### **Non-Government Organisation (NGOs) and Charities**

There are many NGOs and charities that operate a commercial consultancy and training enterprise, or subsidiary trading enterprises, such as Oxfam. The profits are used to provide salaries for people who provide free services to specific groups of people or to further the social or environmental aims of the organisation.

The charity or NGO acts as a holding company owning trading companies which carry out trading activities and invest all surpluses as a donation to the holding company; in some countries tax free.

# Section Two

This is the practical part of the Toolkit and provides the information and exercises for developing the social enterprise idea and testing its viability. It will be helpful if you have a quick look at Section Three before you start to see how the Social Enterprise Plan is structured. Start collecting the information needed, and write up sections of the plan in draft as you proceed through the planning process.

## 4. Planning for Social Enterprise

In any business enterprise there are three ways of starting: to have a product or service idea; to have identified a particular customer group who have a need or disposable income; or, to have finance or time to invest. With a social enterprise in addition to the above three components, motivation for starting can also be as a solution to a problem, for example local unemployment, local facilities closing down or as a way of providing new services not locally available. Individuals or groups may have inventions they wish to commercialise. Social enterprises are also started as social entrepreneurship ventures to support social causes or to raise funds for development assistance such as a trading entity for a charity or NGO.

Planning is the process of trying to work out where in the future you want to be and how to get there. In this Toolkit the planning process is used to test if the idea is financially viable and socially and environmentally responsible: you test your ideas to see if they are feasible; you use it as a way of bringing together a potential group of members to develop the organisation and learn about business; and finally you will have the information for a document which will be used to attract investment and other forms of support.

Because a social enterprise is a collective form of organisation it is essential that you engage potential members in its development and in the important decisions. The planning process is an ideal way of engaging potential members in open discussion, exploring the options and making decisions: this form of action learning builds confidence, and by being involved in making decisions empowers members as owners to be responsible for their actions.

Planning should be an on-going process that is at the heart of managing a social enterprise. An annual review of performance should be undertaken in a participatory way with staff and other stakeholders, and the results of the review will inform the planning for the next period.

The Social Enterprise Plan will cover a period of 3 to 5 years and state the practical steps required to achieve the planned objectives; this is broken down into time periods of one year with annual financial information. This is referred to as medium term planning. Strategic planning can cover a period of up to 20 years with less emphasis on the practical steps necessary to achieve the plan and more emphasis on having an agreed long term aim.

The Social Enterprise Plan will be the instrument that is used to promote the new social enterprise but it is usual not have all the necessary information in place to start with and therefore you will need to do some research. This is the planning process you are now going to undertake.

If at the end of the planning stage you think that the idea for the social enterprise is unfeasible then either the idea needs changing or the plan should be abandoned. This is not failure, its good practice to know that the idea is not a good one before you even start – this will save you lots of time and money.

## **Planning for Social Enterprise**

In this Toolkit we are starting at the very beginning of planning to set up a social enterprise. This begins an on-going planning process so it is important to do it in a way that a) provides both strategic and operation plans, b) targets that can be reviewed and measured, and c) conclusions from reviewing the plan that can enable the social enterprise to start planning for the next period.

The process of developing the social enterprise plan is an excellent way to bring together a group of people to share ideas, learn from one and other and learn from the research findings, feel ownership over the social enterprise and be responsible for making it successful. Depending on your circumstances you may identify your stakeholders and customers first or identify the product or service first: sometimes both happen at the same time.

The planning process is sequenced in the following order to gather the information required. The information gathered helps you to test the feasibility of your enterprise ideas as you go along. At the end of the planning process you will have sufficient information to write your social enterprise plan, however we suggest you create a file in which you keep all the documents you collect and the notes you have written up as you undertake the exercises. It may help to allocate this role to one person.

It is also important to recognise that as you develop the ideas they may change and the end results may be quite different than your original thoughts. This is normal, so it is essential to be flexible and creative and open to discovering new ideas as the process of developing the social enterprise plan moves forward.

## **Sequence for Planning**

The planning process follows the sequence below and tries to provide a logical step by step approach.

1. Identify your Stakeholders and Customers

By knowing who your stakeholders and customers are you can better understand the context in which you will work, how to engage with them and how to produce a product/service they will want to purchase.

## 2. Develop the Social Enterprise Idea

In relation to the stakeholders and customers you need to come up with a product/service idea that is commercially viable and socially and environmentally of good quality.

## 3. Marketing

Marketing is about getting the mix of the product/service and the customer right. It helps you learn about the commercial context in which you plan to operate and how to design your product/service in such a way that it continuously attracts an increasing customer base.

## 4. Finance

Once you have collected information on customers, product/service idea, and if it is commercially saleable then you need to look into the finance; how much it will cost and how much you can expect to receive from sales. This section will also look at how to keep good records of all financial transactions.

## 5. Social Enterprise Organisation

Once the commercial plan is drafted and looks achievable then you will need to design the organisation for the social enterprise that will include: membership; management; structure, team working and governance.

## 6. Social Accounting and Audit

As a social enterprise it is important to have some way of measuring your financial and social operations. You will be obliged to undertake a financial audit annually and we would suggest building in a way of measuring your stated social and environmental objectives.

## 7. Legal Issues

You will need to identify or design a legal structure for the social enterprise and, depending on the regulatory framework in your country, you can either use existing model legal charters or you will have to adapt an inappropriate charter to your needs.

Having followed this sequence the Social Enterprise Plan can now be prepared in accordance with the headings describe in the final section of this Toolkit.

## 5. Identify your Stakeholders and Customers

If you know who your stakeholders are it helps in planning the development of your social enterprise and helps you to understand the best way of engaging with partners and customers. Social enterprises can have both stakeholders and customers; some will be in both categories, in other cases they will be different; each will have a different type of relationship with the social enterprise. It is important to know who they are in order for the social enterprise to create good working relationships with stakeholders and to know who their customers are in order to provide the best product or service.

Knowing your customer is part of normal business research and knowing your stakeholder is part of good social economy practice. The process of identifying and categorising them can be done at the same time.

The questions that need answering are:

- Who are your customers?
- Who are the beneficiaries of the enterprise?
- Who are the other stakeholders?
- Who will own the enterprise?
- Who will govern the enterprise?
- To whom will it be accountable?

The social enterprise can find the answers to these questions by undertaking some simple exercises to identify, profile and engage with stakeholders. It needs to be clear about who they are and their level of importance to the organisation. There are two exercises: Stakeholder Mapping and Stakeholder Categorisation and Recording; you identify stakeholders using the Mapping Exercise and categorise and record them by filling in the Stakeholder Record.

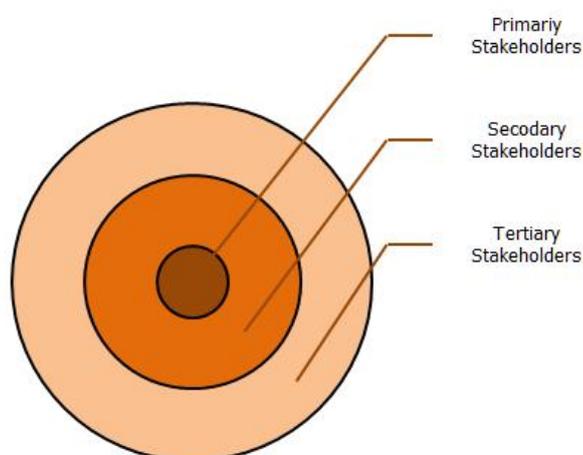
Bear in mind the whole range of individuals and groups who “hold a stake” in the organisation. These are:

“any person, group or organisation who can affect or be effected by an outcome or process of the social enterprise”

### **Exercise: Stakeholder Mapping**

This exercise is facilitated by each participant writing what their ideas on cards rather than saying it: using cards makes the process more engaging and provides a record of what was said.

- A large sheet of paper with three to five concentric circles drawn on it should be prepared (as in the diagram below): the centre of the circle represents the most important stakeholders, moving further out to the less important.
- Give each participant a number of cards and a marker pen.
- Participants are asked to identify who they think the stakeholders are, and to write each one on a card.
- The cards are placed around the outside of the circle and any duplicate cards removed.
- Once all the cards are prepared: through discussion decide where to place the cards within the circles, and at this point any missing stakeholders can be added. Discussion widens understanding of whom stakeholders are and their importance.
- To start the exercise it can be useful to have some general categories, such as Primary, Secondary and Tertiary.
- It is important to include commercial, social and environmental stakeholders.



**Primary Stakeholders** are those whose interests lie at the heart of the social enterprise: these groups are sometimes called the target group or the main customers. They are usually members, users of services, important trading partners, volunteers, members.

**Secondary Stakeholders** are those with whom the social enterprise co-operates in order to reach the primary stakeholders. They are usually suppliers, banks, network partners, public/private sector organisations and competitors.

**Tertiary Stakeholders** are occasional trading partners, financial institutions, and external consultants. This category may not apply to small groups, but for larger social enterprises this can be an important category.

## Exercise: Stakeholder Categorisation and Recording

This exercise can help the social enterprise think clearly about whom its stakeholders are, and how it engages with them. There is a difference between an individual view of who the stakeholders are and an organisational view of who they are. It is really useful for the social enterprise to have a collective view in order to have an understanding of its relations and impact. This will enable it to reduce negative external effects and increase its beneficial impact to the greatest number of stakeholders.

The Stakeholder Record is developed by categorising all the stakeholders identified in the previous Stakeholder Mapping exercise and placing them under the appropriate heading. Each social enterprise can determine its own categories; we have provided some common examples.

Stakeholder Record			
Planned			Actual
Hierarchy of Stakeholders	Why are they involved?	How and when are they involved?	Monitoring comments
<b>Stakeholders</b>			
Beneficiaries			
Partners			
Supporters			
Suppliers			
Competitors			
Government			
<b>Customers</b>			
Direct Customers			
Indirect Customers			

The Stakeholder Record will provide invaluable information. It can also be used as part of your annual review, or for the social accounting and audit process by including occasional monitoring comments about stakeholders in the right hand column. (See later section on Social Accounting and Audit) This will inform the social enterprise about how their planned and actual relationships actually turned out, and in future what they might expect their relationships to be with stakeholders. The Stakeholder Record can be updated as required as your stakeholders may well change from year to year.

## 6. Develop the Social Enterprise Idea

The social enterprise idea can arrive from anywhere however there are two main drivers for generating social enterprise ideas; one is the 'commercially driven idea' and the second is a 'solution to a social problem driven idea'. These are not mutually exclusive and often work well together, for example social problems might be supported through a social enterprise's profit distribution; or a social enterprise might be contracted by a government body to provide free services and at the same time support the setting up of commercial trading environmental enterprises.

### **Commercially driven ideas**

Commercially driven ideas start with a product or service, or through an identified market opportunity. The important consideration when starting from a product or service is to ask if it is commercially viable. This will be further investigated during the marketing section but it is worth asking these questions now in case it is obvious that one of the answers is negative.

- Is there a sufficient customer base to make the idea financial viable?
- Is it the right time to introduce the idea?
- Is the competition already well-established in the market place?
- Are there sufficient resources and skills to provide the product/service idea?

When generating commercial ideas think of how it can be created and operate within the pursuit of the Triple Bottom Line of Financial Viability, Social Wealth Creation and Environmental Responsibility, as this will make your idea more attractive to investors and customers, as well as fulfilling your own aspirations.

What this means in practice:

- **Financial Viability**

A social enterprise needs to be commercially profitable in order to be independent and exercise control over its decision making. Financial viability is also an indication of the level of efficiency in its governance and management.

- **Social Wealth Creation**

This is the benefit gained through groups of people organising themselves to achieve specific tasks that as single people would be unachievable. How will the product/service idea support social wealth creation?

- **Environmental Responsibility**

This requires the enterprise to be responsible for reducing their carbon emissions, enhancing biodiversity and advocating for more balance between the pursuit of wealth and the cost to the environment.

When developing the social enterprise idea the Triple Bottom Line provides a framework in which to test them in terms of commercial viability and ethical responsibility.

The simultaneous pursuit of these three values might at first look burdensome, but on closer scrutiny it makes good business sense. As campaigns such as Fairtrade<sup>1</sup> in the UK have proved customers choose to purchase from ethical companies.

Each social enterprise's way of contributing to the different objectives will be different and in some cases there may be a stronger emphasis on one or two areas rather than all three. This needs to be flexible and seen as something aspirational if not operational. It is also the case that it may take a few years before a social enterprise can support the Triple Bottom Line in full and it may require a period of more strategic planning to achieve it.

### **Innovation or a tried and tested idea?**

Consider the difference between a tried and tested idea and an innovative idea. A tried and tested idea has advantages in that it works in other places so there is less risk. With an innovative idea the risk is higher but the rewards can be higher. The main thing to be aware of is that the idea has to be something that someone will buy, it mustn't be based solely on the notion that it is what you like doing. With both these options, finding the right customers is key to success.

### **Exercise: Develop your Ideas**

A useful approach is to using a mapping exercise; this works best with a group.

- Write the ideas on a large sheet of paper and any associated ideas and potential customers.
- Allow each member of the group to put any idea they like down, try to come up with as many ideas as possible and see how it looks in relation to the potential customers.
- New ideas can emerge so be flexible and try to develop a set of primary and second commercial ideas.
- As you go through the social enterprise planning process you will explore the ideas in more detail and inevitably some will be seen to be good and gain credence and others will fade and cease to be valuable.

### **Social Problem Driven Ideas**

With a social problem driven idea as the focus for a social enterprise it is often more problematic in that the problem is often caused by poor economic circumstances of the customers in the first place. For example, in rural communities where shops or other services have ceased because of a low customer base the solution cannot be just to set up another shop or service. However desirable this would be in social and environmental terms if it is not financially viable it will fail. Such a situation calls for a more innovative response and it is vital to carefully consider why the problem exists in the first place.

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<sup>1</sup> In 2010 Fairtrade UK estimated that the values of goods sold for that year alone under the Fairtrade banner reached over £1 billion.

A useful exercise to use for analysing why problems exist and what the appropriate solutions might be is Problem Tree Analysis<sup>2</sup> where there is a very straightforward way of identifying the hierarchy of problems in terms of cause and effect, and then inverting the problems into objectives that can be part of the social enterprise's objectives and tested for their commercial viability.

**Think about how your idea will develop in the future**

Finally in thinking about the social enterprise idea; think strategically. Can the ideas grow, are the customers for the idea growing, and are there additional things that can also be sold. Think of the product or service over the next five years, will it last as a sellable item? Can it develop and will customers continue buying it?

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<sup>2</sup> Please see the Participation Toolkit in the Publications page at: <http://www.locallivelihoods.com>

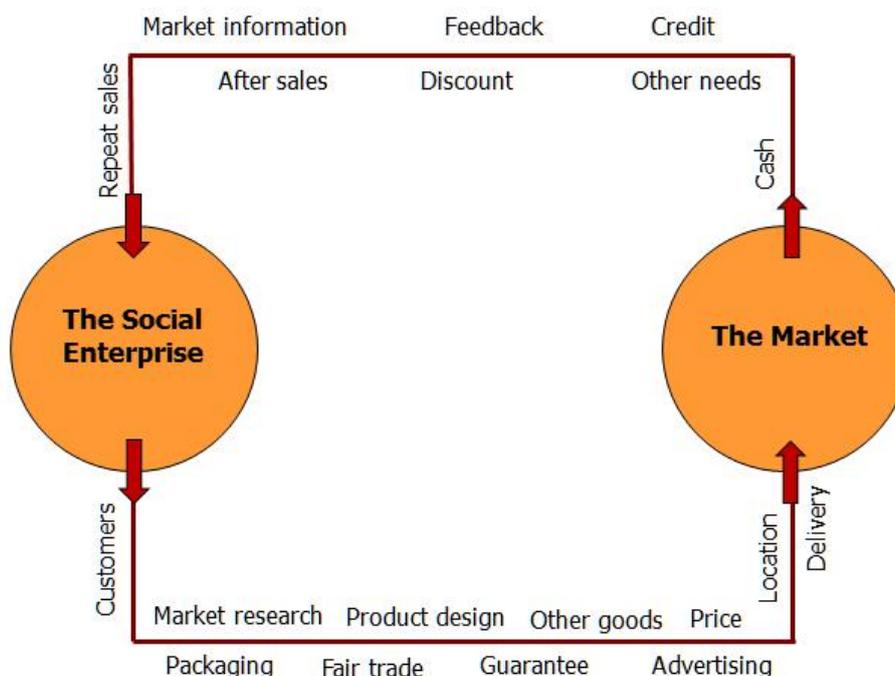
## 7. Marketing

Marketing is not simply advertising and sales activity, but a whole process for matching the enterprise to its best market opportunities. Marketing is the process of identifying your customers, exploring their needs, designing how to promote your product or service and then selling it to them. It is an invaluable tool in driving the commercial success.

Social enterprises operate in a complex and constantly changing marketing environment. If the enterprise is to develop and survive, it must produce and offer something of value to some customer group. Through exchange, it gets back what it needs to survive, namely revenue. The enterprise must make sure that its products and services remain relevant to the market. Alert enterprises will re-examine their marketing objectives, strategies and tactics periodically. They will rely on market feedback as the main system for monitoring and adapting to the changing marketplace.

The next stage of planning is to undertake the marketing process, and if, after this process, you think that the customer is not going to buy your product or service, for whatever reason, then you should be prepared to change the idea or give up on the idea.

To understand the purpose of the marketing process you will go through as part of your planning it is useful to have an overview of the marketing system, what is included and the sequence of the process. The Marketing System is a cycle: the cycle is dependent on promoting and selling products and services and on getting feedback on how the customer experienced the process. Look at a diagram of the Marketing System below.



Marketing includes a wide range of things to consider. The diagram above shows that the social enterprise has to push the product or service to the market and then the social enterprise has to pull the payment and feedback from the customer. The important point here is to recognise that the social enterprise has to do all the work and must therefore make sure that the marketing system is well managed. The most effective and inexpensive way of marketing is to get repeat sales with the same customers, much easier than finding and attracting new customers.

### The Marketing Process

The marketing process will capture the widest range of market opportunities before narrowing it down to a manageable focus. This will give the social enterprise the full picture of possibilities, and enable it to look strategically to see future market opportunities.

The Marketing Process follows the sequence outlined below.



You will now go through each of the above stages in turn. As you go through the marketing process you will be researching lots of areas to identify how the enterprise will provide and sell the product/service. At the same time you will be able to find out the costs of many of the things you will need to pay for as part of setting up and running the enterprise. As you start to identify the costs you will incur keep a record of them. In the next section when you look at the finance these costs will provide some of the basic information for analysing the financial viability of the enterprise.

## 7.1 Analyse Market Opportunities

Every enterprise needs to be able to identify market opportunities. Enterprises may think that they have limited opportunities, but this signifies a failure to think strategically about what business they are in and what strengths they have. No enterprise can depend on its initial products and markets lasting forever: some manufacturing enterprises will testify that much of their current sales and revenue comes from products that they did not produce five years ago. Every enterprise has an abundance of market opportunities.

### **7.1.1 Understand your idea - be clear about your product or service**

It is useful to write a short description of the commercial idea as a way of keeping focus and testing it in relation to the market environment and conditions. It is important to clarify the key product/service and the associated products/services and focus on the key idea(s). Always keep in mind the option of changing or altering the idea as your market research develops.

What is the social enterprise's commercial idea?

- Is it a physical product?
- Is it a service?
- Is it a combination of product and service?
- Is it about bringing things together/networking?
- Is it about creating added value from an existing product/service?

### **7.1.2 Understand your market - gather market information**

Once you have a clear idea of the product/service you need to go through a series of market research questions and gather information in order to answer the questions as best you can. Market research can be difficult to do because there are can be so many variables to factor in: you will have to use your own judgement. It is also, paradoxically, the case, that sometimes market research is quite simple and requires no more than asking a few questions and observing customer behaviour. The research will give you information that you can base your decision making on.

A number of questions are provided below to guide your research, followed by suggestions for where and how you might collect some of the information.

## Sources of Market Research Information

### Markets

- What is the size of the market (in terms of volume and/or value) and is it increasing or decreasing?
- How is the size and trend of the market influenced by various factors; i.e. economic, social, seasonal?
- What is the composition of the market; i.e. age groups, income groups, size of company, geographic area?
- What are the main distribution channels, and how do they function?

### Competitors

- What competitors are there and how do their product ranges/ services, prices, etc. compare?
- How are their products/services distributed, advertised or packaged?
- What is the market share of your competitors and what is the (anticipated) market share of the enterprise. Are these changing?
- How does their sales force operate?

### Products

- Which products do consumers prefer, and why?
- Are proposed new products acceptable?
- Do consumers have complaints about products presently on the market?

### Advertising

- Which formats are appropriate for your organisation and your budget: publications and print media, T.V., website, email, twitter, Facebook, etc.?
- Is existing advertising communication effective?
- What are the motivations of the consumer, and is your planned advertising correctly interpreting them?

### Primary Data Collection Sources (first hand research)

- Personal interviews in the street
- Focus group discussions with potential customers
- Surveys and questionnaires
- Observation and recording
- Visiting other enterprises
- Talking to sympathetic traders in similar businesses
- Thinking of yourself as the customer – what would influence you to buy your product/service?

### Secondary Data Collection Sources (existing reference information)

- Online search engines
- Local Chamber of Commerce / business support services
- Trade and Professional Associations and their newsletters and websites
- Trade and Professional Publications - as various trades have become more specialised
- Free market and industry data from Government Sources
- Market Research organisations and publishers
- Directories held in reference libraries
- Competitors' literature and promotional material
- Records from your own enterprise

The process of identifying and evaluating the market opportunities normally produces many new ideas. Often then the enterprise's real task is to choose the best ideas from several good ones. Select commercial ideas that match the enterprise's objectives and resources.

At this point you should summarise the information and confirm your commercial idea by defining:

- What is the Market Environment – what is the status of the product/service and the competition within the market?
- The Customer(s) – will the product/service go direct to consumers or via intermediaries such as other wholesale business or supply chains?

## 7.2 Select Target Markets

You now need to select the group(s) of customers – the target market (s), which are the initially easiest to reach and then assess whether the enterprise is positioned to reach this target market.

There are two stages in selecting your target markets, these are:

- Measure and forecast demand
- Market segmentation, targeting and positioning

### 7.2.1 Measure and Forecast Demand

All products/services go through a process of development, introduction, growth, maturity and decline: this is called the Market Lifecycle. Some products/services have very short lifecycles, for example the fax machine or instant mashed potatoes, and some have very long lifecycles such as the motor car or raincoats. Within these lifecycles there will be styles and taste changes which will have their own mini lifecycle.

The Market Lifecycle has five phases: an easy way to measure demand is to understand where your proposed product/service is within the Market Lifecycle; you can then see if you have the resources to enter the market, if you will need to attract investment, or amend the commercial idea.

#### **Phase 1: The development phase**

A new product or idea will be in the development phase: during this phase it is often the case that the enterprise will operate at a loss and that is why many new products are sold at a higher cost initially. In order to sustain the enterprise in the development phase you need to have some investment; either finance or "sweat equity" whereby staff work for lower pay

initially as a way of providing investment in the enterprise.<sup>3</sup> This is particularly suitable for social enterprises as they have control and can therefore decide to defer the benefits to workers until a later stage.

### **Phase 2: The introduction phase**

If your product/service is in the introduction stage you may find you have other competitors who are targeting the same market with similar products and services. The same financial considerations as in the development phase are still in place. You may have to adjust your pricing at this point or offer discounts which can also be loss making in the short term. It is an expensive phase as you need investment to maintain the enterprise and will also have to invest in promoting the new product/service.

### **Phase 3: The growth phase**

This phase is when the level of your sales increases to the point where you start to make a profit. However, the growth phase is also the time when other competitors can fast track into the market with similar or alternative products/services, at a point when the costs of introducing and sensitising the marketing to the new product/service have already been borne. This can be a good point to enter the market.

### **Phase 4: The maturity phase**

This phase can either last a long time or can be very short lived; for example clothes and food are the products with the longest maturity phase of all and that is why so much effort is put into making such minor changes to fashion and food packaging. Entering mature markets is fine but it is necessary to be able to differentiate the product or find a new way of selling, such as online.

### **Phase 5: The decline phase**

This phase is when consolidation takes place between providers of similar products/services; some enterprises merge, some cease trading, and some change their products. It can be a difficult point to enter the market unless you are taking over another enterprise or you can undercut your competitors.

You can use the diagram below to see where your commercial idea is in relation to the market lifecycle. The five phases are in each of the columns and the sales, profits and loss move through the phases. As you will see sales start to take off only after the Development Phase and profits only start to take off after the Introduction phase. Try to estimate where your product/service is in relation to the sales line and calculate the level of investment needed.

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<sup>3</sup> In 1973/4 the author worked in a workers co-op wholefood shop and it only survived in the early stages by paying the workers with a low wage and all the food we could eat. Later on we all took longer paid holidays as a way of having a return on our investment.



### 7.2.2 Market Segmentation and Targeting

Market segmentation is the term used to describe how you categorise your customers into groups so you then identify a particular segment(s) as your target market, keeping in mind other segments as potential target markets in the future.

This has a number of advantages; it can help you to:

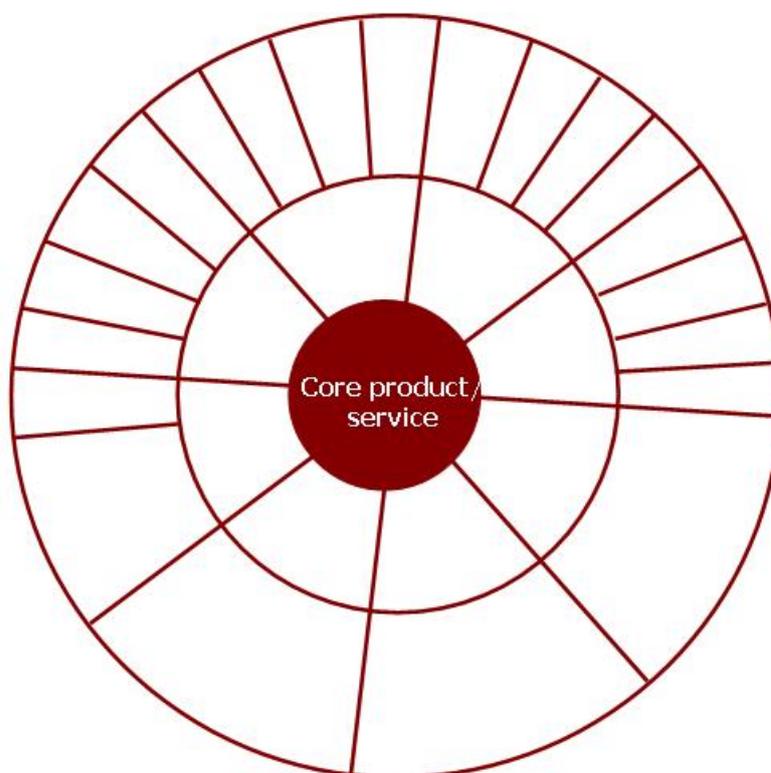
- **identify** both the customers for your product/service and the stakeholders for your social wealth creation.
- **focus** your marketing on the customers who will be most likely to buy your goods
- **avoid** the markets which will not be profitable for you
- **build** loyal relationships with customers and users by developing and offering them the services they want
- **get ahead** of the competition in specific parts of the market
- **identify** new services
- **improve** services to meet customer needs
- **increase** profit potential by keeping costs down, and charge a higher price for some of your services

#### Exercise: Market Segmentation

The Market Segmentation exercise should be undertaken as a group. From the results of this exercise you should be able to draw up a strategic approach to your target market(s), the market segments that you can start with and the additional market segments that you can plan to expand into over a few years.

Draw a set of concentric circles and then divide them up into segments, as in the diagram below. You can do the exercise in two ways:

- The first way is to put your product/service idea in the centre and then identify, and write down your direct customer groups in each segment, for example if you are selling vegetables you might see your market as grocery shops, restaurants, supermarkets, vegetable box schemes, catering providers, hospital, schools, etc.
- In the outer circle you define each one of these in more detail in terms of location, buying process, type of food they sell, etc. building all the time a better understanding of who the customer is and who the intermediary is. You will see how different ideas about customers start to emerge and you will see connections between different segments that indicate potential opportunities for a larger market share.
- Look at the relations between what is called direct and indirect markets. The direct market is the end user and the indirect market is an intermediary where they will sell on the item to the end user.
- The second way is to reverse the process by putting the customer in the centre and identify, within your product/service area, all the products/services they might buy. In this way you are looking at how to extend the product/service to include augmented products/services.
- The market segmentation exercise is also very useful for social marketing, just put the advocacy idea in the centre and identify who you want to target with the message.



### 7.2.3 Position your Product/Service

By now you should have identified your target market(s) for your product/service. Next you need to position your product/service by creating the image that you wish to convey to your customers, another way of thinking about this is to ask 'how do you want your customers to see the product/service and the enterprise?'

#### Think of:

- The size of the market
- The attractions of your product/service
- Does it need protecting?
- What is important?
- The social enterprise's values
- How to make an impression

Create an image of how you want the product/service and the social enterprise to be seen that represents your values and objectives and that will be attractive to your target customers. For example in the UK the Body Shop positioned itself extremely well within the cosmetic sector, a mature market, by not having any of its products tested on animals and by sourcing through Fairtrade suppliers in developing countries. This position not only differentiated it very clearly from competitors but also created an image of caring and social responsibility.

At this point make sure that you have a clear idea of your product/service, the target market and the image you want it to have. This information will help you to develop the marketing mix in the following section.

## 7.3 Develop the Marketing Mix

We now need to concentrate on how we are going to sell the product/service to the target market. We do this by developing four components, known as the four Ps, to form the marketing mix, to be attractive to the target market and to make sure that the components complement and reinforce each other.

The marketing mix is made of four components:

- **Product:** the design and process of manufacturing or process a product/service
- **Place:** the enterprise in the right location and the building
- **Promotion:** advertising and selling the goods
- **Price:** getting the policy on price consistent with the above

Each of these components needs to be designed and structured to meet the expectations of the target market. Go through each of the four Ps in turn keeping in mind the positioning image you wish to create and the values of the social enterprise.



You can always add additional areas to the marketing mix but essentially after completing the four key areas you should be able to bring them together into a coherent set of inter-supportive elements targeted at the customer and designed to create an attractive product/service that satisfies the customer and satisfies your social enterprise.

### 7.3.1 Product or Service Design

The product/service needs to be designed to attract the target market, everything from the colour and shape to the effect and impact should be considered.

#### Product

A product is something that is manufactured, processed, packaged, grown or supplied. It can be consumed quickly or it can be kept for some time.

#### Service

A service is something that is provided by people doing something, or explaining something. It can be adopted, learnt from or has an effect.

#### Product and Service

A product and service is when we produce or supply something and provide support for its introduction or use.

Use the diagram below as a discussion tool as you design the product/service to be attractive to your target group.

**The core product/service** is the benefit the customer gets; such as a chocolate bar which is more delicious, a shirt which looks good, or a solar panel to reduce carbon emissions. What benefit will your product/service give?

**The tangible product/service** is what the customer buys (physically). How does it feel, look, smell and what quality does it have. How will these affect the customer?

**The augmented product/service** is the support to the customer in accessing and using the item. Sometimes this is very important such as credit or warranty when buying a car, or delivery when buying a large item.



- The benefit to the customer will have costs associated with the quality of the product/service you are supplying. This may include the type of equipment and machinery required, quality of raw materials, or finished products etc. It is seen as part of the product/service itself; and the way you produce it or the raw material used will sometimes enhance the product/service in the view of potential customers.
- Try to build the core benefit enjoyed by customers by enhancing how the product/service is supported and maintained.
- Finally investigate the skills and expertise required to produce or service the product/service. Make sure you have the right skills at the right level required to provide or make the product/service.

### 7.3.2 Place – Premises and Location Design

You now need to work out the type of building(s) and location you need. Think carefully about what size, facilities, and special features and location you will require. Once you sign

an agreement for leasing or purchasing premises you have committed yourselves to pay the costs regardless of the health of the enterprise. Identify any special features you need within the building for your commercial idea and make sure they are included or costed if required.

### **Consider what you will need:**

- Planning Permission
- Hygiene and environmental health requirements
- Security
- Visibility - do you need passing trade or will customers search you out?
- Number of rooms
- Staff facilities – toilets, canteen
- Delivery access - can deliveries be made easily
- Customer access and purchase pick up - can customers pick up their purchases easily?
- Image and quality – do the premises reflect the image you want to portray?
- Location – is it suitable for the product or service? If you are a retail outlet then location is very important
- Price - location is all about cost, the better the position the higher the rent and tax costs
- Expansion potential - think about how you might expand the enterprise over the period of the lease or at least over the next 5 years and if the premises are suitable for expansion.

The need to meet the Triple Bottom Line means that you should consider low or renewable energy options for heating and powering your premises, water conservation, waste recycling, etc., and identify environmental ways for transporting your staff, raw material, finished goods and for customers to visit you.

If you are operating in the online sector premises and physical location is less of an issue. Also, if you supply your goods via direct delivery location can be less of an issue except for vehicle access.

### **7.3.3 Promotion and Advertising**

Describe how you intend to promote and advertise the product/services you intend to sell. Try to consider how your customer will choose and make the decision to buy what you are selling. This is called “needs arousal”, how do customers first become aware of their need for your goods? Knowing how customers choose and decide to buy your goods will help you promote and advertise to them.

- **How do customers search for a product/service?**

Consider how they will search for your goods - do they just see it like a chocolate bar and grab and buy, do they write a list and tick it off, do they go shopping and choose from a number of shops, or do they research, investigate and compare products or services before buying? What papers do they read, what TV programmes do they watch, what online search engine do they use? The more you know about your customers the better informed you will be.

- **How do customers make the decision to purchase?**

How will they evaluate the product/service, will it be based on the cheapest price, style, what's in fashion, quality, ease of purchase, word of mouth, reviews in the media or online, or all round convenience. This is not necessarily easy but if you can develop some form of profile of your customer in relation to your product/service all the better.

- **How do your customers make purchases?**

How will your customers purchase, in person, by phone or online? Will they be interested in any post purchase service such as warranty, service agreement or additional items to augment their original purchase?

## **Promotion**

Promotion is to make your potential customers aware of your product or service and social objectives and values. This can include advocacy and social awareness campaigns.

In order to use free promotion you will have to have something of interest to the media that they can report on. This means that you will have less control over what they say but if it is something like the new opening of a social enterprise or the use of new forms of energy or using Fairtrade suppliers, etc. these can be of both interest to the media and promote your enterprise. There will not be that many opportunities for this type of free promotion but it is well worth investing some time in it as it often looks, to the potential customer, genuine and less like 'in your face selling' and can build your reputation.

## **Advertising**

Advertising is trying to sell a product or service to your potential customers by paying to place adverts in various media such as newspapers, search engines, TV, etc. Advertising gives you absolute control of the content and it can be repeated as many times as you need, but it can be expensive and therefore it is necessary for you to 'know your customer' and research the type of media they use and, importantly, the media they trust.

## **Ethical enterprises**

There is a difference between promoting your product/service and promoting the social enterprise.

- Will customers buy from you or not because you are a social enterprise?

- Will being a social enterprise help you sell your product/service?

This depends on the type of goods and the sector you operate in. For example, if you are selling renewable energy systems or wholefoods customers might well like to buy from a social enterprise, if however, you are selling accountancy services or transport they may feel a social enterprise is not as good as competitors. It can also be an attraction to many customers who would prefer, when other factors are equal, to purchase from an enterprise that uses some of their profits for social benefit, or uses renewable energy, or purchases raw material locally.

There is a growing customer base for ethical goods; Fairtrade<sup>4</sup> in the UK reported that their goods reach £1 billion sales in 2010 in the UK alone. There are also campaigns such as 'local food' where food products are promoted on the basis that they have not travelled more than 35 kilometres keeping production and profit local, or for environmentally responsibly produced goods which use low energy or recyclable materials.

### **Branding Your Enterprise**

Promoting the sale of your goods and the values of your social enterprise can be enhanced through the use of images. Think of the imagery you will use to represent:

- Your name
- Logo
- Strapline
- Core values
- Colour palette and font style
- Imagery – pictures, illustrations
- Graphic elements – representing, calmness, excitement, innovation, trust etc.

While none of the above will sell your products/service they will help position your enterprise by creating an image of your values in the minds of potential customers.

### **7.3.4 Pricing**

By now you should have a rough idea of the costs involved. At this stage it is useful to start to develop a pricing policy. This is not the exact price for your product/service but the range of pricing you want to use. Price is governed by many factors such as cost of goods, cost of selling, customer expectations, level of profit, overheads and investments. Below is a procedure to go through that should help you develop the pricing policy.

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<sup>4</sup> Fairtrade is a quality mark that guarantees that the supplier, usually farmers in developing countries, receives a fair price for their goods.



What will fit in the market you are aiming for, for example, if the product/service is aimed primarily at the luxury market, then a high price is implied or if it is aimed at high volume then a low price is implied.

This is difficult to establish so a degree of estimation is required. Refer to the information from your market research. You should know what Phase the product /service is at in the market lifecycle.

Calculate the cost of product or unit of service. This is the sum of all the components of each product or service.

You need to research information from other organisations operating in the market. Get a number of competitors' prices and conditions of sales to see how they compare with your own products/services.

The pricing policy will be somewhere between the cost of the production or service, and the price that is too high to attract customers.

Set the core price within the pricing policy, any other factors should be added into the price to reflect any special features of the product or service.

You will undertake a more detailed pricing structure later on when we look at finance but for now try to get some idea about the policy you wish to use to reflect actual costs, your customer expectations and profit and investment needs.

By now you will have gathered considerable information about the market for your proposed commercial idea(s). You should at this point consider writing the marketing section of the plan. Any financial information you have got will now be used in the next stage on finance.

## 7.4 Manage the Marketing Effort

Marketing is not something done in the beginning and then forgotten about, but must be incorporated into the day to day management of the social enterprise. The marketing effort will need reviewing regularly and updating when necessary. In large enterprises marketing sometimes has its own department, or has a designated member of staff, in small enterprise there is likely to be only one manager and it will be one of their tasks. It is advisable to involve all staff in marketing, you staff will have insights and valuable information, make sure that it responds to customer feedback and is refreshed.

Include marketing activities in each staff member's job description and provide internal induction training, and allocate an annual budget for marketing and try to make sure you spend it during the year.

## 8. Finance

When starting a social enterprise it is likely that you will need to raise finance. In this section we shall go through the fundamentals of basic finance for a social enterprise, especially focusing on the initial preparation for starting a new enterprise. There are basic financial terms that you should understand and use from the start: this will help when structuring the financial information for the social enterprise plan and will help you to identify appropriate types of finance for different types of costs.

There are three types of costs, these are:

- **Fixed Assets** - one off purchases that can be used, and retain financial value, for more than one year.
- **Variable Costs** – the costs of directly producing the product/service
- **Fixed Costs** – on-going costs regardless of the sales or other activities

### Examples:

<b>Fixed Assets</b> Equipment Vehicle Computers Office furniture Fixture and fittings Building Land	<b>Variable Costs</b> Raw materials Fuel Packaging Part time labour Advertising	<b>Fixed Costs</b> Rent Local tax Electricity Insurance Salaries & tax Hire purchase
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These types of costs need to be understood in terms of how they are managed, how they are recorded and accounted for, and when raising finance, either as loans or investment, it will be advisable to identify which type of costs you need the finance for.

When raising finance the easiest type to obtain is for a fixed asset as the item purchased retains much of its value and can therefore always be sold to repay the financed raised. Fixed Asset costs are considered low risk and easier to obtain.

Finance to cover variable costs is harder to raise because these costs only retain part of the purchase value, or have little return on investment. But in the event of something going wrong items like raw material can be sold to repay raised finance. Variable costs can be considered medium risk.

Fixed costs, however, are those you have to pay regardless of whether or not you sell anything. They have very little resale value these are very difficult to raise finance against as they have no inherent value once spent.

## 8.1 Identify Unit Costs

Early on in your financial planning it is useful to try to develop a unit value against which you can start to calculate the cost of producing the product/service and the number of units you think can be sold in one year. A unit is your product/service broken down into something you sell. For example if you are running a restaurant you might have a number of units, such as lunch (one main course and either a starter or a dessert), or a dinner (a starter, main course, dessert and a volume of drink). If you are providing a service you will use a unit of time either an hour, day or week which will have a cost. Sometimes units may consist of both a physical item plus a time element for servicing or delivering the physical item. Whatever your commercial idea is see if you can break it down into units of some sort however rough and ready they are at this stage.

At this stage it is unlikely that you will have precise figures so you may have to use estimates for your calculations, this is fine, even without precise information it is useful to start to think in terms of units and costs where possible.

To work out a unit cost determine the number of units you can produce/supply in a year and then divide by the total cost for running the enterprise (this must include depreciation costs for fixed assets, direct variable costs and fixed costs for the year). This will start a process that you can refine as more information is gathered.

The unit cost will be made up of:

- Variable costs: The purchases of material, packaging, direct labour and any costs that vary in relation to the volume (the number of units) produced or provided. This can also include delivery if this is part of the direct selling.
- Fixed costs: The costs for such things as salaries, rent, utilities, etc. are included in the unit cost by apportioning a percentage of the cost to each unit produced in one year.
- Fixed Assets: These are paid for over a fixed time period as 'depreciation' in the Profit and Loss Account and again you will need to apportion a percentage of the total depreciation to the cost of each unit.

You need to know the variable cost for each unit produced, the total fixed cost for the year divided by the number of units produced in a year, and the total depreciation cost of fixed assets divided by the number of units produced in a year. Once you have this information, or a general estimation then you can do some simple calculations that start to give you some idea of how much the commercial idea is going to cost.

### You can work it out in this way:

Variable costs for each unit produced + Fixed costs and depreciation divided by the number of units produced in a year = gives you a total cost for each unit.

or

Total cost of production ÷ number of units/hours produced = unit cost.

At this point you can also start to think of the profit you are likely to make by calculating:  
profit for each unit sold x volume sold = total profit

**BUT** in some circumstances the higher the volume the lower the unit cost as fixed costs remain the same until you reach a point where the fixed costs have to increase to meet the higher volume needs.

## 8.2 Breakeven Analysis

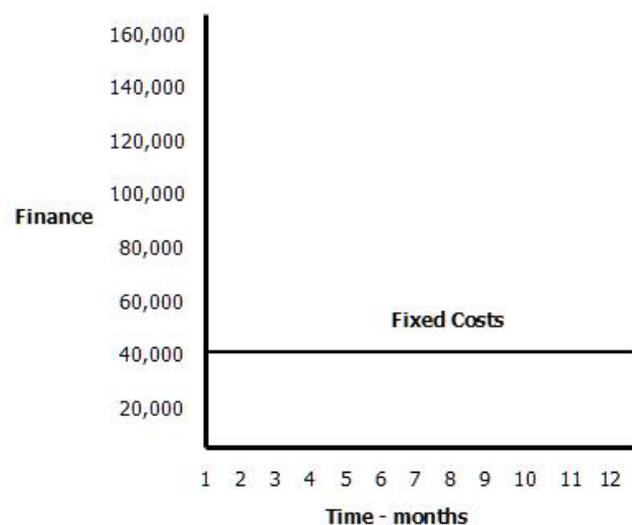
Once you have an estimate of the unit cost of producing your product/service, and the number of units you think you can sell in a given period (usually one year), you can use the financial information you will have gathered during the market research, to work out what the breakeven point will be.

***The breakeven point is the point of sales that bring in enough income to pay for the total cost of running the enterprise; beyond the breakeven point you will start to make a profit.***

An easy way to visualise this is to use a Breakeven Analysis graph. It is a good place to start to estimate whether or not your commercial idea is viable. Also, it is not unusual for it to take more than a year before you breakeven so you may need to do this for 2 years. This is how you construct a breakeven analysis graph:

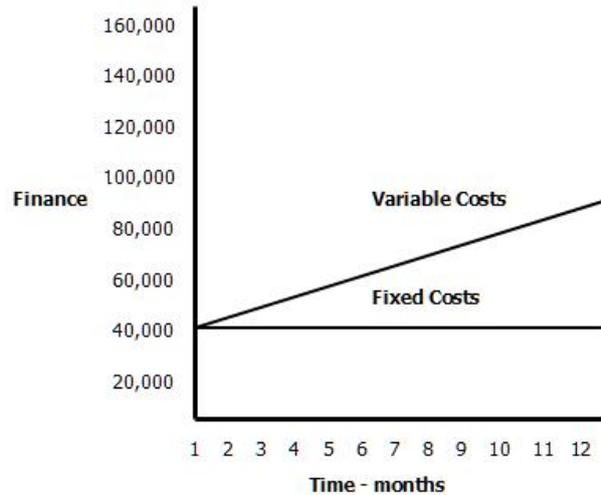
### Step 1

Work out how much all your Fixed Costs are going to be for one year. Make sure you include everything you can think of. In the example it is € 40,000, this is the total for the year. Put the fixed cost line at that amount.



### Step 2

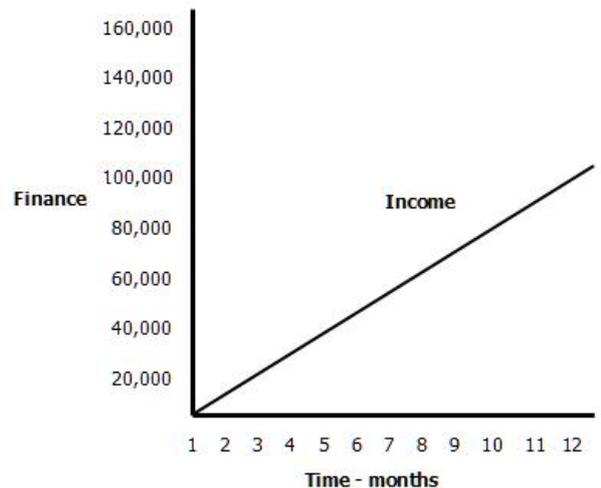
Work out the variable costs to produce the total number of units for the year. In the example 200 units sold at a variable cost of unit €210 = €42,000 total variable costs for the year. Draw the variable cost line diagonally starting from the fixed cost line in month 1 draw to month 12. The month 12 point represents total fixed costs and variable costs for the year. In the example this is €82,000. The variable and fixed costs give you a total cost of producing the goods for sale.



### Step 3

Determine the total income for the year based on the number of units sold. In the example it is 200 units at the selling price of €500 a unit totalling €100,000. (The selling price must cover the fixed and variable costs and make a profit).

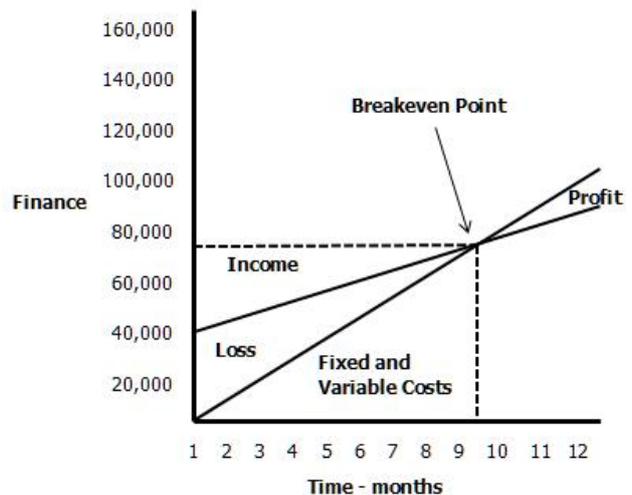
Draw diagonally from month 0 and finance 0, to month 12 at the figure of total estimated income on sales for the year.



### Step 4

Combine the graphs into one. The point where the income line crosses over the fixed and variable line is the Breakeven Point, before you reach this point you are making a loss and after reaching this point you will go into profit.

In this example the Breakeven Point is when sales reach €78,000 in the middles of month 9.



At this point you will start to get some idea of the costs for producing the goods for sale, the number/amount of goods you need to sell in a year and the likely profit or loss you can expect to make. Just keep in mind that this breakeven analysis graph is for you to play around with. Experiment with different unit costs, different amounts sold and different prices you can sell at. It is a way of thinking about how to arrange your finance and if the idea is financially viable. Remember, it will take some time to generate the volume of sales necessary to reach the breakeven point. This is normal and that is why raising finance to cover the short term deficit is often essential to get the enterprise off the ground.

### 8.3 The Profit and Loss Account

By now it will be possible to layout your financial information in an accounting format. The first thing is a profit and loss account for a year that will give you information about whether or not the enterprise is likely to be viable. At the beginning the figures will be estimates based on your research and planned sales, in following years the figures will be based on the actual transactions in the first year and become more accurate.

It is laid out in the following way with the receipts at the top and expenditure at the bottom and the totals to one side.

<b>Profit and Loss Account</b>		
	€	€
<b>Receipts</b>		
Sales		100,000
<i>Less</i> Opening Stock	4,000	
Purchases	<u>42,000</u>	
	46,000	
<i>Less</i> Closing Stock	6,000	
Cost of goods sold		<u>40,000</u>
<i>Add</i> Sundry receipts		
Rent Received		3,000
<b>Gross Profit</b>		<b>64,000</b>
<b>Expenditure</b>		
Salaries	25,500	
Rent	3,700	
Utilities	750	
Advertising	2,800	
Maintenance	1,200	
Insurance	400	
Professional fee	300	
Bank loan repayment	2,600	
Depreciation	1,500	
Communication	700	
Travel	1,750	
Donation	<u>1,000</u>	
<b>Total</b>		<b>42,200</b>
<b>Net Profit / Loss</b>		<b>21,800</b>
Grant		<u>1,000</u>
<b>Surplus for the period</b>		<b><u>23,200</u></b>

Once you have started trading you will see that your accountant uses the profit and loss account to describe your transactions, so here you are starting something that will continue for as long as the social enterprise operates.

The reason that we use the term Receipts and not Income is that social enterprises sometimes receive other forms of money that are not to do with income, such as grants and rents from property. Each enterprise will have different receipt and expenditure headings so make sure that you have listed all the costs and sales you expect. There are different ways to set this out and different terms used so when you look at other examples don't be confused.

This example shows a trading profit of €21,800 and a total surplus of €23,200 when the grant is added at the end of one year. There are two types of profit, Gross Profit and Net Profit. The gross profit reflects direct profit or loss on the cost of sales (variable costs), while the net profit or loss reflects overall profit or loss including overheads (fixed costs). The reasons for displaying the information like this is for analysis purposes and to distinguish the tax liability, you will only be taxed on your net profit not the gross profit.

When constructing a Profit and Loss Account it is normal practice to do it for the first three years of trading. It may take this long to reach breakeven point; and if my year 3 breakeven hasn't been reached you must consider whether the proposed plan is variable.

## 8.4 Prepare a three year Cashflow Forecast

The Cashflow Forecast shows the same information but in a different way, it shows how the cash flows instead of if you have made a profit or loss. The profit and loss account shows income, expenditure and profit or loss, while the Cashflow shows the actual state of the enterprise's financial position at any particular time. The very critical difference is that it is possible to show a profit in the Profit and Loss Account wasn't showing a minus in the Cashflow Forecast. Both will be true reflections of your finance. Many small and new enterprises that will make a profit in the longer term go bankrupt in the short term because they run out of cash to pay the bills. Management must understand this. You must use the Cashflow Forecast to manage the enterprise on a daily/weekly basis. For the Social Enterprise Plan the Cashflow Forecast should be prepared for three years; this is normal practice.

You use the same headings and figures in both the Profit and Loss Account and the Cashflow Forecast; however in the Cashflow Forecast you spread the figures out month by month. Each entry should reflect the actual receipt or expenditure of money for the particular month. The more accurate you are the more control you will have managing your finance.

Where there is an increase or decrease in anticipated sales or costs you should reflect that in the monthly amounts. It is important to reflect seasonal and weather fluctuations in the monthly figures, for example, some enterprises sell more at different times of year or there are higher or lower heating/cooling costs at different times of year and these should be reflected in the Cashflow Forecast. Also, payments for expenditure and receipts from customers should be planned for when the financial transactions actually takes place, so if you pay or receive some bills in advance or in arrears this should be reflected in the Cashflow Forecast.

Although it is called a Cashflow Forecast it really relates to all monies in and out of the enterprise's bank account.

### Cashflow Forecast for 1 year

Opening Balance	500	-3,294	-4,706	-4,153	-5,697	-5,239	-3,026	-2,120	-312	4,771	9,755	15,843
<b>Receipts</b>	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Sales	2,000	4,000	4,500	5,000	7,500	8,000	8,500	8,500	11,500	13,000	13,500	14,000
Rent			750			750			750			750
Grant			1,000									
Bank Loan	30,000											
<b>Total Monthly Income</b>	<b>32,000</b>	<b>4,000</b>	<b>6,250</b>	<b>5,000</b>	<b>7,500</b>	<b>8,750</b>	<b>8,500</b>	<b>8,500</b>	<b>12,250</b>	<b>13,000</b>	<b>13,500</b>	<b>14,750</b>
<b>Expenditure</b>												
Salaries	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125	2,125
Rent	925			925			925			925		
Utilities	187			187			187			189		
Raw material (variable cost)	840	2,520	2,730	2,940	3,150	3,570	3,990	4,200	4,200	4,410	4,620	4,830
Advertising	1,400				1,400							
Maintenance			300			300			300			300
Insurance		400										
Professional fees											300	
Bank loan repayment	217	217	217	217	217	217	217	217	217	217	217	213
Depreciation												1,500
Communication			175			175			175			175
Travel	100	150	150	150	150	150	150	150	150	150	150	150
Donation												1,000
Capital Expenditure(assets)	30,000											
<b>Total Monthly Expenditure</b>	<b>35,794</b>	<b>5,412</b>	<b>5,697</b>	<b>6,544</b>	<b>7,042</b>	<b>6,537</b>	<b>7,594</b>	<b>6,692</b>	<b>7,167</b>	<b>8,016</b>	<b>7,412</b>	<b>10,293</b>
Monthly Balance	-3,794	-1,412	553	-1,544	458	2,213	906	1,808	5,083	4,984	6,088	4,457
Closing Balance	-3,294	-4,706	-4,153	-5,697	-5,239	-3,026	-2,120	-312	4,771	9,755	15,843	20,300

### How the example Cashflow above is constructed:

1. Use the same headings from the Profit and Loss Account and put them in the left hand column in the Cashflow Forecast.
2. Start with the Opening Balance, in the example it is €500. You put in the exact amount of money you have to start.
3. Use the totals you have in the Profit and Loss Account. Under Receipts, put in the monthly sale figures and any other receipts such as grants or rent that you receive for subletting in the months you receive the money.
4. Under the Expenditure headings spread the payments out in the way you think will be realistic and include interest payments for loans. Make sure you put the actual figure in the actual month it will be paid.
5. Check that you have put in all the figures.

6. Then calculate the totals and balances, if you use an Excel or software system the calculations will be done automatically, but if you are using a manual system you will have to do it yourself.
  - 6.1 You add the up income for the first month and put the total in the Total Monthly Income; do not include the €500 Opening Balance.
  - 6.2 Then add all the Expenditure and put the total in the Total Monthly Expenditure row.
  - 6.3 Calculate the difference between Income and Expenditure for the month and put the amount in the Monthly Balance row.
  - 6.4 Then calculate the Monthly Balance against the Opening Balance and put the amount in the Closing Balance row.
  - 6.5 Finally copy the Closing Balance figure for the month to the Opening Balance in the next month. Repeat the process for all 12 months.
7. The Closing Balance at the twelfth months (yearend) becomes the Opening Balance for the start of the next year.

You will see that the Closing Balance for each month reflects the actual Cashflow for your enterprise: this is the critical information you need in order to manage the finance. It is advisable to 'play around' with the figures to see how to get the best for you. For example if you are carrying a high negative cash flow then see if you can pay your bills later or bring forward payments to you from customers, but if you have to borrow cash to cover the negative cash flow then make sure you secure enough to cover the highest monthly negative balance, in the example above it's in month 4, April.

**Remember the Cashflow and the Profit and Loss Account are different:**

- The Cashflow forecast indicates the amount of money that has been spent and the amount of money that has been received at any given point. The Profit and Loss Account also includes monies that are owed to the enterprise and monies that are owed by the enterprise to others.
- The balance between what is owed and what is owing can be very different from the actual cash that is available at any particular time.
- Cash receipts and cash expenditure have to be managed very carefully as most financial problems are caused by cash flow imbalances

## 8.5 Sources of Finance

All enterprises need to have access to finance, either for very short periods as a bank overdraft or very long periods in the form of a mortgage or long term loan. Whichever type of finance you need it is advisable to plan and secure it in advance of needing to use it. There is no worse management performance than running out of cash or having

to go to the bank and asking for cash in a crisis situation. So think forward and plan forward when it comes to money.

Below are a number of ways of raising finance:

### **Long Term Finance – 5 to 25 years**

- **Share capital** – suitable for social enterprises that have a percentages of their shares held by outside members
- **Personal loans** – sometimes from family members or friends
- **Mortgage** – suitable for buildings and land from Mortgage Companies
- **Bank Loans** – often have to be secured against an asset

### **Medium Term Finance – 2 to 5 years**

- **Bank loans** – easier to secure if it is based on contracted work
- **Hire purchase** – suitable for buying a vehicle or machinery
- **Leasing** – another form of finance for vehicles or machinery
- **Debenture stock** – this is a non-voting share, it provides the shareholder with a preferential repayment if the enterprise were to go into liquidation and therefore is a lower risk for the lender, this may not be available in some countries

### **Short Term Finance – a week to 2 years**

- **Reduce stock levels** – an immediate way of saving small amounts of money
- **Reduce debtor's level** – get customers to pay on delivery, but this can harm commercial relations
- **Increase creditor's level** – negotiate with suppliers for credit
- **Overdraft** – every social enterprise should have a bank overdraft so that if and when you need to borrow money you have the facility already set up, but it is important not to use overdrafts too long because they become an expensive way of raising finance.
- **Trading surpluses and savings** – each year the enterprise should save some of its profits in a savings account, it will be taxed on the first year but thereafter it is not taxed. Once you have the savings account the enterprise can then use it to borrow from but you must repay the borrowed money before the financial year ends so you don't pay tax on it again next year.
- **Grants and gifts** – a social enterprise is a mixed receipt enterprise and because it undertakes social, environmental and commercial operations it often is eligible to apply for grants and gifts.

Raising finance will be made much easier if your Social Enterprise Plan is well constructed and written.

## 8.6 Accounting Records

Every enterprise requires a basic set of accounting records; you should describe the ones you intend to use in the Social Enterprise Plan. Although it is now possible to purchase electronic accounting systems it is nonetheless important to specify them in the plan.

Enterprises have obligations to outside bodies to keep adequate accounting records. The Company Registration Authority in each country requires that 'proper books of accounts' be maintained. Proper books are records which detail credit and from whom goods are purchased on credit, the assets and liabilities and the stock in hand. The legal requirement to keep proper books is an attempt to protect those people that have an interest in the enterprise: shareholders; members; creditors; lenders; and so on. People who have provided goods on credit or loaned money to the enterprise must be confident that the affairs of the enterprise are properly managed and transactions are properly recorded. National Tax collecting authorities and Value Added tax collection authorities also require periodic returns of your transactions.

The financial position of an enterprise should be able to be ascertained without undue difficulty from an inspection of the records at any time. Well-kept records provide vital information for the planning and control of the activities of the enterprise. Financial, and other, problems can be foreseen by regular review of the accounting records and the information can be used to predict changes over the following months.

Many enterprises will leave the preparation of final accounts to a professional accountant; however the day to day book keeping system should meet the requirements of the enterprise to provide a useful operating structure.

The Essential Books, which can be on a paper system or an electronic system, are:

- Cash Books
- Salary Books

The Optional Books, which can be on a paper system or an electronic system, are:

- Day Books
- Ledgers

### **Essential Books**

#### **Cash Books**

The Bank Account Book and the Petty Cash Book are where all the monies in and the monies out of the enterprise are recorded.

- The Bank Account Book is for recording all receipts and their payments into the bank, and all withdrawals out of the bank, whether these are in cash, by cheque, standing order, direct debit etc. All transactions in the Bank Account Book will be exactly the same as those in the Bank Statement and can be cross referenced to check accuracy and timing of payments and receipts.
- The Petty Cash Book is for recording all payments in or out of the float of loose cash kept under an Imprest system. Petty cash is for small cash transactions rather than a cheque or credit card payment, for example for buying small items such as coffee and sugar. Details of each payment should be recorded on a Petty Cash Book and the receipt attached.
- The Imprest system is when a rounded sum such as €100 is withdrawn from the enterprise bank account, recorded in the bank account book as expenditure. This comes into the petty cash book as an income in cash. At regular intervals, after paying cash expenses, the sum of €100 should be reinstated by withdrawing money from the bank account. The amount to be withdrawn will equal the amount of expenditure since the previous reimbursement of the float.

### **Salary Book**

All enterprises which employ staff must keep a record of wages paid, showing gross earnings, and deductions for tax, National Insurance, and pension contributions. Each country will have its own systems for employee taxation and any insurance paid by the enterprise.

### **Optional Books**

These are books that are 'sub-books' of the main Bank Account Book and should be used if there is sufficient transactions in any of the areas described below.

### **Day Books**

An enterprise which buys or sells goods or services for which payment is made at a later date will require:

- **A Sales Day Book** – for recording sales invoices  
In the case of a retail enterprise selling without credit there is no need to identify customers. A till can be used and the total of each day's takings recorded in the Sales Day Book.
- **A Purchase Day Book** - for recording invoices for purchases and services provided. You may only need a purchase day book if you have a lot of purchases or transactions with suppliers, otherwise the purchases can be directly recorded into the Bank Account Book.

## Two types of ledgers:

- **Sales Ledger** – individual Customer accounts is useful if you have a lot of transactions with a customer
- **Purchase Ledger** – individual Supplier accounts is useful if you have a lot of transactions with a supplier

## 8.7 Profit Distribution

Social Wealth can be created through the way in which the social enterprise operates, or it can be generated by donating time, physical resources or cash. All will have a financial cost to the Social Enterprise.

The social enterprise should record what it spends on social wealth creation. If the social enterprise spends time then it is a labour cost and the value of the time spent should be recorded at an hourly/ daily rate; or if it provides the use of its assets, which would normally be charged for, this should also be recorded. If it is recorded as expenditure to the organisation it will reduce the net profit and thus the amount of corporation tax the enterprise pays.

If the social enterprise decides to provide some of its net profits as a grant it should decide the percentage or overall figure per year as a policy decision before deciding who to give it to. It is much easier to allocate a percentage of net profits in advance before the actual situation arises and it enables management to plan better for what to do with the remaining profit. It is also essential that if you give a percentage of profits as a grant to give it before the financial year end. Make sure that what the enterprise gives as a grant to is part of the objectives stated in the charter or at least stated in your Governance Statement.

## 9. Social Enterprise Organisation

The way the social enterprise is organised should reflect the ownership and democracy enshrined in the legal charter and the principles adopted by the enterprise. For new social enterprises it is important to put in place an organisational system and structure that is relevant for the current size and scope of commercial and social activities and that can accommodate diversity and growth as the enterprise expands and grows.

### 9.1 Membership

Members of social enterprises are decided upon and written in the legal charter which sets out who can be members and how members are recruited. Members are owners of the social enterprise and can either have no financial stake in the enterprise which is then owned collectively by all members in common (called common ownership) or members can have a financial stake in the enterprise as a co-owner (called co-ownership).

Social enterprises can have either a worker only membership, or they can have a mix of workers and external members; in the case of community based social enterprise external members are usually local residents; for traditional retail co-operatives external members are customers and trading partners. There are also marketing co-operatives where external members are trading partners. Membership should always be designed to suit the circumstances of the social enterprise.

The two common factors are:

- each member only has one vote in the decision making process, and
- only members can be owners of the social enterprise.

### 9.2 Governance Statement

For democratic organisations, like social enterprises, it is good practice to clearly establish the guiding principles, objectives, rules and values of the organisation. This is best done with clear format of a Governance Statement, which is open and accessible to all stakeholders.

For a new social enterprise establishing a Governance Statement will be a matter of gathering policy statements, defining purpose and value, and setting targets. The commercial, social and environmental aims and objectives will then become part of the Memorandum of Association in the legal charter you will draw up when you set up the legal structure for the social enterprise. By stating these in both the Governance Statement and in the legal charter it will make it much easier for you to legitimately claim any expenditure on your aims as an organisational cost and therefore reduce your corporation tax liability.

Also, by establishing them now it will provide the operational guidance for the social enterprise and can be useful in positioning the enterprise as part of your marketing.

The Governance Statement holds the overall guiding principles and rules by which the social enterprise is run; it is an internal working document and can be changed by a simple majority vote in any general membership meeting. How the Governance Statement is managed will depend on the size and structure of the enterprise; however, it is advisable to constitute a small team, maybe ad hoc or permanent, to manage the Governance Statement initiation and on-going reviews. If you have a Social Audit team, see later section on Social Accounting and Audit, then the responsibility for the Governance Statement will fall within their remit. The Governance Statement should be reviewed annually along with other annual review and planning processes and updated where and when necessary.

The Governance Statement consists of the following areas:

<b>Governance Statement</b>
<p><b>Main Aims:</b>          (from the legal charter)          Indicate where the legal charter can be viewed          Social Wealth Creation          Environmental Responsibility</p>
<p><b>Operational Objectives:</b>          (from management and business decisions)          These will describe your Commercial Aims and Objectives</p>
<p><b>Policies:</b>          (list the policies such as Equal Opportunities, Environmental Impact, etc.)          Indicate where the full policies can be viewed.</p>
<p><b>Organisational Rules:</b>          (from Rule Book and Minutes of Board meetings)          Indicate where the Rule Book can be viewed.</p>
<p><b>Value Base:</b>          (a description of the key values which is a summary of all the above components)</p>

## **9.2.1 How to develop the Governance Statement**

### **The Main Aims**

- For an existing organisation the main aims will be established in the legal charter; a new social enterprise can establish them now.
- State your main social aims and objectives which may be an integral part of your commercial aims and objectives or may be independent of them. Again think forward for 20 years and how the social wealth creation objectives will grow in parallel with the commercial growth.
- Set your environmental objectives and any carbon reduction plans you have.

### **The Operational Objectives**

- Operational Objectives come from management and business decisions.
- The operational objectives should explain the main commercial activities and the planned for position the enterprise wishes to occupy in the market place.
- You can set long term strategic aims thinking 20 years ahead to describe how the commercial operations will look then. Be ambitious and set yourselves challenging targets in terms of diversifying your product/service range, or investment to expand existing goods. These may also reflect decisions about social and/or environmental areas the enterprise may consider undertaking and for which an investment might be needed.
- You can set short to medium term objectives to be implemented by management.
- Areas in which you could set operational objectives could also include:
  - Salary ratios between the highest and lowest paid staff – represents the level of equality
  - Involvement in decision making by members/staff – represents the level of democracy
  - The amount of investment into environmental responsibility– represents how responsible the enterprise is in relation to the wider community
  - The source and type of raw materials and stock purchased by the enterprise – represents the degree of fair trade or similar concerns it has to the suppliers
  - Raising finance – any ethical considerations about who the enterprise should raise finance from

## **Policies**

- All enterprises are required by law to operate with a number of policies in place, this will be different in each country.
- Policies can also establish rules of engagement with staff, members, local communities or the wider society.
- If you have any policies they should be listed in the Governance Statement and should notify the reader where they can be viewed.
- Examples of Key Policies:
  - Grievance and Disciplinary Policy
  - Health and Safety at Work
  - Environment Policy
  - Equal Opportunities Policy
  - Specific Policies to do with your enterprise sector
  - Specific Policies to do with your local conditions
  - Specific Policies to do with your national laws and regulations

## **Organisational Rules**

- Organisational rules are related to the way you run your Social Enterprise and are subordinate to your Policies. Organisational rules are the decisions that are made by the organisation, either by management or by the membership, about how the organisation operates. They will be developed, amended and changed more regularly than policies.
- An organisational rule is different from an operational decision in that it affects the whole organisation and stays in place until it is revoked or changed; whereas an operational decision just affects a specific issue and does not affect the whole organisation.
- The organisational rules are first recorded in the minutes of meetings and then copied to the Organisational Rule book. These can include the little decisions about how staff should behave while at work and the decisions of how the organisation should behave in relation to staff and customers.
- Areas around which you could make organisational rules:
  - Child care
  - Absenteeism or compassionate leave
  - Disrespectful behaviour
  - Holidays
  - Time off work

## The Value Base

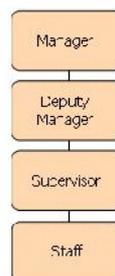
- The Value Base is a short statement that summarises the values stated in all the other sections of the Governance Statement and brings them together into a statement that represents the social and personal aspirations of the members of the social enterprise.
- You arrive at the Value Statement by going through all the other sections in the Governance Statement and identifying statements that represent a value.
- It should define the fundamental purpose of the enterprise and represent it when communicating to outside interests. Sometimes the value statement is used as a 'strapline' in both commercial and social marketing.

At the end of developing the Governance Statement you should have a set of short statements that together define the social enterprise and create a benchmark against which performance can be measured. The Governance Statement should be assessed and updated or changed as part of the Social Audit or annual review.

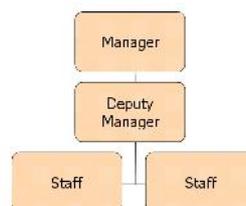
## 9.2 Organisational Structure

As social enterprises are owned and controlled by members/workers the organisation has to be responsive to their needs and concerns in a way private enterprise doesn't. There are variations of management structure so when creating a social enterprise it is useful to use diagrams to think through how it will work in practice. Below are a number of simple diagrams to provide some initial ideas on how you might structure the enterprise.

**Very hierarchical** - often used in older organisations with boards of directors



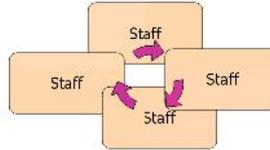
**Hierarchical** - used when the senior staff is not in the office a lot.



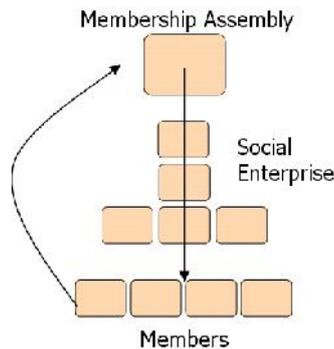
**A flat structure** - suitable for team working.



**A collective type of structure** - where all staff are paid the same and all engage in management decision making



**Community or large enterprise structure** - where there are external members as well as internal members



The amount each staff member is paid will be reflected in the position they hold within the hierarchy. The flatter the hierarchy the lower the pay differentials and the greater degree of equality shared within the social enterprise. Once you have a structure you will need to develop a set of job descriptions for each of the posts, these can use a common framework with different roles, tasks and responsibilities. See Team Working 9.4 below.

### 9.3 The Role of Governance and the Role of Management

Social enterprises are managed in two ways: the first is via the membership which has overall responsibility for the Governance of the enterprise, the second is the operational management undertaken by appointed and paid staff (who are also members).

The Governance Statement is used by the members of the social enterprise to guide the day to day management of the social enterprise. It is decided upon by all the members of the social enterprise at their annual general meeting (AGM). It does not involve itself with operational issues. Governance defines expectations, grants powers and verifies performance. Management responsibility is delegated to managers.

The role of governance and the role of management are described below:

#### **The Role of the Membership in Governance:**

- Setting strategy and direction
- Setting policy

- Setting commercial, social and environmental objectives
- Taking overall responsibility for the actions of the social enterprise
- Managing the annual plans and social audit
- Setting up and overseeing sub committees

According to the size of the enterprise, the membership may also delegate responsibility to staff for areas such as; strategic direction, staff recruitment, decisions on profit distribution, commercial, social and environmental policies, and the financial and social accounting and audit.

### **The Role of Management:**

- Carrying out strategy
- Implementing policy
- Recruiting staff
- Making decisions quickly
- Taking individual responsibility for daily actions and short term plans
- Taking operational responsibility for carrying out the direction set by the members
- Overseeing administration

## 9.4 Team working

Small social enterprises often arrange their staff in teams. Team working implies a more equal environment in terms of salaries, decision making and rotation of tasks. The benefit of team working is in raising individuals' self-esteem and the learning and confidence that arises from creating things together that perhaps cannot be created by an individual alone.

### **Team work promotes:**

- Understanding of different perspectives and needs
- Respect for, and effective use of, different knowledge and skills
- Clarification of stakeholder and team member roles, tasks and responsibilities
- Clear and timely communication and decision making
- Learning and opportunities for developing new products/services or social wealth creation

### **Exercise: The Roles, Tasks and Responsibilities Matrix**

The Roles, Tasks and Responsibilities Matrix is an exercise which enables groups to plan for how the internal structure of the enterprise should operate and analyse where change needs to be made. It can also be used to identify who does what and where either too few people or too many people are applied to each task within an organisation. The matrix below provides an example.

Lead Role marked with <input type="checkbox"/> Support Role marked with <input checked="" type="checkbox"/>									
Roles →									
Tasks ↓	Admin.	Manager	Technical staff	Out reach worker	Management Committee	Sales staff	Contractors	Company Secretary	Cleaner
Administration	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>						
Production of goods		<input checked="" type="checkbox"/>	<input type="checkbox"/>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Policy making	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	
Planning	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Organising training	<input checked="" type="checkbox"/>	<input type="checkbox"/>							
Working with stakeholders	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/>			
Selling goods			<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>			
Maintaining accounts	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>					
Financial Management	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>				

The matrix is structured by listing all the Roles performed by staff, volunteers and board members in the top horizontal row: roles are areas of work that a person carries out, they may be divided into lead role i.e. decision-making and support role i.e. being instructed to do the work. All the Tasks are listed in the vertical left-hand column. Team members fill in the columns discussing and identifying all the roles performed by the organisation in its daily operation and all the tasks that are carried out and then stating which role is responsible for which task. It is useful to distinguish between the lead role and the support role. This can be done by marking a Lead Role with a  and a Support Role with a .

Once the roles, tasks and responsibilities have been recorded you will be able to use each column as a way of identifying the task sets for each staff member or department, depending on the size and structure of the enterprise, which can then be used as part of their job description. You will find that the vertical column with the tasks boxes ticked provide a useful list of tasks for a particular role that can be incorporated into job descriptions or departments' briefs. The linking of the matrix and job descriptions will enable the enterprise to use the matrix as part of an annual review and can also lead to a reassessment of job descriptions. If new tasks are required then it also shows if existing people can be used or if new people are needed.

Even if you are only going to employ a very few people it is worth developing a basic system of organisation and management while at this early stage. For two reasons, one is that you will need to describe the system in the Social Enterprise Plan to show how the enterprise is organised and importantly who makes decisions; secondly, because all organisations of any size need basic organisation systems and it is worth doing it to a limited extent now so that in the future as the enterprise grows there is a basic structure and system in place to support capacity building for growth.

It is common for small organisations, which expand rapidly, to outgrow their structures and systems and lose control, this exercise is useful for reviewing and evaluating the growth and planning for change.

## 9.5 Administration

Administration is often the forgotten element when forming social enterprises. It is a mistake to think administration will either look after itself or staff will do it when they can; this can undermine the efficiency of the enterprise. It is an essential part of any social enterprise and well worth the investment of a salary or a part time salary. Good administration is good value for money.

Here are some of the areas considered to be part of the responsibility of administration:

- Office management
- Stock control
- Employment and salary payments
- Financial control
- Maintaining and updating systems
- Maintaining contracts and legal issues
- Processing payments and receipts
- Supporting staff: management, sales staff, technical staff
- Maintaining good relations with suppliers, customers, banks, etc.
- Organising events, meetings, etc.
- Maintaining good internal communication
- Knowing what's going on at any time

## 9.6 Management Information Systems

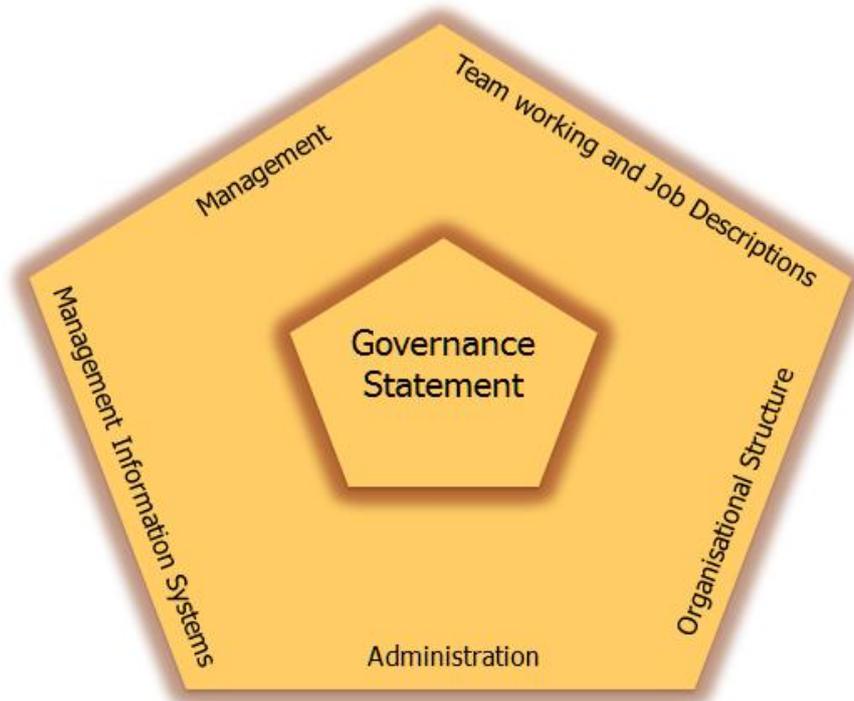
A Management Information System (MIS) is a system that provides information needed to manage enterprises effectively. Management Information Systems involve three primary resources: technology, information, and people.

- What type of technology is to be used and by who?
- What information needs to be exchanged and between who?
- What do people have to do and how are they involved in the MIS?

In answering these questions the social enterprise will establish an understanding of lines of communication, both internally and externally. It is acknowledged that a good MIS will provide the foundation for a good organisation.

## 9.7 Bring the Organisation Together

One way of seeing the overall structure and making sure they all the organisational components work together is to place them around the Governance Statement to make sure the way you have configured them is consistent with the objectives, principles and rules laid down in the statement and then cross reference them with each other to test consistency a second time.



Go through each of the five organisational components and check they are consistent with the Governance Statement. Then check each of the five organisational components with each other, again, to determine consistency or at least that there are no contradictions. This is best done as a group exercise.

## 10. Social Accounting and Audit

Because the purpose of social enterprise is to achieve the triple bottom line (commercial, social and environmental objectives) you need to have in place some form of measurement that corresponds to that aspiration. Unless you can measure these areas you cannot prove the worth of your social enterprise. Social enterprises are often constrained in the way they describe their purpose and how they plan for their operations if they only use a financial accounting and audit model. In this chapter we introduce the idea of a social accounting and audit system for social enterprises to use to plan and measure their overall performance.

***A Social Audit is a systematic, regular and objective accounting procedure that enables social enterprises to establish social and environmental values, plans and criteria against which they can measure performance alongside their financial measurement.***

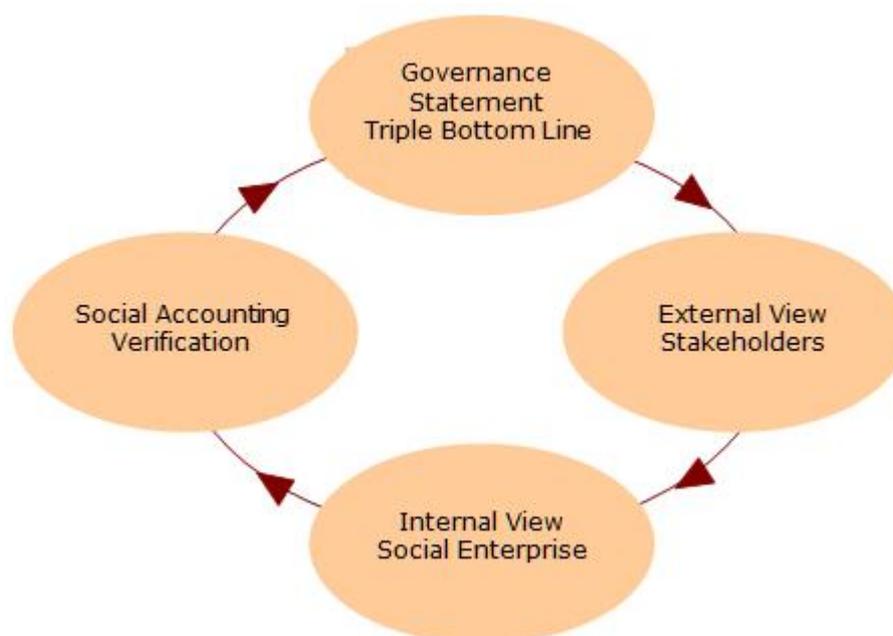
Financial auditing is required by law; social auditing it is undertaken voluntarily and should be done, primarily, to assist social enterprises in achieving their stated objectives and values. It is sometimes considered burdensome to have to measure non- financial performance, but in reality nearly all organisations do so to some extent and it is more efficient to conduct a social audit than try to be accountable in other ways.

Social Audit enables organisations to explore and generate their own values which form the basis for setting criteria for measuring performance; these will be established in the Governance Statement. It will provide a coherent and clear image of an organisation, and the planning and execution of social and environmental objectives in a transparent and fair way. A Social Audit gives equal weighting to the three key objectives: commercial viability; social wealth creation; and, environmental responsibility. A Social Audit should be undertaken once a year at the same time as a financial audit. It can be as limited or comprehensive as you like. To begin with we suggest using a limited format and over time build up the Social Audit coverage to suit your needs.

There should be a separate small team who will manage and verify the Social Audit, this team can be made up of someone from the social enterprise, someone from the Board and an external stakeholder.

Here is a brief account of how the Social Audit works:

**A Social Audit has four elements as shown below:**



**Element One - Governance Statement and Triple Bottom Line**

- This element of the Social Audit is used to establish clarity about the organisation: the principles and values, its objectives and commercial operations. Current practices and new areas for development are identified, objectives are set for the following audit period and objectives set in the previous audit period are measured.
- The Governance Statement is set up if you do not have one, or reviewed if you have one in place (see section 9.2). It is important that the Governance Statement reflects the organisation's vision and intentions and provides guidance to management in conducting the affairs of the organisation and information about the organisation to stakeholders and the general public.
- The information used to develop the Governance Statement is drawn from number of sources and documents: the aims stated in the legal charter; existing policies; internal rules; and, operational objectives. These need to be brought together and summarised in the Governance Statement.
- The Triple Bottom Line, commercial, social and environmental objectives should be stated with some degree of medium to long term planning.
- The process you have been undertaking in developing the social enterprise plan will have done much of the work for this element so you will be in a good position to start undertaking a social audit of your activities as you begin your enterprise.

## **Element Two - External View and Stakeholders**

- The External View is used to analyse the position of the organisation in relation to its interaction on a local, regional, national and international level, and its more immediate relationship with its stakeholders.
- In the External View of the Social Audit the concern is only with external stakeholders: external stakeholders are identified and their views on the organisation solicited. It is an opportunity for the organisation to engage with its stakeholders and be informed: this will lead to greater trust of and support for the organisation.
- The element includes stakeholder mapping, profiling and analysis, and an assessment of consistency between the Governance Statement and how current practice is carried out. (The exercises in stakeholder mapping and categorisation and recording will have collected some of this information for this element)
- Strengths and weaknesses in current practices and new areas for development are identified, and objectives are set for the following audit period.

## **Element Three - Internal View and Organisation**

- The Internal Review is used to examine the organisation's structure and relations with its staff, board members and volunteers, and how it delivers its operations.
- The internal structure and procedures of the organisation are clarified and reviewed, and the internal stakeholders – staff, board members, volunteers – are engaged with to test their levels of clarity of understanding about the organisation, and satisfaction with being involved.
- The element includes an analysis of Roles, Tasks and Responsibilities and a comparison with job descriptions and terms of reference for consistency.
- Consistency with the Governance Statement is assessed and the responses of external stakeholders in Element Two. Strengths and weaknesses in current practice and new areas for development are identified and objectives set for the following audit period.

## **Element Four - Social Accounting and Verification**

- The Social Accounting and Verification element is when the information that has been gathered and the results from the exercise undertaken in the previous elements are brought together, the social plans for the next year are set and the Social Audit is reported on formally to stakeholders in the Social Audit Report.

- In each of the previous elements; the Governance Statement, the External View, and the Internal View, particular issues and actions will have been identified, as well as examples of good practice and stakeholder satisfaction. Some issues will have been easy to deal with at the time and can be recorded as being achieved, and incorporated into the Social Audit Report. Others will have been collected throughout the process will now plans should be put in place to deal with them during the next year or so.
- The previous year's plans and results are analysed for their achievements and consistency with the Governance Statement to determine the organisation's degree of success.
- The level of detail and complexity applied in this element will depend on the nature of the issues under discussion and the objectives being prepared and evaluated. This element will measure the organisation's degree of integrity through assessing the consistency between what it says it will do and what it actually does.
- The reporting should be undertaken at the same time as the financial audit so that there is one accounting period. The social audit report should be brief and use graphs, picture and diagram where possible.

In the publication "Social Audit Toolkit"<sup>5</sup> there is a series of templates that can be used to record and hold the information on the social accounting and audit process. The Social Audit report also replaces the need for the normal annual report that many organisations and businesses usually produce for their stakeholders.

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<sup>5</sup> For further information on the Social Audit tools go to [www.locallivelihoods.com](http://www.locallivelihoods.com) and then Publications, scroll down to the Social Audit Toolkit for a free download.

## 11. Legal Issues

In this chapter we consider the legal formation of the social enterprise, insurance requirements and any laws pertaining to the specific operations of the enterprise. In each country the legal issues will be different.

However, in general company law is similar in most countries. Company law is based on a standard legal charter whereby the company is owned by those who buy shares and is controlled by voting rights based on the number of shares you own. In a social enterprise the key difference is that members are shareholders and each member only has one vote. There are some forms of social enterprise where shares are distributed in unequal numbers but still each member, regardless of the number of shares, only has one vote.

In some countries, such as the UK, there are a range of legal charters available which are specifically designed for social enterprises and co-operatives; in other countries there is no specific legal charter available for social enterprise. However, there is usually some form of legal charter that can be amended to provide a suitable structure for social enterprises.

### **Examples from the UK:**

#### **Company Limited by Shares**

This is the traditional type of legal charter that sells shares to individuals and is controlled by voting rights based on the number of shares owned. This type of legal charter exists in all countries and it is possible to amend the charter to state that shares can only be sold or given to certain people, such as staff, community residents, etc. In this situation it is also possible to write in the charter that each member has one vote regardless of the number of share a member might hold.

#### **Company Limited by Guarantee**

This is the same as a company limited by shares except that instead of holding shares each member guarantees to pay a nominal amount if the company is closed down. Each member only has one vote and no financial value in the enterprise.

#### **Community Interest Company (CIC)**

This legal charter can use either a company limited by shares or by guarantee format. The key feature of it is that it has an asset lock. This means that when it owns assets, these cannot be sold, they can only be passed on to another CIC company or a charity. This is very suitable for community based social enterprises where the local government may offer the ownership of a building that can only be used for community benefit.

### **Industrial and Provident Societies (Co-operatives)**

This co-operative legal charter is used for membership enterprises, with either customer members or supplier members like marketing co-operatives. In the UK this is used by most large co-operatives.

### **Housing Association/Social Landlord**

Housing Associations are a form of social enterprise because residents are members who control the organisation that owns and manages the housing. Often Housing Associations also run their own maintenance and other trading activities.

### **Charity with non-profit Ltd. Trading Enterprise**

Charitable organisations that by law cannot undertake commercial trading set up subsidiary trading companies that provide all their profits to the charity and are run co-operatively.

### **Credit Union/Revolving Loan fund**

Credit Unions are membership organisations run by the members for social benefit.

## **11.1 Process of Developing a Legal Charter**

Companies limited by shares, organisations called Foundations (these are often used by NGOs) and forms of co-operative legal charters exist in many countries. It is recommended that in each country that some research is undertaken to identify the legal opportunities. It has been found that old and currently unused or even unknown forms of legal charters are still valid; although they may not be in use they are still on the statute books and may be suitable.

If, after researching, you find that there are no suitable legal charters available it is quite possible to use the standard charter company limited by shares and amend the Articles of Association to state that shares can only be issued to a category of members (you can decide who) and that each member can only have one share with a nominal value. In some social enterprises in the UK where this form of charter is used shares can have a normal financial value but members still only have one voting right in general meetings.

When preparing a legal charter for a social enterprise it is good practice for the group to go through a model legal charter first and make decisions about how you wish to structure the enterprise. About a quarter of any model legal charter will require you to decide on the composition of each clause. Once you have made your decisions it will be necessary to use a lawyer to write the legal clauses in appropriate language.

The legal charter is made up of two sections: Memorandum of Association and Articles of Association. The Memorandum of Association describes the objectives and purpose of the enterprise and the Articles of Association describe how the enterprise is run. These

comprise sets of clauses, all of which are a requirement, however some can be amended by you and some are fixed and cannot be changed. Below is a list of the main clauses, in both the Memorandum and Articles of Association, which need to be designed to suit the specific nature of the social enterprise you intend to set up.

### **Things to consider in the two sections to the legal charter:**

#### **Memorandum of Association (What the enterprise intends to do and its objectives)**

- What is the registered name?
- What is the official address?
- What are the main principles that you would like to enshrine within the charter?
- What are the commercial, social and environmental objectives?
- You can nominate a named charitable organisation, with similar aims to your, as recipients of any assets in the event of the Social Enterprise winding up.
- Do you operate within a specific geographical area or do we operate anywhere in the world? (Definition of the community served)
- Profit distribution

#### **Articles of Association (How it intends to do it and the organisational rules adopted)**

- Who is eligible for membership?
- Do we want a membership other than those directly involved in managing the organisation?
- How do they become members?
- How does the organisation expel members?
- Is there any time limit?
- What rights do members have?
- Is there any membership fee to be paid my members?
- Is there an executive from the members who manage the enterprise?
- If so, how and who elect the executive?
- Who is going to be the secretary?
- Do you want a treasurer and a chair stated within the constitution? or shall you sort it out as an administrative thing rather than a constitutional thing?
- The makeup of the Governing Board
- Re-election rules
- Audit requirements
- The Social Audit option (You can put in a clause so that the social enterprise has to carry out social audit)

Whichever legal charter is used the steps to setting up the social enterprise are similar, below are the main steps.

## **Steps to Registering the Social Enterprise**

### **Step 1**

Once your organisation has decided to register as a legal enterprise you have to make some fundamental decisions:

Who will own this social enterprise?

Who will control this social enterprise?

Who will manage this social enterprise?

### **Step 2**

Decide the social enterprise name

Decide who will be the Company Secretary (The only post that is a legal requirement)

Decide who will be the initial subscribers (minimum of 2 is needed)

### **Step 3**

Agree the legal charter.

Contact the Registration Authority and register the social enterprise

## **Liability**

There are two legal entities, an individual person or a formally registered organisation. If you work together as a team but without being legally registered each individual member of the team is liable for what each other member of the team does, both as a group and as an individual.

Social enterprises as trading organisations are liable for their products and services and the way they conduct their business affairs. Registering the social enterprise means that the enterprise and not the individual members is the legal entity which provides an important limitation on individuals' liability. If in the normal run of trading the enterprise goes bankrupt owing money to suppliers the liability will be restricted to the assets owned by the enterprise and individuals will not be liable.

If however, the social enterprise is not registered then individual members are the legal entities, each member of the group is liable and their personal assets can be used to pay debts in the event of bankruptcy.

You should also investigate the need for insurance. In relation to the product/service and customer investigate any insurance requirements the enterprise might have to purchase to cover things such as buildings, contents, personnel and the public safety.

## Section Three

In this section we shall look at the structure of the Social Enterprise Plan. During the planning process you will have gathered lots of information and made some decisions about the social enterprise, you may already have written some of the sections for the plan in draft. Also, there is a set of criteria for groups to use to assess the completeness of the enterprise plan once finished.

### 12. Social Enterprise Plan Headings

The Social Enterprise Plan will become the main document that you use to inform stakeholders about what you intend to do, to use in raising finance from banks and investors and in negotiating with local government departments for acquiring assets and other support. It can also be used as part of commercial bids for contracts.

The Social Enterprise Plan should be written clearly and concisely and where possible use graphs and pictures.

Below we have listed the plan headings and indicated the number of pages you should try to use.

**Social Enterprise Name:**

**Logo or picture:**

**Contact person and address:**

**Date and place:**

#### **1. Summary – 1 page**

Summarise the Social Enterprise Plan, on one page, to give the reader enough information to be able to understand the rest of the plan. Make the summary very positive.

You should write the summary last of all after preparing the rest of the plan.

#### **2. Brief description of the Social Enterprise - 1 page**

Describe the enterprise, and how and why it is a social enterprise and what that means.

- 2.1 What is the main area of commercial trading
- 2.2 Stakeholders and Customers
- 2.3 General Commercial, Social and Environmental Objectives
- 2.4 Main points from the enterprise plan

#### **3. Description of the Product/Service – 1 page**

Describe each product or service, their key features and benefits, the brand name, packaging, quality, visual identity. The skills required to produce the product/service and

any major items of equipment needed; also, any particular Health and Safety issues that need addressing.

- 3.1 Overview of the whole enterprise's commercial operations
- 3.2 Current and future products/services – 2 to 5 years
- 3.3 Main processing and equipment needs
- 3.4 Main skills and expertise required
- 3.5 How the skills and equipment will be maintained over time
- 3.6 How the processes will be managed
- 3.7 Any important long term commercial objectives

#### **4. Markets and Competition – 2 to 3 pages**

##### **4.1 The Market**

What the total market for your product/service is  
Key characteristics of the market  
Where the market is in relation to the Market Cycle  
What segment you are aiming for, now and in 3 to 5 years

##### **4.2 The Competitors**

Describe your competitors  
Who your competitors are – now and in the future  
What their weaknesses and strengths are  
What your special niche is  
How you will compete with them

#### **5. Marketing and Sales – 2 to 3 pages**

- 5.1 Product/Service Description
- 5.2 Location and Premises
- 5.3 Promotion and Advertising
- 5.4 Pricing Policy

#### **6. The Enterprise Operations - Products/Services Detail - 2 pages**

- 6.1 Detail the processes required to produce the products or services
- 6.2 Type and location of premises
- 6.3 Size and special features of premises
- 6.4 Equipment required and method of purchase/lease
- 6.5 Packaging, storage and delivery processes

#### **7. Organisation and Management – 1 to 2 pages**

- 7.1 Provide an organisational structure
- 7.2 Management system and levels of hierarchy
- 7.3 Describe who makes decisions
- 7.4 Any special way in which staff will be trained

7.5 Any special employment policy

**8. Governance and Social Audit – 1 to 2 pages**

8.1 Produce a Governance Statement

8.2 Describe how the Governance Statement will be used

8.3 Describe how the commercial, social and environmental objectives will be measured and by whom

**9. Legal Requirements – 1 page**

9.1 Describe the legal structure and registration of the Social Enterprise

9.2 Insurance and other legal requirements

9.3 Any relevant laws relating to the product or service sectors

**10. Finance – 1 to 2 pages**

10.1 Pricing policy and unit calculations

10.2 Any financial requirements, loans, leases, mortgages, etc.

10.3 Profit and Loss for three years

10.4 Cashflow forecast for three years

**Annexes:**

Promotion Material (copy of)

Profit and Loss Statement

Cashflow Forecast

Sources of Finance

Roles, Tasks and Responsibility Matrix

Model Job Description

Technical information

Other

## 13. Social Enterprise Plan Self-Assessment

Below is a set of criteria that groups can use in checking if they have prepared the enterprise plan in the best possible way. Use this check to help understand the strengths and weakness of your plan before showing it to outsiders to secure support for the new social enterprise.

<b>Social Enterprise Plan Self-Assessment</b>						
<b>Scoring</b>						
<b>Self-Assessment Questions</b>		<b>N/A</b>	<b>Fully</b>	<b>Fairly</b>	<b>Hardly</b>	<b>Not at all</b>
<b>1. Summary</b>						
• Is the summary clear?						
• Does the summary cover the whole plan?						
• Does the summary inspire interest?						
• Does the summary show that all the elements work well together?						
<b>2. Description of the Social Enterprise</b>						
• Can the reader understand what the Social Enterprise is?						
• Is the reason for using a Social Enterprise approach rational?						
• Is the type of Social Enterprise described clearly?						
• Are the objectives well thought out and clear?						
<b>3. Description of the product/service</b>						
• Is the core product/service fully described?						
• Have you described the process of providing the product/service?						
• Are the equipment or machinery needs well described?						
• Are the skills described and are they sufficient?						
<b>4. Markets and Competition</b>						
• Is the description of the market comprehensive enough?						
• Are competitors clearly identified and described?						

• Is the product/services sufficiently differentiated from competitors?					
• Is it demonstrated that there is need/demand for the proposed product/service?					
<b>5. Marketing and Sales</b>					
• Is the target market clearly defined?					
• Do the components of the Marketing Mix reinforce each other?					
• Are the selling techniques and processes realistic to achieve the planned volume of sales?					
• Have sufficient resources been allocated to marketing?					
<b>6. The Enterprise operations -products/services detail</b>					
• Is the description of how the products or services will be provided clear?					
• Is there sufficient information on the resources needed and the costs?					
• Do the skill requirements seem to be adequate?					
<b>7. Organisation and Management</b>					
• Is the organisational structure clear?					
• Is it clear who makes decisions?					
• Are members defined and are their roles clear?					
<b>8. Governance and Social Audit</b>					
• Has the Social Enterprise drawn up a basic Governance Statement?					
• Does the Governance Statement provide guidance to members on the rules and regulations for how the organisation is managed?					
• Are there social and environmental plans in place?					
• Is there a method for monitoring and evaluating the social and environmental plans?					
<b>9. Finance</b>					
• Is there a clear pricing policy and structure for the products/services?					
• Has the Social Enterprise developed a profit and loss statement?					
• Is there a cashflow forecast for the first 3 years?					

<ul style="list-style-type: none"> <li>Does the financial information in the above show that the Social Enterprise is viable?</li> </ul>					
<b>10. Legal and Insurance Requirements</b>					
<ul style="list-style-type: none"> <li>Is the legal charter chosen by the Social Enterprise suitable for creating equal ownership and overall democratic control by members?</li> </ul>					
<ul style="list-style-type: none"> <li>Is membership clearly defined?</li> </ul>					
<ul style="list-style-type: none"> <li>Where necessary have other legal requirements been established?</li> </ul>					
<b>11. Annexes</b>					
<ul style="list-style-type: none"> <li>Are the annexes in place?</li> </ul>					
<ul style="list-style-type: none"> <li>Do the annexes support the body of the Social Enterprise Plan?</li> </ul>					
<b>Total Score</b>					