

Plan Your Work..then..Work Your Plan

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Social enterprises operate under the same business principles as traditional commercial businesses. Social impact is achieved through the creation of a viable and sustainable business. Therefore, like any successful business, successful social enterprises are underpinned by the ability to understand, articulate and act upon a business opportunity.

In the broader world of commercial businesses, there are fundamental questions that are routinely asked and answered well before anyone even starts to develop a new business idea:

What characterises the industry? Who are the major players? How many competitors are there? What are the critical success factors for companies in this industry who are performing well? Is the industry growing? At what rate? Are there changes on the horizon for this industry that present a threat or an opportunity? Is there room for us?

In this sense, a social enterprise is like any other business; there are key questions to be asked and hurdles to be overcome to maximise the likelihood of viability and success.

In some industry segments within the commercial business sector, high barriers to entry such as large up-front capital requirements and heavy regulation present these hurdles. Detailed market research and business planning is required in these cases to attract financing and/or the licence to operate.

Industries where the barriers to entry are lower, such as retail and consulting, are at the greatest risk of jumping in and not asking even these fundamental questions to test the feasibility of their idea. This is also the case for social enterprise.

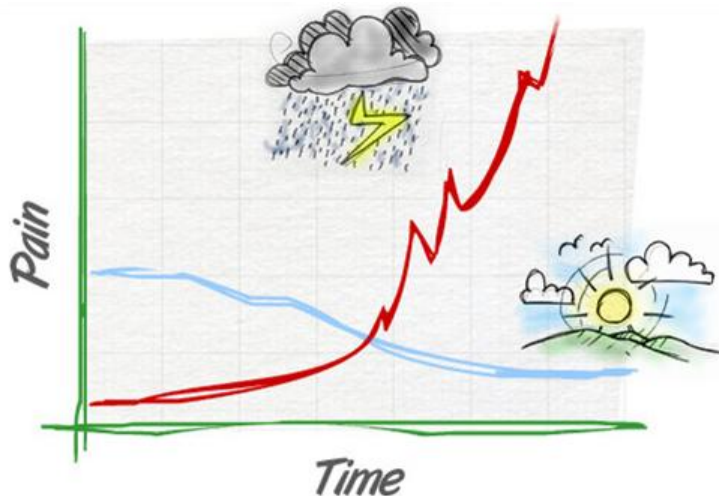
Similarly, grant funding that is designed to support short-term programs rather than sustainable enterprises effectively lowers the barriers to entry for all social enterprises where the funding does not require a rigorous assessment of the viability of the business proposition on which the achievement of social impact depends.

Philanthropy is an important and valuable source of early stage investment for social enterprise. But, social enterprises need to go through a sound business planning process. Sometimes the ability to access grants before that happens can result in enterprises emerging in a sub-optimal way that actually undermines their potential to achieve social impact.

There is also an opportunity here: philanthropy and grant making can be an important lever to promote business planning prior to significant investment.

It is important to clarify, I am not advocating for the need to have a 'business plan' as a requirement for investment. I am arguing for the value of undertaking the business planning process. In fact, outsourcing the preparation of your business plan to a consultant can be a counterproductive endeavour that results in a missed opportunity for capacity building and an often unjustified faith in the idea without a full understanding of the risks.

In my experience, it is only by taking what is invariably a challenging and time consuming journey through the business planning process, that you can get a real sense of the market opportunity and stand a real chance of claiming a share of that market in the name of social impact.



- = the "let's make all our mistakes on paper, not in reality approach"
- = the "to hell with all this planning, lets just go for it" approach

Social Traders has been working with nine social entrepreneurs who recently emerged from their own business planning journey as part of a new social enterprise development and investment initiative, 'The Crunch' (www.socialtraders.thecrunch.com.au). Interestingly, all nine enterprises applied to 'The Crunch' with an idea for a social enterprise and demonstrated the ability to mount an argument for its potential viability. That is, they potentially had customers that were willing to pay for their product at a price greater than what it would cost them to deliver. For some, it is probably fair to say, that at the beginning of 'The Crunch' they thought this was their business plan.

Now that the first year of 'The Crunch' is all but over (investments will be announced in late April) and each of the enterprises now has been through the business planning process, is it interesting to reflect and ask: 'had The Crunch involved a typical grant application with funding provided back in October last year, what would have been the outcome?' Or, put another way, if 'The Crunch' enterprises had not been required to prepare a business plan, what would have been the likely result?

I think there are four key things to emerge from the above questions:

- i. the products would not have been as market responsive;
- ii. the enterprises would have been undercapitalised;
- iii. the organisation would not have been structured to deliver on the value proposition; and
- iv. the key personnel would not have been as well-equipped to lead their enterprise.

Market responsive products

The products and services developed and launched would in most cases have looked very different to what they eventually became through undertaking rigorous business planning. This observation highlights the value of detailed market research, of talking with potential customers to inform and develop a highly articulated and differentiated offer that allows you to compete on more than just price.

“When I think back to what we were doing , it was completely around the wrong way ... Think of the need that's out there, for people consuming a potential product... what do they want? Therefore how can we deliver on what they want? So it was a completely different way of thinking about things. And that was only possible by going through the process that ‘The Crunch’ forced us to seriously think about. We've now come to the other end much better for the rigour of all that.” (Richard Leigh, Crunch participant)

Likely undercapitalisation

In all but one instance, ‘The Crunch’ enterprises vastly underestimated their start-up and working capital requirements when they submitted their applications back in July last year. Had this been a grant application, all would have been highly undercapitalised, a huge risk for medium and long term viability. It was only through the business planning process, which links market research to likely sales revenue (according to various scenarios) and then to costs, that most enterprises saw that they needed a much higher level of investment to get to viability than they had earlier predicted.

Organisational structure

Linked to the previous point, it is only when enterprises have a real and in-depth sense of what they will be selling to the customer that they can understand the skills and capabilities and level of human resources needed.

“It crystallised my thoughts around the people who need to be driving this in the early stages. It has required a shift in my thinking, incorporating a much more market and business focused approach. And it has enabled me to fully understand that this is not compromising the social mission - but strengthening it and its sustainability.” (Nicole Endacott, Crunch participant)

Capacity building of key personnel

Finally, business planning is a *process* not a product. Undertaking that process yourself, with the right support and guidance rather than outsourcing to a consultant to do it for you, is a learning opportunity that can result in a much greater understanding of the enterprise and what it takes to make it successful.

“It’s certainly helped enhance my business skills – which were never my strong point prior to this. It’s helped me with practical skills like planning, budgeting, and making a business case – as opposed to simply pitching an idea. Most importantly it helped me broaden my perspectives.” (Marcus Westbury, Crunch participant)

Conclusions

The greatest chance a social enterprise has to achieve social impact is by becoming commercially viable. Like any business venture, success is the result of a combination of good planning and good luck. Going through a rigorous business planning process reduces reliance on the latter.

As businesses that exist for their social mission, social enterprises often face additional impediments to profitability that make it even more essential to base them on a sound business plan and highly capable and well prepared personnel.

In the commercial business world all new businesses face some barriers to entry. The lower these barriers are, the more failures you see – think retail, cafes, hairdressing – because people are not forced to be as rigorous in their planning to attract capital investment. What we often see in social enterprise is the same pattern, made all the more evident by programmatic grants effectively lowering the barriers to entry for new social enterprises.

Time will tell if the model of investment we have pursued through The Crunch, which requires and supports the preparation of a rigorous business plan before any possible investment, will reduce the need for quite so much luck for these enterprises. My observations so far are that those that do receive investment will have a stronger value proposition, will be better capitalised, better structured and more capable to deliver on their social mission than they were five months ago. In essence, they have had to face the same hurdles as commercial businesses and are stronger for it.

*In April 2011, Social Traders will release **The Social Enterprise Builder** – an online business planning guide for social enterprises. It is a step-by-step guide that provides a roadmap to plan and navigate the social enterprise journey and avoid pitfalls along the way. It also draws upon the experience of seasoned social enterprise practitioners in Australia to give provide practical advice from people who have travelled the same path.*