Chapter 5. Planning for Your Social Enterprise

At this point, you have done the preliminary work of ensuring that you are ready for the challenge. You have used a systematic approach to select a promising and exciting business enterprise that fits your organization. And you have completed your feasibility study and your executive summary business case.

So now you have made the commitment to begin developing a detailed business plan. Congratulations! While it isn't likely to be without its bumps and detours, the journey to creating a business plan can be a gratifying experience.

As you launch into the planning process, or even the initial planning to plan process, take comfort and inspiration from all the entrepreneurs who have turned their dreams into reality by devoting the necessary time and resources to creating blueprints for their ventures.

All types of organizations, both non-profit and for-profit, in all stages of development, from start-up to growth to maturity, can benefit from the discipline and adventure of business planning. It won't be easy. It is not as if you will be persuading an investor with a few figures written on the back of a napkin. But the hard work will help to transform your social enterprise idea into a social enterprise reality.

Business plans: Powerful and positive tools

Business planning, both the process and the resulting document, can provide incredibly powerful and positive tools for a new enterprise. A business plan is not just a forecast about one program, function, or resource. It is, rather, a framework that blends expectations about multiple factors and articulates them in a format that convincingly presents future opportunities for the venture.

There are many reasons for completing a business plan, including the following:

- **Identifying risks.** Through your narrative, assumptions, and financial forecasts, you can determine and document the potential impact of various risks.
- **Measuring outcomes:** Because it specifies and seeks to measure the outcomes, it will not only help you to assess your business impact, but it will also fit the current trend among non-profits and their funders towards outcome-based rather than need-based approaches to funding.
- **Showcasing your management team.** Business planning (both the process and the document) demonstrates social entrepreneurs'

ability to achieve their missions.

- **Building alliances.** The documentation of alliances are what social investors are increasingly looking for, as evidence of the kind of collaboration that will ensure optimum use of their investments.
- **Verifying your thinking and the venture feasibility.** The business planning model ensures that you have carefully checked out such things as market viability and financial stability.
- **Providing an operational framework.** A good business plan will provide a roadmap that guides implementation of the enterprise. This can be an invaluable tool for day-to-day operations and for ongoing strategic planning, performance evaluation, marketing/communications, financial management, and managing human resources as the enterprise develops.
- **Attracting investment.** Whether your potential investors will be lenders, equity buyers, or grantors, they are increasingly looking for evidence of careful planning to use the resources sought by the social entrepreneur.

High quality business plans

The good news is that your business plan does not have to be an epic treatise. While it is true that sometimes the business planning documents of major corporations may run into the hundreds of pages, that scale is not needed for the kind of lesser enterprise that you are considering. Indeed, it is much more likely that your plan will help you succeed if it is written in a succinct and practical format and style. No investor will want to hear you say, "Sorry to burden you with a 100-page plan; I just didn't have the time to edit it down into a 25-page version."

Some people like to think of a business plan as a story with characters, a plot, and a theme. In many ways, they are right. You are telling the story of your enterprise. You are trying to engage the reader to follow you through from beginning to end, and to make the ending a happy one by having them agree to invest in or partner with you. However, balance is essential. You need to find the right balance between narrative and numbers, between solid text and visually stimulating graphs and figures; and you will need a tone that is optimistic without being unrealistic. Yes, your plan should inspire you and your stakeholders, but it must also represent the realities that you and your management team will have to work within.

A business plan is a kind of road map. Ask yourself whether your plan has somehow become a utopian road map that ignores the detours, toll booths, and traffic jams that any social entrepreneur must face. Make sure that it complements and supports any prior work done on organizational change and development in your non-profit. If the plan varies considerably from previous results of the work done by your organization, it is possible that you are erring too far on the side of optimism.

The plan tells stakeholders where you are going with your enterprise and how you plan to get there. With a solid business plan in hand, you and your management team will be able to regularly refer to it to ensure the venture is not going off course and that it accurately reflects market conditions, operations, and assumptions. At the same time, those conditions will change over time, so a plan is never a final document. It demands periodic re-thinking. The best business plans quickly become dog-eared and flagged with Post-It notes. Beware of the plan that sits immaculately on your top shelf accumulating dust! But there is a side benefit from this need to continually revisit and refine a plan: this process sharpens critical thinking, analytical evaluation, and decision-making skills.

"Having a business consultant come in and review our business plan as well as business feasibility was invaluable. It gave the leadership team, the board and the staff and volunteers an opportunity to consider the store in a way we had not for some time."

- Howe Sound Women's Centre Society

Planning to plan

If you are overcome with the desire to turn on your computer right now and start writing your award-winning business plan, you should consider the advice of the famous educator Effie Jones who believed that "failing to plan is planning to fail." Planning the plan is perhaps the most important phase of the entire process.

Take the time now to talk to people, seek input and advice, reflect on what has been achieved in the run-up to this stage, identify what still needs to be done, and assess the resources required to get you there. Talk to representatives of other organizations who have developed similar plans and ask if they will share them with you on a confidential basis. Ask them what lessons they learned along the way, and what they would do differently.

Your worst nightmare...

- Board members aren't happy. Even after significant investment of time and resources, the board withholds a key approval.
- Staff time commitment has been underestimated. Key staff burn out and leave.
- Key people in the organization resent the attention given to the enterprise and even feel that there is a conflict between the non-profit's mission and the business goals.
- Decision points weren't well-defined. The organization has gotten in deeper than it intended.
- Financial needs were not well enough defined. The organization is ending up investing more money than it intended, more than it can afford.
- Legal implications aren't adequately investigated. Roadblocks appear after significant investment.
- Investors have misunderstood your process and goals. They withdraw funding.
- Insufficient "outside" assistance was engaged. The organization has been diverted from its focus while development takes place.

Where should you start?

The social enterprise business plan is a natural successor to the work that your organization has already undertaken. If you have already worked through previous chapters, you know how important it is to think in a detailed way about your organizational readiness and development, market research, opportunity selection, and feasibility studies.

By the time that you are ready to develop a business plan, the enterprise idea you are working on has been subject to several tests and has shown itself to be achievable and to have significant benefit in terms of financial or mission-related outcomes. In essence, you have determined that this idea is worthy of all the time and resources that will be required to lay out a firm plan and make that plan a reality.

Ask yourself what, specifically, you hope to achieve with the plan.

Again, avoid mission drift by starting with and sticking to a clearly articulated vision and mission statement. Check again the following:

- Are you clear about how this new venture will complement your existing non-profit organization?
- What are the expected social impacts of this venture? Will you be able to monitor and evaluate your performance with respect to achieving your social mission?
- How effective will this enterprise be in terms of achieving your social mission?

It may sound counter-intuitive or even defeatist, but it is important to think now about sun-setting your venture. Planning for an exit at the very start of the process will help you structure the venture and its relationship to the parent organization with much greater clarity, objectivity, and foresight. You don't have to approach sun-setting as a response to the question, "What if our business fails?" Instead, you can approach it from the perspective that another organization (or business) may want to take over the enterprise, or that you may be so successful, you will feel the need to sell off the enterprise and shift to replicating your business to enhance other communities.

Planning the Exit

As you develop your business plan, you will see that you cannot simply walk away from the commitments it will entail with regards to the organization, staff, partners, and fundraising activities. If, after all, the business does indeed fail, a clear and well-planned exit strategy will help you maintain the confidence of all those who have been involved along the way.

Key components of an exit strategy include the triggers for exit, resources for exit, and updates on what costs may accrue upon exit.

Triggers: These are the events that by design will lead to a decision to fold the business. They may be, for example, a pre-determined amount of an unacceptable level of subsidy required within a certain time period, a specific disappointing ratio between accounts receivable and accounts payable, or a realization that social or environmental goals are not being met. Make sure that the organization's decision makers agree upon these triggers.

Resources: Such things as paying off creditors, wrapping up employment contracts, and paying any penalties for cancelling contracts will have to be handled. Will the sale of assets cover these, or will exit reserves need to be set aside?

Updates: As you develop your business plan and move forward to implement it, keep a list of likely costs that would accumulate if the enterprise fails. Include these costs in a separate plan that you update annually.

Who should be involved?

Consider what expertise and information is required to develop your business plan. Reflect upon the people you know in your organization (staff, volunteers, board members) as well as in your broader community (suppliers, clients, similar agencies) who possess some of the necessary skills and the requisite time to contribute to the process.

Many organizations strike an outside advisory committee of four to eight key individuals to help guide the process.

Unless the executive director is given a reprieve from all other duties to champion the development of the business plan, it is more practical for another staff person to be appointed to this role. Make sure that that person is not burdened with other time-sensitive responsibilities. A high-quality plan cannot be written as a task that takes second place to other demands. Often the person who leads the business planning process will end up playing a key role in the start-up of the venture, so give careful thought to who undertakes this work and how to deal with that shift in responsibilities.

At some point in the process of developing a business plan, most organizations will decide to retain the services of professionals. Your decision whether to hire a consultant, coach, writer, editor, or accountant (or any combination thereof) will depend on your specific needs and your budget for professional services. Note that the best results will come from hiring people who develop the plan with you, not for you.

Many organizations prefer to hire a business planning coach who will be actively involved in all the different stages of the project. In the early stages, they can help to identify necessary information, devise a realistic work plan, and create a framework for the document. In the later stages, they can help to review the plan, recommend changes, and perhaps even assist with implementation. During the intervening stages, they can coach the staff champion through the process, acting as a resource and advisor. The advantages of retaining a coach over a consultant include cost savings, empowerment of internal staff, cultivation of skills that can be transferred to the venture, and greater autonomy over the end product.

It is highly advisable to retain external accounting professionals to help with compiling and presenting financial statements. They will need your internal accounting and book-keeping staff to provide relevant financial information upon which they will project start-up costs, assets and liabilities, and cash flows for the venture's initial stages. Ensure that, as part of your arrangement, they set aside time to thoroughly review all the financials with whoever will be responsible for "selling" the venture. Readers of the business plan will often come up with hard questions about the numbers and how they were derived. Your champion may jeopardize your credibility if he presents the plan but is unable to demonstrate at least basic financial literacy about it and certainly an easy familiarity with the specific numbers you are presenting.

How long will it take and how much will it cost?

A social enterprise business plan can take anywhere from three months to a year to complete. The length of time it takes you will depend on the unique characteristics of your organization and such practical considerations as how much time over how long a period and how many resources you can dedicate to the process.

- Start by identifying the key pieces of information that are needed to compile the plan. You may need to update your feasibility study market research, re-evaluate your future competition, or hone your social performance model.
- Gather the members of your advisory team - including any retained professional experts - and start constructing a timeline based on a realistic evaluation of what needs to be done.
- Develop a budget based on the expenses identified in the work plan. Will you be comfortable with the typical costs of up to $20,000 for extensive professional involvement in the work?
- Track internal staff time spent on the project even if it is an in-kind contribution from the parent organization to the new social enterprise.

The social enterprise business plan

Social enterprises are, by their very nature, complex undertakings. It is hard enough to create a new company that can identify a new market need and serve that market while building infrastructure, raising capital, and meeting customer demands. Social ventures aim to do all of this as well as another daunting task - creating value for society beyond the financial bottom line.

The business plan was once the exclusive tool of the private sector. But as the lines dividing the private, public, and non-profit sectors began to blur, many non-corporate entities started using the business plan to expand their scope and achieve their goals. If you were to compare the business plans of a high tech start-up, a municipal government department, and a non-profit training facility, you would likely find a significant degree of similarity among them. You could expect to find sections on proposed goods/services, market opportunity, competitors, operations, human resources, and financial projections in each of them.

Like private sector enterprises, a successful social enterprise should generate financial resources beyond its costs. However, whereas a private enterprise is almost exclusively preoccupied with creating a financial return on investment, social enterprises must also create a social impact or benefit. So balancing social and financial goals is the principal challenge for non-profit social entrepreneurs. Readers of your business plan will want to know how well you can articulate the expected social impact of your venture, what targets you are setting, and how you propose to evaluate your success in that respect, not just in financial terms.

In setting these sorts of targets, you may wish to take the SMART approach. SMART stands for:

Specific	Clear to the people who are required to achieve the target.
Measurable	Success can be gauged by agreed-upon standards.
Achievable	Those involved understand that it is clearly possible to reach the target.
Relevant	Those involved recognize that the targets are directly related to what they are doing.
Timed	There is an agreed-upon timetable for achievements and decision points.

This is just a general introduction to the social impact issue. The next chapter will provide details on several approaches that are used to measure social impact. It will guide you through a process that will enable you to decide which approach works best for you.

Piecing together the plan

While there is no definitive prototype for a business plan (and even less for a social purpose business plan) there is general agreement on the basic elements that need to be included. And while advice from consultants and coaches will vary on matters of format, degree of detail, and style, the staples of business planning, a compelling executive summary and error-free and clear financials, for example, are never up for negotiation.

Operating as the Edmonton City Centre Church Corporation, E4C is a registered charity founded in 1970. E4C provides a multiple and diverse range of services including shelter for the homeless, meals, affordable housing, education services and training.

E4C's Kids in the Hall Bistro, located in Edmonton's City Hall, provides the public with good food and excellent service, while meeting the needs of at-risk youth for training in life and employment skills

"We do a business plan every year for **Kids in the Hall Bistro**. It's critical because there's an annual business cycle for the food service industry. It's important on a regular basis to see if you have achieved your annual objectives. A business plan is a tactical document."

Kourch Chan, COO E4C

You have probably already looked through more than one reference book on business planning. Note the similarities and differences among the approaches recommended by various authors and reflect upon which approach, or combination of approaches, will work best for presenting your venture.

Once you and your advisory team have agreed upon the elements of your plan and its overall structure, you will start to see how each section picks up from the previous one and builds anticipation for the following one.

According to the London Business School, there are 10 questions every social venture business plan should answer:

1. Where is your venture now?
2. What is your product or service?
3. What is your market?
4. How will you reach your market?
5. Against whom will you be competing?
6. How will the product be produced or the service offered?
7. Who are the people involved?
8. What are your financial projections and how much money do you need?
9. What are the risks?
10. What is the social return on investment and how will it be measured?

No matter what framework you may choose for answering these questions, it will be bound to cover these key components or sections:

I. Executive summary

II. Market opportunity

III. Business model

IV. Operations

V. Management

VI. Social outcomes

VII. Financial statements and financial projections

VIII. Appendices.

Taken together, these components will allow you to develop a practical roadmap for executing your enterprise idea.

Here, we present each of the sections listed above by describing the function and offering targeted questions to stimulate your thinking about what information needs to be provided. You will see that, in some instances, certain information may have to be presented in more than one section. Repetition is okay if your line of thought development requires it.

I. Executive summary

The executive summary appears at the front of the business plan and is usually the last section to be written. (The reason for this is that it will draw from and synthesize all the succeeding sections, so it will be different from the summary you wrote in the feasibility study phase and it will even be different from anything you would write before you complete the whole plan.) It should provide a general overview of the core venture and leave the reader eager to learn more. Write the executive summary with the assumption that it may be separated from the rest of the business plan and circulated as a stand-alone piece. So it is extremely important that it includes contact information (name, title, address, phone number, fax number, and e-mail) for the person in your organization who will be best able to answer questions and pursue opportunities. The main body of your business plan should probably be 25 to 30 pages. No matter, the executive summary should be no more than two pages. As with all aspects of the business plan, the executive summary should be as concise as possible, without repeated or insignificant information.

Listed below are the key parts of the overall business plan that should be summarized in the executive summary:

- The business idea and the customer need you are addressing
- The market opportunity
- Your competitive advantage and market positioning
- Management team highlights
- Expected social impact
- Goals, timelines, and benchmarks
- Summary of financials including start-up requirements, revenue growth projections, and anticipated break-even point.

Remember that the executive summary is the first, and may be the only, part of your plan that a potential investor or partner will read. Do not lose the opportunity to make a compelling and concise case for your venture.

II. Market opportunity

In this section, you will convince the reader that there is both a need and a demand for your product or service. You will explain in detail the rationale for the venture by describing the opportunity that exists, why it is needed and by whom. Any market research that your organization has conducted to determine your venture's feasibility will be helpful here, as will surveys and comprehensive information from your organization's database and from technical reference works.

Specifically, the key items you want to convey are the industry context, market description, customer segments, and competition. Think about the following issues to help you get started with this section:

Industry context

Starting any enterprises requires a basic understand of how the industry works. This understanding will help you strategize your launch more effectively and manage risks as your enterprise is implemented. Some considerations for your market positioning include:

- Technological changes (e.g., increasing online sales), regulatory environment, labour market (e.g., labour supply and demand), economic influences (e.g., seasonality, unions), geographic and environmental events and trends that could affect your industry.Is the industry growing or declining?
- Supplier dependence and power. (Who are the suppliers? How many are there? Could you switch suppliers easily?).
- Buyer power (e.g., only a few and big customers, customer awareness of competitive alternatives, their costs for switching to another producer/servicer, customers can provide the service themselves, competition is primarily on a cost basis, some competitors are selling below costs or do not seek a profit).
- Barriers to entry (e.g., high investment for start-up costs, substantial expertise required, restrictive regulations, changing technology, market saturation, customer resistance to trying new suppliers)
- Substitutes (many similar products exist, lower priced alternatives exist).
- Competitive rivalry (e.g., rivalry is increased when industry growth is slow, products are poorly differentiated, and many diverse competitors exist).

Market description and customers

Once you understand the external environment and industry dynamics that will influence your enterprise, you can turn your attention to the specific group of customers (the market) your enterprise will target.

Although "everyone" may be able to benefit from your product, very few social enterprises have the brand awareness or resources to effectively mass market their enterprise. Instead, target marketing to a sub-set of customers is what will help your enterprise achieve maximum results as you build your business.

By targeting your market you can easily drill down to the features and benefits of your products that are most important to your target market. Once you know your target, it is easier to communicate with it, determine where and how you can most effectively market your services, and form partnerships with other businesses that offer complimentary services. In addition, adding further target markets becomes easier once you have your marketing strategy in place for the first one. Some considerations for your market segment positioning include:

- What is the size of the market?
- Is it a mature or immature market? Is there growth potential?
- What is your expected share of your part of the market?
- What are the trends in your market (e.g., growing or declining, new customers, new products, more frequent purchases, price changes)?
- Will the target market require support to access or use your product? How much time and energy will you devote to this, and what is the likelihood of generating customer loyalty as a result?
- Where are the opportunities within your market, and what parts would you focus on? What regions?
- How would your location affect your ability to take advantage of the market?
- What are the relevant customer demographics (e.g; age, gender, socio-economic level, employment status)?
- What are the relevant personality traits of your typical customer (e.g., values, risk profile, importance of status, interests, and level of buying sophistication)?
- What are the relevant behaviours of your customers (e.g., who makes the purchasing decision, how often do they purchase, when and why do customers use the product, do customers care about brand)?
- What most motivates customers to purchase the product (e.g., price, convenience, quality, brand, product features, customer experience, credit terms, return policy, recommendations)?
- How do customers typically hear about products similar to your offerings?

Competition

Every enterprise faces competition. This can be direct competition from a company offering a product very similar to yours (e.g., other caterers) or indirect competition from a company that provides a different service that meets the same need (e.g., restaurants). An ongoing understanding of the competition in a market can be useful for identifying market niches, developing pricing strategies, and marketing products.

The purpose of conducting a competitive analysis is to figure out how the products and services of your enterprise will be differentiated from the competition, to identify gaps in the market that your enterprise may fill, and to provide a reasonable explanation for how your enterprise will have a competitive advantage in the market place.

Some considerations for how you intend to manage competition (that is, your market positioning) include:

- Who are your main competitors (direct and indirect)? What are their strengths and weaknesses (e.g., product quality, service, customer satisfaction, brand awareness, market share, location, strong management)?

- Who are the target customers for your competition?
- How would your price, quality, and service issues compare to others'?
- Who might become your competitors in the near future?
- What are the barriers to entry for new competitors? Will these change over time?

Market Position Summary

A summary of the market analysis will demonstrate your understanding of the industry and describe your enterprise's relationship to the market. The summary highlights the demand for the product and critical success factors for operating in the industry. Given the realistic market conditions, a market positioning statement articulates the niche in which your enterprise will most likely be successful.

Market Research

An organization intending to introduce a new product needs to establish both that there is a demand for the product and that conditions exist for it to be successfully provided. Market research provides the necessary information.

As you proceed with the research for the market analysis, you may discover that the market is in decline or other adverse conditions are present. This does not mean that you need to cancel your enterprise plans, but it does provide a valuable reality check. In your business planning remain flexible and responsive to market conditions. Marketing is about serving the customer, placing them first, and recognizing that customers have many products and providers from which to choose. So the more closely aligned you are with realities of market conditions, the greater your chances for success.

The purpose of the market research is to provide you with the basic information about your potential market to enable you to make informed decisions. Market research is not a one-off exercise undertaken before entering a market. You should undertake further market research not only when expanding into new marketing but also periodically while operating the enterprise.

You can use a variety of sources to gather data. Good market analysis involves a combination of desk and field research:

Desk research: the analysis of published materials. This is usually the starting point of any research because it is quick and inexpensive. The limitation of desk research is that it is often dated and not comprehensive. Sources include:

- Statistics Canada: The standard classification system is the North American Industry Classification System (NAICS). Statistics Canada features the NAICS web page, and you can access surveys and research related to many of the sub-categories at: www.statcan.ca/english/Subjects/Standard/naics/2002/naics02-menu.htm
- Industry Canada: Industry Canada's website is a comprehensive source of Canadian market and business information including trade data, SME benchmarking and small business profiles, business information by sector, economic analysis, and statistics. www.ic.gc.ca
- BC Stats: The province publishes demographic information such as census data, population estimates, population forecasts, immigration and migration reports, neighbourhood income and demographics. www.bcstats.gov.bc.ca (Of course, if you are in another province seek out its equivalent information source instead and so too with the other BC sources we have noted here.)
- Vancouver Public Library: Vancouver Public Library has a number of on-line and print resources including periodical databases (e.g. CBCA, Canadian Newsstand), association listings (e.g., Community Organizational Database), and company information databases (e.g., EDGAR, SEDAR, and Reference Canada) www.vpl.vancouver.bc.ca/
- Business directories such as esourcecanada.com, Fraser's Canadian Trade Directory, Canadian Trade Index, Bellzinc Trade Directory, Canadian Company Capabilities, Superpages.ca, scottsinfo.com, BC Manufacturers' Directory, BC Government Directory.
- Trade Associations: a good source of market research from experts in their field, including information on industry trends and lists of organizations that operate in the industry.

Field research: the collection of new or additional data. This type of research will be more current and tailored to the unique needs of your enterprise. Sources include:

- Surveys: the most common method, but not always the most effective. People often see surveys as a waste of time and potentially intrusive. Postal questionnaires have a response rate of 1-5%. Surveys work best when they are conducted in person or over the phone with people who have been briefed on, and are receptive to, the initiative.
- Interviews: if you have reached this point and not talked to your customers (or potential customers), now is the time. These conversations will be essential to helping you figure out where your product offerings are on target and where they need adjustment. Interviews can take place in a focus group, by telephone, or in a personal interview setting. In addition to current and/or potential customers, you may also want to talk to people who run social enterprises, people who run similar businesses, and potential investors.
- Observation: often just looking can tell you what people are doing, how they are buying, who they buy from, where they buy and how often. This can involve street surveys, observing competitors, or

observing potential customers.

III. Business model

In this section, you will tell the reader the details about what you are selling and why it will be successful. After reading this section of your report, the reader should be confident that your business idea is not only compelling, but viable.

Considerations for this section:

1. ***Description of product or service***
   - » What are you offering and to whom?
   - » What is the link between the market opportunity and your product or service?
   - » What is the customer need that is being addressed?
   - » How, when, and where will the customer buy it?
2. ***Social dimension***
   - » What are the social goals you are trying to achieve through your venture?
   - » How do these goals align with the mission of the parent organization?
   - » Are there synergies (the combined effort being greater than the parts) between the business and the mission (between marketing your product and promoting the organization's mission)?
3. ***Risks and assumptions***

Declare any assumptions you are making about your venture, including any risks and your strategy for managing them. There is a difference between prudent risk and uncontrolled risk, and any seasoned investor understands the distinction. As no venture is without risks, not declaring them will raise questions. Also reveal any significant liability, legal, insurance, and tax issues that will affect the enterprise and discuss how you will address them.

4. ***Competitive advantage***
   - » What distinguishes your product or service (e.g., superior product, service, personnel, location, brand awareness, intellectual property)?
   - » How durable is your competitive advantage, and how easily could others duplicate it?
5. ***Pricing analysis and revenue model***
   - » How much does it cost you to produce your product or service (e.g., cost of supplies or components, labour, market averages, etc.)?
   - » What is the market range for similar products?

» What will you charge for your product or service? (Be aware of the risks of under-pricing.)

» How many will you sell?

» How much profit will be generated from each sale/unit?

» How does this compare to what your competitors make?

IV. Operations

By now you have demonstrated that you understand your venture from an external market and business context. In this section, you must now show operational literacy. You must show how your enterprise will run internally. (If your enterprise is already in the start-up phase, you will document what you already have in place, and what further is required to get going).

Provide detail of the various aspects of operations: staffing, marketing, distribution, inventory management, timeline, decision points, and growth management, as they relate to your product or service.

These questions should help you with this section:

Legal structure

- What will be the relationship between the enterprise and the parent organization? Will the enterprise be a separate entity?
- What is the governance structure of the enterprise (separately and in relation to the parent organization)?
- How will this structure affect your charitable or non-profit status?
- What skills will be needed on the board of directors? Will board members have increased liability as a result of the business start-up and operation process and how this will be handled?
- Will the parent organization provide any in-kind support or will it charge overhead?

Note that legal issues are discussed in Chapter 7, which will help you answer these questions.

Operations and/or production process

- How does the product get made, and/or how is the service provided?
- What are the sources of raw material, technology, and packaging? Are you going to save any money in these areas?
- What are the required characteristics of the facility or workspace?
- What equipment, furniture, inventory, or technology will be required?
- Are there any safety or environmental factors that will be addressed?
- How much additional work will be required to deliver your service? How will that time be paid for?
- What types of management systems are required (e.g., financials,

operations, purchasing, contracts, inventory, billing, human resources)?

Staffing

- Who will manage the business?
- How do you plan to staff the venture?
- Will staff require special training or accreditation?
- Will the non-profit's clients be hired? If so, are there any special accommodations that will require additional staff or other resources?
- Will staff work on contract, for honoraria, or on a permanent basis?
- Do you have a person with business experience and/or training on staff and how will that person be utilized?
- Does the staffing plan match your operational needs and revenue growth projections?
- How will the staffing needs change as the enterprise grows?
- Are any of the positions transitional by design? If so, how will the high turnover rates be accounted for in the enterprise?
- How easy will it be to attract qualified staff with anticipated working conditions and salaries?
- What is the organizational chart? What is the accountability of each staff member?

Sales and marketing plan

- Have you developed a plan that addresses the four P's of marketing:
  » Product: What you will be selling?

  » Place: How the product will be distributed to your customers.

  » Price: How much you will charge for your product?

  » Promotion: How customers will find out about your product?
- What is your marketing strategy to create awareness, generate trial customers, build preference among customers, and generate repeat business?
- What marketing tactics will you use (e.g., advertising, personal sales, publicity, public relations, sales promotion)?
- Is there an online component to your sales, marketing, or distributions strategy?
- How do you intend to launch your venture?
- What resources are you dedicating to marketing your product/service?
- Who in your organization has the capacity to maintain the marketing campaign?
- What are the benchmarks or goals for marketing? How will you track and improve your marketing success?
- What customer service program will be required?

- How will marketing your product or service enhance or detract from your community profile?

Implementation plan

- Who will move your venture from idea to reality?
- What are your timelines and critical decision points, including go/no-go criteria?
- What is your budget for start-up costs?
- Who are your existing and preferred partners and why?
- What are the risks of the enterprise (e.g., financial, reputation, safety, legal, social impact, mission drift)?
- How will these risks be mitigated?

A reflection on staffing...

Potluck Café Society. Implementing a professionalized infrastructure has been another critical element in Potluck's success. We use a professional bookkeeper/accountant, business consultants, and a high-level catering manager with an MBA. At one point, we had a chef who was the president of the BC Chef's Association.

A reflection on branding...

Employing Unique Solutions. One challenge was to sell the branding of our business. We went to all the job fairs and sold the concept to employers, we met up with lots of diversity representatives to try to get our foot in the door. *Then* at that time we also had to put together a plan to recruit a skilled pool of employees that could satisfy the needs of today's employers that I went to speak to. It was a juggling act that has to work together, or your success rate will dilute very fast. We have a good base of employers that we are working with and will always look to expand, but our success is the service we provide: prompt, professional, respectful and cost effective.

V. Management

In this section, you will explain who will lead the venture and ensure its success. You should highlight the strengths of the management team, acknowledge any gaps in the skills needed, and explain how you will compensate for them. Generally speaking, you need to address the three key skills: operational management, sales management, and financial management.

Describe how the enterprise staff will relate to the parent organization staff. If there is shared staff, you will need to clearly explain the delineation of roles and responsibilities.

Remember that you are trying to convince an investor or partner to become involved in the venture. Will your management team inspire the

Photo: Brian Harris

Potluck is a leader in social enterprise and an inspiring entrepreneurial model for community economic development and revitalization. Through its business activities, Potluck has directly improved the quality of life for residents of our downtown eastside (Vancouver) community.

Potluck operates a fully professional café and catering enterprise in the heart of the city serving hundreds of corporate and non-profit clients. Potluck is a registered charity whose café and catering revenue is directly invested back into its many community social programs that are integrated into its daily operations.

reader's confidence?

You may find it helpful to structure this section as follows:

Introduce the team

- Who is on the management team?
- What relevant experience can each person offer?
- Does the team have a history of working together?
- What is the team's experience in the business field? What is their experience in the field of non-profits or charities?
- How will the board support the management team, and how much authority will they have over issues like staffing, budgets, planning, etc.?

Explain the key management roles

- What are the main responsibilities for each position? (Include brief biographies for those positions that are already filled).
- Where are there skills gaps and how will they be filled?
- How will staffing needs change as the enterprise grows?

VI. Social outcomes

The main feature that differentiates your plan from a traditional business plan is the explicit expectation of certain social outcomes. And in this section you describe how you will document the achievement of those outcomes. To do so, the key social outcomes should be quantifiable, measured against a target, and evaluated over time. The whole matter of documenting social outcomes (assessing your progress towards them) is dealt with in detail in Chapter 6. You will find much assistance there for this section of the plan.

This section presents the framework you have chosen in order to assess your social performance and results in terms of those key outcomes, but you will also present how you will document other social values inherent in your venture, such as environmental practices, sourcing and supply chain, hiring and workplace practices, community economic development, community involvement, and affirmative governance models.

Describe the benefits

- What benefits will society gain because of your venture?
- How will the organization be stronger as a result of the enterprise?
- How will you make sure that your employees, clients, and customers can access your services (i.e., how will you address barriers specific to clients)?
- Why does this enterprise make the world (or the neighbourhood) a better place?

Outline the evaluation method

- What indicators will you use to evaluate your social progress, and how will you know whether your venture is socially relevant?
- Who in the organization will be empowered to use this information to make the business more effective or move the mission forward?

The Vocational and Rehabilitation Research Institute

Social returns should be evident in your choice of business activity. Guided by your organization's code of ethical standards, the social return on investment should be closely linked to your mission and vision of your organization.

Does it provide financial return on investment? At the VRRI, we believe that, as stewards of public funds, we have a responsibility to adhere to higher ethical standards than the privately owned corporate community. We recognize that it may take a few financial cycles for a new business to be profitable, but this should never occur as a result of capricious policy, or at the expense of the parent charity's ability to fulfill its mission. Having a business plan is essential to being prepared, preventing undue financial risk and a resource burden on your organization, and creating a business that's financially viable. - Leslie Tamagi

VII. Financial statements

As you prepare this key section, ideally with the assistance of accounting professionals, keep in mind that it may be the only piece that an investor will be sure to look at (along with the executive summary). Think about the information that someone would need in order to decide whether to invest in this venture. For example, building your management's capacity to manage cash flow is critical to sustaining your enterprise, so you will need a specific statement on that to assure an investor that you have this critical issue in hand.

For the purposes of any business planning, financial statements are called pro forma, which means that to show what is expected, these are made up in advance - they are prepared before the actual timeframe that they represent. We present here some orientation to the three basic pro forma statements necessary, but remember that you will probably need professional accounting help to produce them for your business.

In fact, the final financial statements and financial projections really should be prepared by someone with recognized accounting credentials (CA, CGA, CMA) and, if possible, with experience in calculating the double bottom line. You will probably not have someone in-house for this. If you do need to hire an external professional to help you, then it is essential that the champion(s) for the venture will work with that person to gain a basic understanding of the role of each statement and what is required to maintain and update the financial information on an ongoing basis.

The three essential statements include the cash flow statement, income statement, and balance sheet. These statements tell the numerical story of the potential sustainability and viability of your enterprise. They will represent your best estimation of the finances of the business over a period of perhaps three to five years, and thus they are financial projections. (When a business is operational, the same sort of statements are produced to describe the current state of the finances; but they may also be used then to predict future finances).

Cash flow statement

The pro forma cash flow statement attempts to budget your business's cash needs by summarizing "cash in" and "cash out" on a monthly basis. This statement shows how much cash will be needed, when it will be needed, and where it will come from. This projection is probably the most central item in the business plan because it will show whether or not you will have sufficient cash on hand to run the business. Obviously, a negative cumulative cash flow figure is a warning sign. Potential investors will need to be assured that you have contingency plans in place, such as being able to inject more capital through a loan, line of credit, grant, or your organization's own reserves. Sound financial management will develop an operating reserve for the business itself of three to six months operating expenses to mitigate risk. Although it may take a number of years to reach this level of operating reserve, it should be an organizational goal and visible in your plan.

Income statement

The pro forma income statement measures how successfully management will use the enterprise's resources to predict how profitable the venture will be. Also known as the profit and loss statement, it projects the difference between net income and operating expenses for a given period of time. Projections of the second and third year are usually logical extensions of first-year pro forma figures, although revenues and expenses will not necessarily increase by the same proportion each month or year.

Balance sheet

The pro forma balance sheet summarizes all the resources invested in the business by showing the venture's assets, liabilities, and the fund balance at a given point in time. The balance sheet is divided into two sections: the first lists the assets (cash, accounts receivable, machinery, equipment, inventory, supplies) and the second lists liabilities (accounts payable, debts, pre-paid sales) and the fund balance.

Financial projections – how you get to those financial statements

A critical component of any business plan is producing the set of financial projections that will be represented in the statements just described. Financial projections (estimations or predictions over a period of time) are the figures used to assess the financial feasibility of the business, determine capital needs, and assess risk. However, unlike budgeting in a non-profit environment, rarely is it possible to have accurate data (particularly on the revenue side). Estimating is a skill and an art, and the quality of financial projections has an enormous impact on the quality of decision making.

Both managers and potential funders are interested in seeing how revenue grows and profits develop over time. So your pro forma statements need to be provided for a period of three to five years.

The following steps are a reasonable process to follow for developing a set of financial estimates:

1. List the potential capital investment required. Include equipment, furniture, inventory, legal fees, consultant fees, initial training, and initial marketing budget.
2. List the potential fixed and variable operating costs associated with the business. Include rent, salaries and benefits, utilities, insurance, office or production supplies, overhead charged by the parent organization, ongoing legal and professional fees, ongoing training, transportation, equipment repair, telephone, licenses, ongoing advertising, taxes, contingency for bad debt, and interest.
3. Building on what you have said in the section on the Business Model, specify a pricing policy, preferably based on a combination of competitive review and a break-even analysis.
4. Building on what you have said in the sections on Market Opportunity, Market Position, and Market Research, estimate the potential size of your market, and your expected sales to that market over time.
5. State your initial assumptions required to develop the set of financial statements (income statement, cash flow statement, balance sheet).
6. Develop a model, using Microsoft Excel, that converts these assumptions into dollar statements.
7. Validate or test key assumptions against market data, customer opinion, or past experience.
8. Develop a sensitivity analysis, that is, an examination of what might happen if any of your assumptions turn out to be inaccurate. See detailed sections below on tips for making assumptions and on creating a sensitivity analysis.

Depending on the industry that your venture is in, your plan may need to include additional special statements such as a schedule of debt and equity, start-up costs, and financial structure. However, do not get carried away with providing masses of indigestible financial data. Instead, focus on providing the essential pieces of information in logical progression, revealing key assumptions, and validating feasibility.

The main questions that any potential investor is likely to ask when reading your plan are: how much money is needed, what is the money needed for, when is it needed, what form is it needed in (cash, line of credit, etc.), and when will the enterprise break even? Throughout the plan, but particularly in this section on financial statements, the reader will be assessing the fundability of the enterprise and whether it will attract financial support from additional supporters.

Ensure that you demonstrate the alignment between the financial projections and the anticipated social impacts described in your social return section. Help the reader make the connection between the social and business goals of the venture. For example, you could use the timeline feature of the cash flow statement to indicate the points at which you will measure your social return. And while it may be premature to prepare your pro forma statements according to the principles of the double bottom line (both financial and social returns) or the triple bottom line (financial, social, and environmental returns), potential investors, board members, partnering organizations, and other stakeholders will likely expect to see a reference to that model in your plan.

Make sure you reveal the core assumptions behind your financial model up front. Don't leave your reader guessing as to how you arrived at your financial projections.

Provide proper footnoting to help the reader link the numbers with information previously presented in the plan (especially since you cannot be guaranteed that the reader will read the entire plan).

Tips on making assumptions

Regardless of how sophisticated your financial statements are, the quality of your projections is largely driven by having realistic assumptions. The following practices will help improve the quality of your assumptions.

Focus research on the most important numbers

In most business plans, one or two assumptions have the largest impact on results. Use your time and investment to improve the accuracy of the most important assumptions (usually sales and staff time). It isn't worthwhile to spend time improving the accuracy of an unimportant assumption (such as cost of office supplies).

Look for comparable situations

Try to get information about a comparable business or situation. How did a competitor perform? How many clients or members do they have now?

If in doubt, base expenses on needed human resources

In most organizations, expenses in almost all categories are based on the number of allocated staff in the periods being described.

Learn how to use Microsoft Excel functions

You will usually need to change your financial projections many times as you build them, so knowing the computer program to handle them is fundamental. This Guide cannot deal with this in the necessary detail. But whoever is the champion should consider taking the time to learn the following Excel functions: IF, VLOOOKUP, SUM, SUMIF, TABLE. With these five functions, the champion's ability to project scenarios will be greatly enhanced. You will likely have to arrange for outside help to learn and use these financial analysis tools.

Sensitivity analysis

This is the crucial exercise that tries to see to what extent your projection results may vary with certain specified changes in the assumptions you are using. No matter how much time and energy you put into developing a financial projection, there will be room for error, and you also want to be prepared for changed circumstances. For example, your assumptions may be inaccurate or outdated by later events. Understanding the range and potential impacts of other potential and reasonable scenarios is just as important as the particular projection you have selected to make.

Ask yourself two key questions:

- How far off can I be on my original projections and still make an adequate return?
- What would be the impact of being off, and by what amount, on this or that key assumption?

There are two basic methods for undertaking a sensitivity analysis:

1. Prepare three sets of financial statements. One is your "real" estimate. One is a pessimistic scenario, where you assume a combination of negative events. The third is an optimistic scenario, where you assume a combination of positive events.
2. Check the impacts on your projections of varying one or two key assumptions.

The first option here is quite simple to execute. Save a new Excel file each time, and simply change your assumptions, run the new projection, and save each new Excel file for comparison purposes. The second option can be accomplished using the "Table" function in Excel. Unfortunately, this function takes a bit of practice to master; however, the results can be powerfully instructive. Again, you or whoever else is the champion for the venture idea and heading up the planning task will need to be

The **Ellice Café & Theatre** opened in February of 2005 as a non-profit community development initiative of New Life Ministries.

Menu sales from the Ellice Café help to subsidize a low-income food service for some residents of the New Life Ministries transitional housing and emergency shelter. The Café is also a natural venue for volunteering and job training.

fully cognizant of the Excel system for financial analyses. And again, outside assistance for learning and using these tools will likely need to be arranged.

Ellice Café

Managing a social enterprise is very different from any other job I've had. The expectation is multi-leveled. I have a community wanting to see the Café offer affordable food, community groups wanting me to train and hire those finding it difficult to obtain work elsewhere, a Board needing to see the Café making a profit and a higher end customer base expecting great food every single time they come in. Some days it all works well. Some days it feels as though I am pulled in every direction possible.

It is vital to understand the bottom line of any business. This is even more important with a social enterprise. There is more riding on the success. Making money is not bad. Making money allows us, at the Ellice Café, to offer a discount program for our customers on a fixed income. Many of my customers can afford to pay more for food. So they do. Those who cannot, receive the discount and enjoy exactly the same food, service and environment that my full price customers do. The financial side of the business is the foundation for any other program to be built on. When the café is fully self supporting I will also be able to hire and train more staff, with the ultimate goal of helping lift them out of the cycle poverty has put them in.

It is important for people working in a social enterprise to value the business side of things. We don't need to apologize for paying attention to numbers. If we don't know what numbers to look at or how to assess, we need to ask for help. I have done that a lot! - Belinda Squance

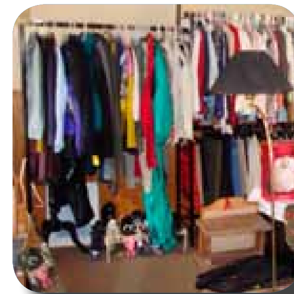
Keeping the plan current

This, then, is the general form and content for your plan. As mentioned earlier, for business planning to be a truly effective tool in guiding a social enterprise, it must be treated as a continuous process and reviewed on an ongoing basis. As your enterprise changes, so too must the business plan. Ideally, they will evolve together, providing appropriate checks and balances.

For the first year, you should review the entire business plan on a quarterly basis, particularly the sections on marketing, staffing, and financial projections. You will be assessing the degree to which the business plan is aligned with the reality of the enterprise. Ask two or three people to get involved in the review and encourage them to challenge the assumptions that were made, the expectations that were presented, and the risks and success factors that were identified. You may also want to bring back your business plan coach/consultant and whoever was involved in preparing the financial statements. At the end of the first year, you may want to consider retaining the services of an external auditor to evaluate the social enterprise and the related business planning documents. An external audit can be a very constructive tool. It will evaluate the capacity of enterprise management and staff from a non-emotional point of view.

As you evaluate the relevance of your original business plan to your evolving enterprise, consider whether the research upon which your plan was based is still accurate. Are your market projections outdated? Have new competitors entered the market and taken some of your market share? Is your value proposition still attractive? The review will suggest whether there is any new research that you should launch.

Here is a special tip: Use your ongoing review of the business plan and related documents as a reminder to keep in touch with your investors and key stakeholders. Offer to send them an updated executive summary and the financial sections of your revised business plan (and the entire plan if they are interested). They will be pleased to learn of your progress, relieved to see evidence of ongoing carefulness, and more open to receiving additional requests for support, if you find that necessary.



"Revenue decreases and unhappy volunteers/employees usually mean its time to revamp policies and procedures and/or to look at the strategic plan for opportunities to improve."

- Wendy Faris,
Pearls 2nds

Le Bucafin

I believe you have to start with a good business plan. It's no use to make a plan that you put in the drawer and that's it. The business plan is a tool in the enterprise. All the marketing plans we put in the business plan have proven very important. The business plan isn't just something that happens in the development of the enterprise; you use it in the business. You have to be able to change the business plan if what is going on in the business doesn't fit with what you planned. We've changed our business plan about three times. Our customers changed, so we had to change. When we did the original plan, we didn't take into account the influx of tourists in the summer, and the difference in business between summer and winter. We've since created a good partnership with the local tourist bureau and that wasn't in the first version of the business plan. We did write a good business plan, with a financial statement and a market study, and we've been able to adjust it as we go along. At first we thought the laundry would be the bigger part of the business, but for the moment, the Internet café side is bigger. -Carole Lachance

Conclusion

As you proceed through this whole business planning process, you will undoubtedly reach points where you are tempted to throw up your hands and accept defeat. *Don't*. Yes, the planning task is daunting, but it will be worth it. The simple fact is that organizations that plan for the future - and follow through with the plans - are much better positioned to meet other challenges and embrace important opportunities than those organizations that have not engaged in a substantive and challenging planning process.

This chapter has built a case for business planning, and proposed some practical means and frameworks for creating a working plan and keeping it current. But you will always benefit by supplementing the information in this Guide with other resources and by talking to people who have made it through the journey that you are about to embark upon.