



Seedco

Innovations in Community Development

Prepared for Seedco by
IRA CUTLER
Cornerstone Consulting Group

With support from
MetLife Foundation

January 2005

THE DOUBLE BOTTOM LINE

Lessons on Social Enterprise
from Seedco's Nonprofit
Venture Network 2001-2004

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Introduction and Acknowledgments

With support from The MetLife Foundation, Seedco launched its Nonprofit Venture Network (NVN) program in 2001 to bolster nonprofit organizations' efforts to develop social purpose businesses—that is, business activities that apply market-based solutions for the purposes of furthering a social mission, generating income, and addressing community needs. Three years into NVN's work, Seedco has commissioned *The Double Bottom Line* to assess the program's successes and challenges to date; we also believe the report will be an effective primer for organizations considering starting a social purpose business. It is being published with a companion piece, *Profiting from Purpose: Profiles of Success and Challenge in Eight Social Purpose Businesses*, which documents the specific experiences of eight organizations assisted by NVN in its first three years.

Social purpose business activities as part of many nonprofit operations have been around for a long time. But in the early 1990s, a new kind of movement and mystique around the idea emerged as younger venture capitalists entered the philanthropic community. We believe that Seedco—with its business acumen, its track record of providing technical and financial assistance to nonprofits and small businesses, and its experience starting two ventures of its own, *EarnFair*SM LLC and Community Childcare Assistance—is uniquely qualified to make a contribution to the current body of thought on the field.

The *EarnFair* LLC is a flexible staffing company Seedco founded in 2001 with a dual mission of helping disadvantaged workers find good jobs and helping companies find reliable entry-level staff. Community Childcare Assistance (CCA), founded in 2002, furnished working families with reliable backup licensed childcare when their primary caregiver was unavailable without notice. The LLC has provided a generally positive experience as a social purpose business. Community Child Care could never adequately find its market niche and was closed for lack of earned income after three years of operation in 2004.

Doing the hard work of social enterprise only increased Seedco's appreciation for how challenging it is to launch and run a social purpose business. Bringing a business to profitability is difficult under any circumstances, and there is good reason to hypothesize that it is even harder in the case of social enterprise. Only rarely do organizations conceived to pursue a social mission have sufficient funds to run their programs comfortably, even without shouldering the burden of losses typical of a business startup phase. Nonprofits' resources of staff, time, and money are often strained nearly to the breaking point just keeping programs afloat.

Ventures can, however, be an exciting alternative to the seemingly endless search for public contracts and private grants. In the best cases they bring together the money-making savvy of a for-profit enterprise, the social service goals of the public sector, and the mission-driven zeal of a nonprofit organization. For these reasons, in spite of the risks and challenges, they continue to capture the imagination of funders and nonprofits alike.

Not surprisingly, the impact of NVN involvement on organizations' ventures has varied widely. In some cases the final verdict cannot yet be pronounced on whether a business venture will ultimately be launched, much less whether it will succeed. NVN is still a young initiative, and the knowledge and capacity nonprofits have gained from its guidance may well result in greater success in the future. We are still exploring suitable financing tools to launch and grow the businesses it assists. Moreover, as it has for Seedco itself, the experience gained by nonprofits who take the plunge into social purpose businesses—even at the planning and development stage—is likely to result in increased outcome-based thinking across the organization as a whole.

This report is not intended, therefore, as a definitive statement of Seedco's position on social enterprise. Rather, it should be read as an early assessment of our work with NVN, and a snapshot of where we believe the field currently stands.

Seedco is grateful for The MetLife Foundation's sustaining support of NVN. Program Officers Sibyl Jacobson and April Hawkins have demonstrated an unwavering vision and belief in NVN's goals, and MetLife's consistent support throughout the life of the program has allowed Seedco to develop the MetLife Introductory Workshop Series. To date, the workshop has been delivered four times in New York City and twice in Tampa, Boston, and Los Angeles, reaching more than 350 nonprofits. The workshop formed the backbone of the NVN technical assistance curriculum, which has provided further intensive business planning assistance to nearly 40 organizations.

We are also indebted to United Way of New York City and Mizuho USA Foundation, which support NVN in New York City. The Eckerd Family Foundation provides additional support for NVN in Tampa Bay; in Boston, NVN is also supported by United Way of Massachusetts Bay. The Ford Foundation's core support has been vital for the total project.

Our gratitude to Ira Cutler and his staff at the Cornerstone Consulting Group for researching and writing this report. Thanks are also due to the nonprofit leaders, funders, grantees, and business developers staff who sat for interviews and generally availed this report of their invaluable personal expertise. Finally, I want to thank most especially the Seedco staff members who have put, and continue to put, so much high-quality effort into making the program a success.



Diane Baillargeon
President
January 2005

I. Overview of the Field

The Growing Interest in Nonprofit Ventures

Since the late 1980s, nonprofit leaders have been attracted to the idea of creating revenue-producing businesses to advance their charitable missions. Built on the history of sheltered workshops and businesses created to provide jobs for the disabled, as well as gift shops and food services run by hospitals and cultural institutions, the concept has now been expanded to include a much broader range of enterprises and to appeal to a wider variety of nonprofit organizations. After less than 20 years of experimentation, an entire specialty field of social entrepreneurship has emerged, complete with experts, publications, Web sites, conferences, technical assistance organizations, and funders.

Interest in social purpose businesses extends beyond agencies to the world of foundations, business schools, technical assistance organizations, and private consultants. With the support of the Internet, regular conferences and workshops, and philanthropy-related publications, those with resources and expertise can connect with interested nonprofits to support continuing education, share ideas and experiences, and promote funding opportunities. Particularly in the last five to seven years, the number of organizations involved with nonprofit ventures has mushroomed, and recommended practices are emerging. With the notable exception of the Roberts Enterprise Development Fund (REDF), the principal organizations that provide technical assistance, networking, and learning opportunities to the field (the Social Enterprise Alliance, Community Wealth Ventures, and the Partnership on Nonprofit Ventures) were all formed since 1999.

Several recent reports attest to the rapid growth of interest in the field. According to an overview of funder support for the income-producing activities of nonprofits by the Social Enterprise Alliance, “The number of non-profit organizations interested in starting new or advancing existing revenue generating activities is astounding by any indicator.”¹ A recent report by Community Wealth Ventures, *Powering Social Change—Lessons on Community Wealth Generation for Nonprofit Sustainability*, found that “too many new social enterprises are being created too quickly in too many places to count... Business enterprise by nonprofit organizations is one of the least noticed but fastest growing areas of small business today.”²

Other measures of growing interest in nonprofit ventures include attendance at conferences, participation in business plan competitions, surveys conducted by academic institutions, and federal taxes paid, as detailed below:

- The National Gathering, an annual conference sponsored by the Social Enterprise Alliance, has grown from 200 attendees in its first year to over 600 five years later in 2004. The majority of attendees (approximately 65 percent) represent nonprofit organizations; the rest are consultants, academics, and funders. Alliance membership has grown from 140 in

¹ *Funding Them to Fish: Final Report, Sundance Village, Utah, 2003*: www.se-alliance.org/sundance_final_report.pdf.

² 2003. Available at www.communitywealth.org.

2002 to nearly 500 in 2004. The Alliance, in partnership with Community Wealth Ventures, maintains an extensive, searchable directory of nonprofit social enterprises.³

- The Partnership on Nonprofit Ventures, a partnership of the Yale School of Management and the Goldman Sachs Foundation supported by the Pew Charitable Trust, manages several projects that demonstrate the wide appeal of social purpose businesses. Its Web site boasts 6,000 registered members and has received 140,000 unique visitors since May 2002. In 2000, the Partnership developed and widely promulgated a voluntary survey to capture “the landscape of enterprise in the nonprofit sector.” Responses came in from 519 organizations, of which 42 percent reported they were currently operating an earned income venture, and 23 percent were planning ventures. The income generated by businesses accounted for 12 percent of annual net revenue on average. The Partnership’s annual business plan competition attracts 500 applicants, and an annual conference attracts at least 500 attendees.⁴
- In 2003 the Johns Hopkins Center for Civil Society Studies conducted a nationwide survey of self-selected nonprofits from five human services fields to gauge the impact of revenue short-falls and identify coping mechanisms. There were 236 respondents, and five percent reported starting a profit-making subsidiary to cope with funding shortages. Over 10 percent of respondents in the fields of elderly housing and services and community and economic development reported starting a subsidiary.⁵
- The limited information on nonprofit business income available from the Internal Revenue Service points to growth in taxable profits generated by nonprofits from 1995 to 1997. Such profits increased 39 percent in 1995, 31 percent in 1996, and 18 percent in 1997.⁶ According to an article in the *Journal of the American Taxation Association*, “The increasing commercialism of nonprofit organizations has caused concern among firms that compete with nonprofits. Congress continues to be concerned over the rapid expansion of nonprofits’ commercial activities and the potential for unfair competition arising from the differential taxation of nonprofits and for profit firms.”⁷

³ National Gathering information is based on data from www.ventures.yale.edu and data gathered by staff of the organization.

⁴ Partnership on Nonprofit Ventures information is based on data from www.ventures.yale.edu and data compiled by staff of the organization. Here and elsewhere in reporting the survey results the authors caution that “the reader should note that these responses are self-reported, and it is not clear what cost categories were included in respondents’ break-even assessments.” Further, the sample of nonprofits that responded to the survey was self-selected and cannot be assumed to be representative.

⁵ Johns Hopkins University. Available at www.jhu.edu/listeningpost/news by selecting *Communique No. 2*.

⁶ Margaret Riley, *Unrelated Business Income of Nonprofit Organization*, 1997, the Special Studies Special Projects Section of the IRS, 1997. Available at www.irs.gov/pub.

⁷ Thomas C. Omer and Robert J. Yetman, *Near Zero Taxable Income Reporting by Nonprofit Organizations*, September 2003.

Despite its recent growth, the social enterprise field is still young and developing; there is confusion in the field's terminology—so much so that many terms are used interchangeably and lack standard meanings. Popular terms include social purpose venture, nonprofit venture, nonprofit enterprise, social purpose business, venture philanthropy, civic entrepreneurship, caring capitalism, social enterprise, and community wealth venture. There has been some attempt at standardization by the Social Enterprise Alliance, which has posted a “lexicon” of commonly used terms on its Web site.

Interest among Nonprofits

The enormous interest in nonprofit ventures stems in large part from the difficulty nonprofits face in accessing sufficient revenues to carry out their missions. Cutbacks in public funding in recent years, combined with decreases in private support as a result of stock market losses, have left many nonprofits vulnerable. At the same time costs, driven in part by cost increases for health benefits and liability insurance, have risen, pushing nonprofits towards seeking new resources.⁸

Compounding the problem, many nonprofits have increasingly become an extension of government, with large portions of their time, resources, and energy spent on delivering sub-contracted services under ever more stringent and competitive performance-based contracts. While increased public revenues have allowed many nonprofits to grow, there has been a cost in terms of autonomy and, for some, a drift away from their core mission. Nonprofit leaders wish to regain the ability to independently chart their organization's course, and see self-generated revenue as a way to do it.

As funding pressures on nonprofits have increased, many public and private funders have become enamored of a funding model in which new, effective social programs are funded for a limited time period and then evolve to “sustainability”—i.e., become self-funded or funded by some other entity. In this model, the original funder is then freed to make new investments and seed new ideas.

Social purpose businesses seem to offer what many nonprofits and funders long for: a consistent source of increased, flexible revenue for socially minded projects that does not require increased or continuing financial support from public or private funders. As one observer put it: “In this model nonprofit does not have to mean *no* profit.”

Successes among their peers have stimulated executive directors and boards to consider nonprofit ventures and pursue the assistance they need to successfully launch them. Some nonprofits, often desperate for revenue in very difficult times, look to exemplars of nonprofit business ventures, such as Housing Works in New York City, Greyston Bakery in Yonkers, New York, Delancey Street Foundation in California, and Pioneer Human Services in Seattle, which report that over 50 percent of agency revenues are earned through nonprofit ventures. They are inspired to emulate

⁸ The information on the pressure of rising costs is based on findings from the Johns Hopkins' Listening Post project survey; see note 5, page 4.

these successes, although they sometimes lack a full appreciation of the commitment required for success.

Some of this interest is fueled by unrealistic expectations of the investment needed in terms of time and capital and the revenue that can be tapped from a business. The Partnership on Nonprofit Ventures, in its survey of 519 nonprofits, identified a number of nonprofits that started and then abandoned their ventures.⁹ Like for-profit business ventures, new businesses simply do not always work out, and for many reasons.

Despite the difficulties in launching and maintaining a revenue-generating business, however, the allure of diversifying revenue sources through nonprofit business ventures is great. Interest among private funders is also increasing and comes from several sources, including individual donors and foundations.

Interest among Individual Investors

During the economic boom years of the 1990s, many younger entrepreneurs became multi-millionaires; some had an interest in cutting edge solutions to economic, educational, social, and health issues both in the U.S. and internationally. With this shift in the demographics of today's philanthropist-investors from older, mainstream individuals to younger individuals more willing to take risks, an environment more hospitable to social enterprise has been created. New investor groups have emerged that take social value into consideration when making investment decisions, forming social venture capital funds. Examples include the Community Development Venture Capital Alliance (founded 1995), an alliance of more than 50 community development venture capital funds; the Flatiron Future Fund (1996); Pacific Community Ventures (1999); and Commons Capital (2001).

The presence of these potential donors has in turn attracted United Way and community foundations to nonprofit business development. These funders envision creating partnerships with young venture capital donors who understand the risks and opportunities of starting a business. However, venture capital donors may insist on a far greater level of personal involvement in funded projects than grantees are accustomed to. In addition, these donors may not understand or fully appreciate the culture of nonprofit organizations.

In the best case, a social venture capital fund can provide financing for nonprofit groups not able to secure adequate funds from mainstream financial institutions or private foundations. Typically, however, such funds expect a modest return on investment and may serve as a managing partner of the nonprofit venture. Although this new source of capital is welcomed by debt-worthy agencies with profit-making businesses, it does not benefit nonprofits with businesses that break even or produce deficits, those with limited assets (such as real estate or endowments), or those averse to incurring debt.

⁹ Available at www.ventures.yale.edu/docs/Enterprising_Nonprofits.pdf.

Interest among Foundations

A number of foundations provide grants encouraging individual and organizational social entrepreneurship.¹⁰ Of particular note is REDF (formerly the Roberts Enterprise Development Fund) of San Francisco, which started funding social purpose businesses for job creation beginning in 1986 and published an attention-getting book in 1996 based on its experiences.¹¹ Through direct grants or by providing funds to intermediary organizations, REDF and other foundations have helped nonprofits attend the National Gathering annual conference, become members of relevant organizations, and develop business and/or marketing plans. Interesting partnerships, including the Seedco Nonprofit Venture Network, have arisen, linking foundations, universities, consultants, and intermediary organizations to provide a package of supports and assistance to grantees, including access to business expertise.

Foundations' motivations for investment in social purpose businesses were captured by the Social Enterprise Alliance in conversations with 100 funders across North America; they include:

- Increasing the self-sufficiency and capacity of their grantees by helping them diversify their revenue sources and improve management and business skills
- Creating an income source that will decrease dependency on grants, provide unrestricted income, and allow for innovation
- Making the most of foundation dollars by leveraging them with business income
- Creating or maintaining job opportunities in economically depressed areas or for chronically unemployed individuals

Funders reported to the Alliance that most of the income-generating activities they funded fell into the category of "fee for service," such as training and educational programs that charged a fee or tuition. For the most part, foundations have been more willing to provide business planning and startup funds than implementation funds. Frequently, business plan implementation has been severely hampered by a lack of substantial investment over time, access to venture capital, and availability of low interest loans.¹²

Consensus in the Field

Nonprofits interested in pursuing a social purpose business in 2004 have resources that were not available 15 years ago. Not only are there veteran practitioners to learn from, there are new "hybrid" professionals with both business and nonprofit experience and membership organizations, conferences, and the Internet, providing a wealth of information and networking opportunities. Those willing to invest the time can acquire a basic orientation quickly and, perhaps, can determine

¹⁰Examples include the Helen Bader Foundation, Echoing Green, the Kauffman Foundation, the Robin Hood Foundation, the Meyer Foundation, the Chicago Community Trust, and the Calvert Social Investment Foundation.

¹¹ *New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation*: www.redf.org.

¹² As early as 1998, the Venture Fund Initiative concluded that "organizations have brought their ventures through the initial stages of startup, but they now lack access to the financial resources necessary to adequately capitalize their venture for expansion or achievement of market sustainability."

if a social purpose business is a strategy worth pursuing for their organizations (a list of selected resources is in Appendix B, page 29).

Nonetheless, nonprofit business ventures are difficult. The success rate of social purpose businesses is unknown, but some technical assistance organizations believe there are as many or more failures as successes.¹³ Clearly, for some nonprofits, a business venture is an unrealistic, desperate attempt to come up with the revenues needed to finance a valued program. Against this backdrop, recognizing both the potential importance and the considerable difficulty of launching and sustaining nonprofit business ventures, Seedco created the Nonprofit Venture Network.

¹³ This view is expressed in *Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector*, The Partnership on Nonprofit Ventures (2002), as well as in *Powering Social Change, Community Wealth Ventures* (2003). Community Wealth Ventures states: “For too many ventures, the path to profitability cannot yet be clearly ascertained.” One consultant working with the National Center of Social Entrepreneurs stated that during three years of work in the field she had yet to see an outstanding success.

II. The Nonprofit Venture Network

Origins of the Nonprofit Venture Network

Seedco, a national community development operating intermediary, creates opportunities for low-wage workers and their families by engaging with community partners and anchor institutions to develop, operate and learn from model programs of national significance that: 1) help people join the workforce and achieve economic self-sufficiency, 2) assist small businesses, and 3) promote asset building for residents and businesses in economically distressed communities. Seedco's technical and financial assistance complements the model programs and strives to build the capacity of community partners and small businesses through the introduction of sound, outcome based management practices.

For the past several years Seedco has embraced the potential of social purpose businesses to benefit nonprofits. Through its Nonprofit Venture Network (NVN) initiative, several hundred agencies have been introduced to the concepts of business planning, and over 30 have participated in more advanced instruction and received financial support to develop or update business plans.

In its original NVN business plan, finalized in March 2000, Seedco noted that “an increasing number of community-based nonprofits have begun to launch social purpose business ventures” and that this was particularly true of nonprofits involved in human services.¹⁴ Seedco observed the potential for nonprofits to achieve a “double bottom line”—to train and employ target populations and, at the same time, potentially become profit centers, reducing reliance on public and philanthropic subsidy.

Seedco was well aware of the difficulties inherent in this work, and its NVN plan noted three primary challenges:

1. Business ventures operated by nonprofits too often have “only a tangential relationship to the nonprofits’ mission and traditional programs.” As a result, management is often inadequate, and interest and commitment are difficult to sustain.
2. Nonprofits typically lack sufficient technical expertise in the area of business planning, financial risk assessment, and negotiation with national franchises, site selection, and business operations.
3. Nonprofits lack access to the flexible, patient, or affordable sources of financing necessary for social purpose business ventures.

Despite the challenges noted, Seedco saw potential and proposed a multi-year, multi-city initiative, largely targeted to youth-serving nonprofits¹⁵ and designed to directly address the challenges. NVN

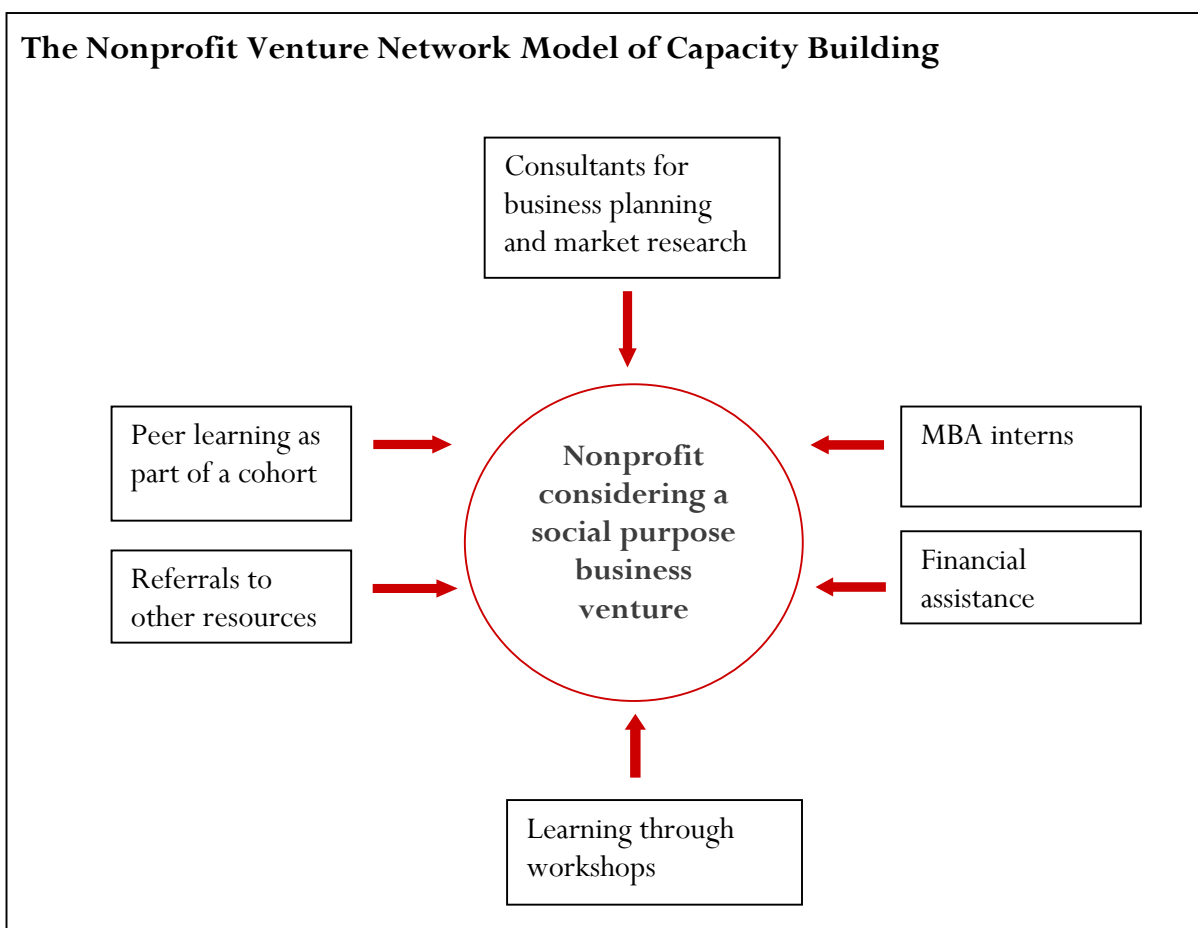
¹⁴ *The Social Purpose Business Initiative — A Seedco Business Plan*, Seedco, March 2000.

¹⁵ Seedco had a great deal of experience in capacity building efforts with youth-serving nonprofits and, with support from the Charles Hayden Foundation, had been working with a cohort of these agencies in New York and Boston for three years.

launched in 2001 with a focus on increasing participants' knowledge and skills related to social purpose businesses.

Program Description and Structure

The basic approach of NVN is to wrap interested nonprofits in a network of supports leading to the capacity to successfully launch a nonprofit business venture.



NVN participants move through a three-phase “learning and doing” experience that winnows the field down to those with the commitment, capacity, and most promising concept for a nonprofit business venture. The three phases of the Nonprofit Venture Network are described below.

Phase I: Learning

This phase provides organizations with an orientation, as well as assessment and capacity-building tools, through the MetLife Introductory Workshop Series on Social Purpose Businesses. The workshops are free and take place over two days; they are a requirement of applicants for predevelopment grants. Topics covered include an introduction to social enterprise, risks and

benefits of starting a social purpose business, elements of a business plan, sales and marketing, measuring social outcomes, and key financial concepts. Presenters include Seedco staff, former grantees operating social purpose businesses, and special guests.

Executive directors, board members, and senior staff from over 350 community-based 501(c)3 nonprofits in New York City, Tampa Bay, Florida, and Boston have participated in the introductory workshop series. Feedback from participants suggests that the workshops are most helpful for agencies with no previous experience in social purpose business, although more experienced agencies found the workshops helpful as a review. In addition to the fundamentals of business planning and operations, participants developed a good sense of the realities of implementing and operating a nonprofit business venture from the workshops.

Participant Feedback from Phase I

- *“It was helpful to learn how Seedco defines ‘social purpose businesses.’ ”*
- *“I learned it is possible to make a profit and still be a nonprofit organization.”*
- *“I now know that it is essential to have a business plan and that they change frequently.”*
- *“I didn’t realize how important the ownership and legal structure of the business was.”*
- *“The highlight for me was the panel of people from agencies with operating businesses or pilots, sharing their experiences.”*
- *“We aren’t ‘business people,’ so learning the lingo was an important step.”*
- *“Agencies need to have realistic expectations about nonprofit ventures, remembering that they are risky, and many are not wildly successful.”*
- *“We left the workshop feeling inspired, but also more grounded and cautious.”*

Phase II: Planning

Organizations that have completed the introductory workshop series, and have a social purpose business idea, are eligible to apply for one-year pre-development grants in the range of \$10,000 - \$15,000 through Seedco’s Entrepreneurial Assistance Fund. Those selected to continue participate in monthly workshops as a cohort. These workshops are based on a formal curriculum, Seedco’s *Toolkit for Developing a Social Purpose Business Plan*.

Intensive instruction and one-on-one technical assistance are provided in each of the topic areas touched on in group sessions presented by Seedco staff, former grantees, and experts in specific content areas. In addition, grants provide for ongoing support from Seedco staff, hiring consultants, and assistance with market research and financial projections from MBA graduate school interns. The goal of Phase II is the creation of a high-quality business plan and the identification of the appropriate structure for the social purpose business. Seedco has developed a specific format for a comprehensive business plan followed by all grantees, with assistance from their consultants.

Participants in Phase II reported that the program was essential to them in the development of their business plans. From market research to applying for a business loan, the guidance and knowledge provided by NVN staff and consultants allowed nonprofits to critically evaluate their business ideas,

make necessary course corrections, improve or expand an existing business, move toward start up of a new business, or realize that a business venture was not a good option.

Participant Feedback from Phase II

- *“Learning how to make a pitch for a loan was really important for me.”*
- *“NVN really did what it was supposed to do: Make sure nonprofits know what it takes to launch a venture and have all the necessary resources in place. How do other nonprofits do this?”*
- *“We were able to apply what we learned from our consultant right away and increased our retail sales and income by 50 percent.”*
- *“Involvement with Seedco forced us to stay on track and get the business plan done. Without this structure, we would have talked about the idea for years without doing anything.”*
- *“Our consultant forced us to do real market research, and this changed the entire model from our original idea.”*
- *“Our pilot shed light on the fact that our model was loaded with barriers to sustainability and efficiency.”*
- *“The process made us look at how we do things and be more aware of program opportunities. We also learned that we could not incur expenses for a new business until we had adequate cash.”*

Phase III: Implementing

In the final phase, grantees were to have access to several forms of financial assistance to support their ventures. These included both grants and loans at below-market interest rates. Organizations moving from Phase II to Phase III had to have a business plan and meet Seedco’s requirements.

Phase III was originally envisioned as a time when Seedco would funnel the strongest Phase II grantees, armed with viable business plans, to investors as part of a United Way of New York City donor network. Thus far, connecting with investors has proved more difficult than was envisioned. Seedco has provided low-interest loans and in some instances connected Phase II participants with other funders, but the program has not achieved the smooth transition to a pool of investors that was initially imagined.

The literature suggests that social purpose businesses that partially subsidize a nonprofit organization—in other words, where the proceeds of the business venture reduce the operating costs of the nonprofit program—have been somewhat successful in obtaining grant funding for startup/operating costs and capital improvements. Unless a true net profit can convincingly be forecast—in other words, the proceeds of the business venture’s revenues are greater than its program costs—they have encountered great difficulty in attracting venture capital or negotiating loans. Most Seedco grantees fall into the first category and thus have had difficulty securing conventional loans and venture capital. Phase III of NVN has been hampered by both the lack of financing options for those agencies considered “debt-worthy” and the general reluctance of many working for nonprofits, especially board members, to take on debt. Going forward, Seedco is exploring the development of a new debt-equity product to meet the unique needs of social purpose businesses.

III. Assessing NVN

Overview

Interviews with grantees, consultants, and funders indicate that participants value their experience with NVN regardless of individual success in launching a business. Hundreds of nonprofit agencies have received a thorough introduction to the concepts of social purpose businesses through Phase I workshops; as a result, they are better able to recognize a business opportunity or advantageous partnership when one presents itself and better able to gauge the impact of a social enterprise on their core mission.

Over 30 motivated nonprofits have benefited from NVN's Phase-II intensive education, consultant services, and connections to resources. Many reported that participation provided the structure needed to focus intensively on their nonprofit venture idea, but almost universally there was surprise about the amount of time, energy, and cash needed for planning and startup. Exploring the feasibility of a social purpose business in a supportive and safe environment resulted in many grantees' radically revising or discontinuing projects that had looked like a good idea at first.

Most Phase II participants were able to develop a business plan that met NVN's standards within 12 to 15 months of receiving a grant. Several grantees with feasible projects entered the business plans they developed with NVN support in the Yale School of Management-Goldman Sachs Foundation National Business Plan Competition, and one was a 2004 finalist.

As expected, many NVN participants have not completed the process of creating a nonprofit business. Interviews with grantees and consultants suggest some of the reasons for delaying, revising, or tabling the social purpose business:

- The business idea was not feasible in terms of market demand, profit margin, startup costs, or legal impediments
- The parent organization was experiencing revenue shortfalls
- The business could not be easily brought to a sustainable scale
- There was a prerequisite need for permanent or larger space for operations

Assessing NVN is made particularly difficult by the large number of points of view as to what constitutes "success." Should the creation and maintenance of a profit-making enterprise be considered the only measure of success? Or should the knowledge and capacity nonprofit executive staff report they have gained through participation in NVN also be considered?

Since its inception, NVN has reached over 350 agencies. Of those that participated in introductory workshops, about 75 made application for predevelopment grants and about 40 received grants and targeted technical assistance. Cornerstone interviewed about one-third of these grantees and found that their experiences varied considerably. The results of the participation of the interviews for this report are summarized in the table below, which "quantifies" participation in NVN's three phases. While representatives of many organizations attend the free introductory workshops, only a

small proportion of that group applies for a predevelopment grant. Seedco further refines the pool through its selection process for predevelopment grants.

Partial results of Seedco support	Grantee agencies
Business plan resulted in tabling or re-evaluating nonprofit enterprise concept	Gay Men’s Health Crisis Eckerd Youth Alternatives
Business plan supported or kicked off a pilot	Groundwork Project Reach Youth Neighborhood Coalition for Shelter CityKids Foundation
Business plan supported expanding or updating an existing social purpose business	Harlem Textile Works Brooklyn Children’s Museum Brooklyn Woods Recycle a Bicycle CDC of Tampa

Assessment of NVN must take into account Seedco’s wide-open door to Phase I activities and its willingness to work in Phase II with promising organizations that lack experience in business ventures. This approach might be contrasted, for example, with the work of the Roberts Enterprise Development Fund (REDF), which prefers to systematically identify and support nonprofits that are *already operating* social purpose enterprises to create jobs for disadvantaged people. REDF finds it more productive to support agencies that have already learned, to some degree, how to launch a business. They have found it very hard to show results from investments in agencies that are “thinking about” social enterprise, some abandoning ideas that were not solid and others going on to look for seed funding.

The Baltimore Community Wealth Collaborative—a partnership of several funders, the University of Baltimore, and Community Wealth Ventures—has a model similar to NVN’s, but eligibility is stricter. Applicants must either currently be operating business venture or have completed “considerable” research toward developing a business, have strong boards of directors, and be willing to take risks.

Lessons for the Field

While long-term results are not yet known, the relatively brief NVN experience to date contains not only several positive results for the nonprofit participants, but some valuable lessons for Seedco as the field matures.

Three NVN funders were interviewed for this report to assess their understanding of, and continued interest in, nonprofit business ventures. Each was aware of and motivated by examples of nonprofit organizations that had successfully developed businesses and, in so doing, created consistent revenue streams for ongoing work. They saw investments in nonprofit business ventures as an opportunity to leverage their grant dollars in the hope that a modest investment in the

creation of a nonprofit business venture might produce many times that amount in eventual support for activities related to the nonprofit's mission.

All three NVN funders were enthusiastic about social purpose businesses, but also well informed and realistic about the high degree of difficulty involved in developing, launching, and maintaining these ventures. They understand that this effort will not result in a home run each time. They note that small *for-profit* businesses also frequently fail and see their investment in NVN as not only promoting nonprofit business ventures, but also *learning about* nonprofit business ventures.

This learning occurs at several levels. For the individual nonprofit, funders see the value of NVN activities as capacity building—providing information and discipline that will be useful in the short run even if a venture is not attempted or is not successful. In addition, they recognize the immaturity of the field and hope that NVN's experience will help to bring added clarity to some of the tough questions: At what stage are nonprofits ready for a venture? Are there certain types of nonprofits and/or ventures that have a higher success rate than others? As one funder noted, "We are hoping to learn more about what works, what doesn't, and what could be done better."

While not necessarily new observations, the following summary of the NVN experience to date suggests several important issues for the field:

Nonprofit ventures can be a valuable adjunct to the operation and financing of a successful nonprofit.

Examples of nonprofit ventures are becoming common in the field and are a credit to the courage and ingenuity of the staff and boards of those organizations. Among NVN grantees, as well, there are inspiring stories of hybrid organizations that are, indeed, "doing well and doing good." Getting the word out about these projects, and particularly about the difficulties entailed in launching and operating a profit making or revenue generating business, is an important contribution to the field.

Social purpose businesses are not for everyone.

Social purpose businesses are difficult to plan and implement and may not be suited for all nonprofits. For some nonprofits, a business venture simply does not fit in terms of style, interest, and capacity. Particularly in a time of limited resources, there is a danger that nonprofit business ventures will too often be seen as feasible and "the hype" will lead organizations and their funders down difficult and unrewarding paths.

By helping a wide range of nonprofits make an informed decision about these ventures, NVN's training and capacity building efforts provide a valuable service, even for those organizations that do not launch nonprofit businesses. For all the nonprofits in NVN, whether they start a business or not, the value of learning about financing, cost accounting, marketing, planning, and tracking outcomes is incalculable.

Nonprofits need a threshold level of capacity to participate successfully in a business venture, and structured capacity building efforts can help.

Not all nonprofits have what it takes to successfully create a business venture. Very few nonprofits came to NVN with the experience and skills needed to launch and operate a business. Clearly, many were struggling to meet the challenges of their current operations and saw NVN as a way to gain revenue and get out from under their many difficulties. Many did not realize, initially, how hard-earned those revenues would be.

There was a remarkably wide range of experience and capacity noted in the NVN process, and it was a challenge to tailor workshops and materials across such a broad audience. Some participants, highly experienced in budgeting, finance and entrepreneurship, including those with experience in social purpose businesses, found the Phase I sessions somewhat rudimentary. For others, even basic business concepts were a revelation.

NVN is also about a network of nonprofits learning together. The hope in creating the network was that learning would be shared, peers would be helpful to each other, and group learning would be a more cost-effective and streamlined modality than individual consultation/training. Networks also allow participants to learn from their more experienced peers, rather than from academics or consultants.

To a large extent, NVN achieved these aims, as one participant suggested: “The shared experiences of the other grantees in the cohort were great, as well as the session with previous grantees who shared their experience.” However, differences in the skill level and authority of the participants and their varying circumstances and interests, as well as participant turnover, limited the usefulness of the networks for many. While useful, group learning in workshops and in networks was generally seen as having more limited benefit to participants than one-on-one customized technical assistance and coaching.

Many NVN participants valued most the advice and counsel of veteran practitioners with specific knowledge and experience. They appreciated having access to someone who could advise them on how to stock the shelves, keep inventory, price products, and the like, particularly those who could speak of these issues from long first-hand experience. A “real life entrepreneur” with both nonprofit and business experience, in a one-on-one, tailored relationship, was seen as the ideal guide to participants. Grants from Seedco in Phase II were used to hire business-planning consultants; grantees also worked with MBA students from business schools including those of New York University, Columbia, and the University of South Florida.

It takes time.

For some NVN participants, a social purpose business venture was initially seen as a way to generate revenue to offset program and operating costs. They quickly learned that working toward the creation of a business venture demands a great deal of time and energy and may distract from other critical work.

Compounding the time constraints was the limited capacity of smaller nonprofits. In some instances the business development person attending NVN sessions was also the CEO, CFO, and everything else at the agency. Another difficulty was staff turnover; many primary NVN participants were no longer with the agency by the end of the program. Adequate time for the NVN participants to bring their continual learning back to key staff and board members was hard to come by in busy nonprofits.

Participation in NVN helped nonprofits realistically consider the costs and the potential benefits and to make an informed decision about going forward.

Capacity building and business incubation must be balanced.

Some nonprofit leaders entered NVN with a single goal in mind: to start or expand a revenue generating business, as quickly and directly as possible. Others, on a different schedule and with a different set of priorities, sought not only to launch a business but to build their organization's capacity more generally; these people were pleased to focus on budgeting, finance, marketing, and entrepreneurship. Some likened NVN to a mini-MBA; for those who sought to build capacity, this was a plus. For those more narrowly focused on getting a business in place, conceptual learning sometimes seemed to be a time-consuming tangent.











Certainly, a single program can encompass both nonprofit capacity building and assistance in launching social purpose business ventures, and NVN has done so. While either goal is worthy, NVN's experience points to the importance of clear communications and expectations and of the need to balance these goals. As NVN has evolved, it has gradually tipped toward a more explicit capacity building focus, with the launching of a social purpose business venture only one of several possible successful outcomes.

The definition of program purpose(s) drives much of the design of the program itself. If, for example, launching businesses were the sole goal, and the only factor in judging the program's success, then it would be wise to very carefully select participants who have the resources, track record, capacities and circumstances likely to produce business success.

Seedco and NVN's funders have recognized, on the other hand, that the development of nonprofit business ventures, if measured *only* by the number of businesses created and profits produced, is a very high-risk investment. With a broader view, however, encompassing general learning and capacity building as legitimate outcomes along with business startups, multiple benefits can be seen as stemming from this work.

The experiences of nonprofits that have attempted or succeeded in launching a business venture, as documented in case studies and anecdotal reports, highlight "tensions" that must be creatively managed if the venture is to succeed. In some cases, these tensions have led to abandonment of a business idea or substantial redesign of the concept. Commonly described tensions are illustrated in the chart on the following page.

Tensions on Nonprofit Ventures

Primary focus on mission and charitable purpose		Need to focus on income generation and respond to market forces
Culture of slow decision making through multiple layers, including the board		Need for quick decision making in a business venture
Pressure to apply financial resources to direct services benefiting clients		Need to invest in infrastructure, such as information systems and financial software to manage business
Desire for quick unrestricted funds to benefit bottom line of parent organization		Time needed for business maturation and importance of investing income back into the venture
Limited tolerance for risk based solely on experience in traditional fundraising (e.g., special events, proposal writing, donor cultivation)		Need to develop higher tolerance for risk in nonprofit ventures
Expectation of ability to launch business after planning a successful pilot		Inability to launch because of lack of financing
Desire to support clients in the workforce who have multiple barriers to competitive employment		Need to manage labor costs, including staff time, to insure sustainability or profitability
History of lower salary scale than for-profit employers and no bonuses		Possible need to pay business management staff at a higher scale and include incentives to reward productivity
Costs of sustaining nonprofit venture		Benefits in terms of clients served, jobs created, or community benefit
Failure seen as a personal tragedy		Failure seen as a learning experience

IV. NVN Participant Snapshots and Observations

The following brief portraits of the experiences of several nonprofits in NVN describe the range of outcomes achieved through the program. Following each snapshot is a list of factors contributing to their successes, general benefits to the community where the ventures were successful, and challenges. These observations are compiled in Appendix C, Observations about Nonprofit Ventures.

Recycle a Bicycle

Recycle a Bicycle is a New York, New York-based nonprofit focused on job training and environmental education for disadvantaged youth ages 12 to 21. Bicycles are removed from the waste stream, rebuilt by young people in the training program, and sold in two retail outlets operated by the agency. Recycle a Bicycle was a social purpose business from its inception in 1997. In 2003 retail sales provided over 80 percent of program costs.

As a participant in NVN, Recycle a Bicycle created a business plan for expansion that would make the major goals of its five-year strategic plan operational. The comprehensive business plan is featured in the Seedco publication *A Toolkit for Developing a Social Purpose Business*, and was submitted to the Yale-Goldman Sachs National Business Plan Competition for Nonprofit Organizations.

NVN and contacts with other grantees also connected Recycle a Bicycle to potential funders and with the Lawyers Alliance of New York (LANY), which specializes in nonprofit issues. The NVN business plan consultant became a new board member. The Executive Director says she got a “mini MBA” through the process. Recycle a Bicycle is currently looking for suitable commercial warehouse space that will support critical business expansion.

Factors that contributed to the success of Recycle a Bicycle:

- An earned income component was built into the organization’s structure from its inception.
- The organization has an entrepreneurial culture, as well as maturity, stability, and fiscal health.
- The organization has a specific asset, skill, or product—in this case, bicycles—that can be leveraged to create revenue, as opposed to attempting to start a venture totally unrelated to the organization’s experiences or strengths.

General benefits to the community as a whole resulting from Recycle a Bicycle program:

- Youth were given an opportunity to engage in meaningful activity and improve their social and vocational skills.
- Nonprofits that experience success with a venture tend to expand or launch additional businesses, increasing capacity to employ community members, serve clients, and generate revenue.

Some challenges faced by Recycle a Bicycle:

- The business has a great need for space to warehouse inventory necessary for expansion; this is costly in New York City, where real estate and rental costs are exceptionally high.
- General economic climate can inhibit plans to transition clients to competitive employment.

Project Reach Youth

Project Reach Youth is a Brooklyn, New York-based nonprofit focused on education, counseling, and life preparation to support low-income youth, adults, and families. It has offered an array of youth development, immigrant, and literacy programs since 1968. In the fall of 2000 Project Reach Youth initiated *Project Venture*, a 14-week culinary arts training and career development program, with potential for expansion into a social purpose business. A pilot for expanding Project Venture into commercial catering had already begun before Project Reach Youth participated in the Nonprofit Venture Network. The vision was for *Venture Catering* to grow into a business serving area residents and nonprofits with locally produced, moderately priced, high-quality, professionally delivered food products.

Through its participation in NVN, Project Reach Youth completed a feasibility study, a business plan, and a marketing strategy for Project Venture expansion and obtained pro bono graphic design services to complete the package.

The *Venture Catering* pilot is currently operating out of several rented kitchens and looking for permanent space at a reasonable cost to save time, allow for storage of food and supplies, and make business expansion possible.

Through NVN, Project Reach Youth was able to position itself more favorably with potential funders, who now see the program as capable, taking initiative, and willing to take calculated risks. A staff person close to the project stated that without NVN's help, *Venture Catering* would still be operating out of the agency location, unaware of the legal liability and serving only a small group of friends of the agency. Project Reach Youth was one of 20 finalists, selected from 445 submissions, in the 2004 Yale-Goldman Sachs National Business Plan Competition for Nonprofit Organizations.

Some of the factors that benefited Project Reach Youth in its work toward starting a nonprofit venture included:

- The leadership, board, and entire organization are strongly committed to investing the necessary staff, time, and financial resources to support the venture, including business planning and market research.
- All players in the venture took the time to achieve clarity about the primary (career training) and secondary (offer catering to the local community) goals of the venture.
- All legal issues that could possibly have an impact on the venture were resolved prior to the launch.

General benefits resulting from Project Reach Youth:

- Youth were given an opportunity to engage in meaningful activity and improve their social and vocational skills.
- The necessary improvements in management and financial infrastructure, as well as increased skills in business management, required by the venture benefited the parent nonprofit as a whole.

Gay Men’s Health Crisis

Gay Men’s Health Crisis (GMHC) is a New York City-based nonprofit focused on reducing the spread of HIV disease, helping people with HIV maintain and improve their health and independence, and keeping the prevention, treatment, and cure of HIV an urgent national and local priority.

Through its participation in the Nonprofit Venture Network, GMHC explored the feasibility of expanding an internal, free food service (now limited to staff and clients) into a retail business serving the greater community. This food business had the potential to provide volunteer, training, and employment opportunities for agency clients. The original business idea was abandoned after market analysis and income projections revealed inadequate kitchen capacity and insufficient income to support a manager. In addition, the agency learned of lease restrictions prohibiting retail food establishments within its building.

Gay Men’s Health Crisis plans to use what was learned through NVN to explore other, better-aligned, social purpose business ideas. The group has learned to apply more “testing parameters” early on in the process of evaluating business ventures to avoid going too far down an ill-advised path. In the words of a staff person directly involved, “Seedco’s Nonprofit Venture Network provided a safe, artificial environment to seriously explore a business idea.”

GMHC’s experience demonstrates that:

- a valuable asset and an exciting business idea that fits within the mission of the organization cannot necessarily overcome the lack of a viable market.

Harlem Textile Works

Harlem Textile Works is a New York City based nonprofit focused on providing employment training for Black and Latino youth ages 14 to 20 through internships in the textile and fashion fields. The agency serves individuals, businesses, and nonprofits with design and textile printing services. Interns work alongside senior artists and learn about surface design, custom screen-printing, sales, and merchandising. Harlem Textile Works has been a social purpose business from its inception in 1994, generating revenue to support about 25 percent of program costs. There are plans to expand the business to cater to the upscale home furnishings market.

Through its participation in the Nonprofit Venture Network, Harlem Textile Works was able to complete a feasibility study and update the marketing and business plans to support expansion, as well as investigate sources of working capital.

Harlem Textile Works will expand to a retail storefront and is seeking financing to support an expansion. Through NVN, Harlem Textile Works was able to move forward in expanding the business, target issues for resolution, and identify potential sources of financial support.

Some challenges faced by Harlem Textile Works:

- If the parent nonprofit experiences instability, change in leadership, or a financial crisis, the venture may also be negatively impacted.
- There is limited access to startup capital for launching a venture after the business planning, market research, and pilot phases. Many sources of funding, such as families, friends, and traditional lending institutions, are unavailable.

The Brooklyn Children's Museum

The Brooklyn Children's Museum is a Brooklyn, New York-based nonprofit and the first museum devoted to school-aged children in the world. The museum operates a program called "Museum Team," a free year-round program that welcomes children after school, on weekends, on school holidays, and during the summer. The majority of these young people are from surrounding low-income neighborhoods. Museum staff realized that graduates of Museum Team who are not planning to attend college could benefit from an employment and training opportunity within the museum. This idea became the stimulus for creating "KidShop," a social purpose business which would offer visitors educational toys, books, and souvenirs related to museum exhibits.

The Brooklyn Children's Museum is recovering from cuts in its funding from the City of New York; therefore, the timeline for the venture has been extended. An ambitious capital campaign, which will double the size of the museum, is also underway, and renovations will provide the necessary space for KidShop.

Through Seedco's Nonprofit Venture Network, the Museum learned "what is involved in launching a nonprofit venture and how the venture would fit with the museum's mission." Staff were very pleased with the final business plan and the special retail expertise they were able to garner through their NVN consultant.

Factors that can be expected to contribute to the success of the KidShop:

- The parent organization has a critical level of capacity in terms of stability and the size of staff and budget.
- There is a strong commitment from the leadership, board, and entire organization to invest the necessary staff, time, and financial resources to support the nonprofit venture, including business planning and market research.
- There is access to business expertise through the board, an advisory committee, new staff, and/or consultants.

General benefits of the KidShop venture:

- The venture would require a new type of job that requires “hybrid” skills, leading to movement of for-profit employees into the nonprofit world and an influx of new talent.

Potential challenges to KidShop:

- If the parent nonprofit experiences instability, change in leadership, or a financial crisis, the venture may also be negatively impacted.

V. Conclusion

The Nonprofit Venture Network is a young initiative. It would be premature for Seedco to declare the conclusions set forth in this report final. Rather, the goal of this report has been to compile observations and best practices—not all entirely new—for practitioners and observers in the field.

As a leader in building the capacity of nonprofit organizations and small businesses through a wide variety of programs and initiatives, Seedco looks to the future as a continued testing ground for bringing the principles and best practices outlined here to bear on the decisions, actions, and outcomes of the organizations it assists with nonprofit ventures.

We look forward to contributing further observations and conclusions as both NVN and the field mature.

Appendix A: Methodology

To learn more about the benefits and impact of the Nonprofit Venture Network and how it interfaces with the larger world of social entrepreneurship, the Cornerstone Consulting Group conducted interviews with participants in every part of the field:

- Seedco management staff and staff involved in NVN implementation
- one-third of former NVN grantees
- consultants used by grantees
- funders
- other organizations promoting social entrepreneurship

This Appendix contains a list of organizations and individuals interviewed. Cornerstone staff also conducted a general literature review, attended an expert panel moderated by the Partnership on Nonprofit Ventures, attended NVN's MetLife Introductory Workshop Series in New York City, and reviewed Nonprofit Venture Network documents.

Seedco's staff, grantees, affiliated consultants, and others in the nonprofit business field gave generously of their time and were candid in their responses as this report was developed. We appreciate and acknowledge their contribution to this interesting work.

Interview Participants

Note: Listings reflect individuals' titles at time of interview.

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Nonprofit Venture Network Grantees

(continued)

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(continued next page)

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(continued)

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Appendix B: Resources

Among the organizations that provide training and information to the nonprofit venture field, the following are prominent.

- *Community Wealth Ventures*, a for-profit subsidiary of Share Our Strength, is a consulting and research firm that promotes nonprofit business ventures through work with nonprofit organizations and corporate partners. It maintains a “Social Enterprise Directory” (in partnership with Social Enterprise Alliance).
www.communitywealth.com

- *Partnership on Nonprofit Ventures*, a project of the Yale School of Management and the Goldman Sachs Foundation, educates nonprofits about nonprofit enterprise, conducts research in social entrepreneurship, and operates an online resource center to share information about the field. Through the annual National Business Plan competition, the Partnership encourages the development of nonprofit business plans and provides substantial grants and technical assistance to implement the winning plans. Access to partnership resources is limited to members.
www.ventures.yale.edu

- *Social Enterprise Alliance* is a membership organization of nonprofits, funders, consultants, and others working to promote nonprofit business ventures through networking, training, and other resources. The Alliance sponsors several annual events for nonprofits interested in business ventures, including a large national conference “The Gathering.” A lexicon, a “Social Enterprise Directory” (in partnership with Community Wealth Ventures), a listserv, and other resources are available on their Web site.
www.se-alliance.org

- *National Center on Nonprofit Enterprise* helps managers and leaders of nonprofit organizations make wise economic decisions in order to ensure that their organizations best serve their members, clients, donors and the general public by pursuing their social missions efficiently and effectively. Research institutes, university centers and schools, and other knowledge-based resource organizations work collaboratively with NCNE to disseminate and apply their research on economic decision-making issues affecting nonprofit organizations.
www.nationalcne.org

The principal publications on nonprofit ventures include:

- *New Social Entrepreneurs: The Success, Challenge, and Lessons of Nonprofit Enterprise Creation*, a report on the state of the developing field of nonprofit business ventures during the first half of the 1990s, published by the Roberts Foundation in 1996.
www.redf.org
- *The Venture Fund Initiative: An Assessment of Current Opportunities for Social Purpose Business Development and Recommendations for Advancing the Field*, an examination of social enterprise activities and barriers to expansion in six cities, published by the Venture Fund Initiative in 1998.
www.redf.org
- *Powering Social Change – Lessons on Community Wealth Generation for Nonprofit Sustainability*, a review based on consulting experiences with over fifty nonprofits over five years, published by Community Wealth Ventures in 2002.
www.communitywealth.com
- *Profiting from Purpose: Profiles of Success and Challenge in Eight Social Purpose Businesses* is the companion to this publication. It includes eight the history and context, business strategy and structure, operations, outcomes, and lessons learned of eight nonprofits that launched social purpose businesses with assistance from NVN. The report was published by Seedco in January 2005 with support from the MetLife Foundation.
www.seedco.org/publications
- *A Toolkit for Developing a Social Purpose Business Plan*, a comprehensive “how-to” designed for nonprofit organizations considering starting a revenue-generating activity or a business venture. Through the use of a real life business plan, the Toolkit provides a tutorial for decision making and planning, augmented by a resource guide, worksheets, and electronic financial templates. Published by Seedco, with support from the Mizuho USA Foundation, in 2004 and available for sale at conferences and through Seedco’s Web site.
www.seedco.org/nvn
- *Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector*, a report of the results of a survey completed by 519 nonprofit organizations, 217 of which were operating a revenue-generating business, published by the Partnership on Nonprofit Ventures in 2002.
www.ventures.yale.edu/factsfigures.asp

Appendix C: Observations about Nonprofit Ventures

From a combination of surveys, case studies, presentations, and publications from academia, funders, and practicing nonprofits, a body of information about social entrepreneurship is available to inform the field. The table below summarizes the observations shared in the literature, organized into factors that support success, broad benefits of growth in the nonprofit venture field, and challenges to business sustainability.

Observations about Nonprofit Ventures	
Factors that increase nonprofit venture success	<p>The parent organization has a critical level of capacity in terms of stability and the size of staff and budget. (However, organizations with small staffs have had success when these nonprofits were engaged in a business from their inception, and several had been spun-off from other, larger agencies.)</p> <p>An earned income component has been built into the nonprofit organization's structure from its inception.</p> <p>There is an entrepreneurial culture in the parent organization, as well as maturity, stability, and fiscal health.</p> <p>There is a strong commitment from the leadership, board, and entire organization to invest the necessary staff, time, and financial resources to support the nonprofit venture, including business planning and market research.</p> <p>The parent nonprofit has a specific asset, skill, or product that can be leveraged to create revenue, as opposed to attempting to start a venture totally unrelated to the organization's experiences or strengths.</p> <p>There is access to business expertise through the board, an advisory committee, new staff, and/or consultants.</p> <p>There is clarity about the primary and secondary goals of the nonprofit venture.</p> <p>There is a demonstrated need or desire in the community for the service or product to be provided by the venture and the ability to pay for it.</p> <p>Businesses with the aim of improving job skills are teaching skills that are transferable to the area job market.</p>

Observations about Nonprofit Ventures	
<p>Factors that increase nonprofit venture success <i>(continued)</i></p>	<p>All possible legal issues that could impact the venture have been resolved to the extent possible.</p> <p>There is financing available for start-up, once a feasible plan or pilot has been completed.</p> <p>There is adequate cash flow to support start-up and operation.</p>
<p>Benefits of the growth in nonprofit ventures</p>	<p>The field created a new type of job that requires “hybrid” skills, leading to movement of for-profit employees into the nonprofit world and an influx of new talent.</p> <p>The necessary improvements in management and financial infrastructure, as well as increased skills in business management, required by a venture benefit the parent nonprofit as a whole.</p> <p>Especially for employment programs, the community as a whole benefits when chronically unemployed residents have an opportunity to engage in meaningful activity and improve their social and vocational skills.</p> <p>Nonprofit ventures can be scaled to fit a broad range of goals, from modest income to substantial income, and can be considered by many organizations rather than limited to a few.</p> <p>Nonprofits that experience success with a nonprofit venture tend to launch additional businesses, increasing their ability to service clients and generate revenue.</p>
<p>Challenges to nonprofit venture sustainability</p>	<p>The parent nonprofit’s management may lack the experience and skills to determine the feasibility of a business, to support its development, or to assess profit margin or return on investment.</p> <p>If the parent nonprofit experiences instability, change in leadership, or a financial crisis, the venture may also be negatively impacted.</p> <p>Over-dependence on consultants may not sufficiently build internal capacity, and turnover in staff who are skilled or have received substantial training in venture management can be devastating.</p>

Observations about Nonprofit Ventures	
Challenges to nonprofit venture sustainability <i>(continued)</i>	<p>Necessary legal expertise in business structure and taxation may be unavailable or unaffordable for the parent nonprofit.</p> <p>Foundations have limited knowledge and experience that can be applied to adequately supporting nonprofit ventures, and they have been reluctant to provide long-term financial support.</p> <p>There is limited access to start-up capital for launching a venture after the business planning, market research, and pilot phases. Many sources of funding, such as families, friends, and traditional lending institutions, are unavailable.</p> <p>Some cities are highly regulated or have expensive real estate/rental costs.</p> <p>If the nonprofit venture is focused on job creation, the general economic climate may inhibit plans to transition clients to competitive employment.</p>

ABOUT THE NONPROFIT VENTURE NETWORK

The Nonprofit Venture Network (NVN) provides assistance to community-based nonprofits launching or expanding social purpose businesses. Social purpose businesses use market-based solutions to further a nonprofit organization's mission, generate income, and address social needs. Since the program's inception in 2001, Seedco has provided technical assistance to more than 250 organizations in New York City, Tampa Bay, and Boston, and is working intensively with more than 40 of these organizations to establish or grow social purpose businesses. NVN offers a package of financial and technical assistance services and low-cost financing delivered in three phases: Learning, Planning, and Implementing. Currently funded by the MetLife Foundation, United Way of Massachusetts Bay, and the Mizuho USA and Ford Foundations, NVN also has been the recipient of support from United Way of New York City and the Eckerd Family Foundation.

ABOUT SEEDCO

Seedco, a national community development operating intermediary, creates opportunities for low-wage workers and their families by engaging with community partners and anchor institutions to develop, operate and learn from model programs of national significance that: 1) help people join the workforce and achieve economic self-sufficiency, 2) assist small businesses, and 3) promote asset building for residents and businesses in economically distressed communities. Seedco's technical and financial assistance complements the model programs and strives to build the capacity of community partners and small businesses through the introduction of sound, outcome-based management practices.

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