

## TAKE FIVE NONPROFIT CONFERENCE FALL 2024 VIDEO TRANSCRIPT

It's my pleasure to have this opportunity to speak to you about a topic that I've been involved with for over 30 years. Social enterprise in the nonprofit sector. I'm Cindy Cheatham, president of good advisors. I focus on strategy and impact with nonprofits and social purpose organizations.

I had a background also working with high tech entrepreneurs for 10 years prior to focus on nonprofits. So the intersection of the marketplace, business practices and social good is near and dear to my heart, and I look forward to sharing with you what I have learned and having some questions at the end.

So the agenda today: we're going to start out with just what is social enterprise. There's a lot of words thrown out there and its role in strategic impact. Because that's what we're aiming for. We're going to discuss nonprofit business models and how this fits in key success factors. The that social enterprise is not without its risk.

What the financing are. Options are available to nonprofits particularly related to social enterprise trends in the sector. I'll share with you a success story of a scaled social enterprise and some resources. And then we'll conclude with some Q. And A.

So what is social enterprise?

Social enterprise is a term that spans different types of organizations, from nonprofits to for profits. And increasingly, there's new structures being created to embed social enterprise. But the consistent definition of social enterprises independent of which sector they're in is that they're focused on solving social and or environmental problems. First, they prioritize purpose over profit.

A portion of the income is earned through the marketplace. They reinvest the majority of the surplus towards its purpose. And then, finally, as we discussed legal structures and find financing that lock in purpose.

Social enterprise is not necessarily a new thing. It is an emerging field and a new term, but historically, and I'm background in Us. History, the Us. Institutions, universities, hospitals, so many of the institutions started out as volunteer organizations that then have morphed over time. Some of them still remain nonprofits. So it's been around income generation has been around.

What's new is just that the models of typically particularly charitable nonprofits are difficult.

And also there's a lot of enterprising people that want to use their marketplace skills to create different models. And so that that integration between nonprofit and the for-profit space has come together to form this new area. And there's a lot of innovation that came from across the world, not just in the Us. In fact, the term social business was first introduced by the Nobel laureate, Muhammad Yunus, based out of India, and a lot of the movement and inspiration which included micro enterprise and other models over in India, kind of got, studied and inspired some of the movement here in the in the Us. And in Europe.

The field of business school started to adopt the term social enterprise and social innovation in the eighties and nineties. In fact, when I was at Harvard Business School, it was my professor was one of the key developers of the content. The case studies the field, and it became popular and is embedded now in in most business schools fast forward to today. The World Economic Forum has taken on this space and seen it and identified it as key to the achievement of moving forward on success with the UN Sustainable Development Goals and has identified the marketplace. There's increasing study of the field and data being collected. And in fact, it's now a 3 billion dollars, 2 trillion dollars in revenue field.

This study shows that there's 10 million social enterprises. That's 3% of all businesses generates nearly 200 million jobs, and, as discussed before, one of the particular attributes of social enterprise is not just impact for the individual organization, but collectively moving forward those UN sustainable goals. And also one interesting attribute is that it has a plays, a role in bridging the gender gap and the diversity of leadership gap with one of 2 social enterprises, one run by women versus one in 5, typically in other types of organizations.

shifting gears. Why is this space even interesting and important to a nonprofit. We're going to drill down primarily on the nonprofit social enterprise. Well, of course, nonprofits want to have the greatest impact, and they also need to run a successful sustainable organization. So those 2 things, hand in hand, have driven the movement.

So the key benefits are one in being able to access revenue and profit that can frequently fuel provides more predictability and can access new capital can help help, help, speed and scale an organization, and it can be more predictable. 2. And being higher speed and scale, you can have greater impact.

The diversification of income streams from just the charitable, charitable world, and all the ups and downs and also the intensity of securing charitable money increases nonprofit sustainability, which is a real issue. A majority of nonprofits say that they really the vast majority of nonprofits say that they struggle with sustainability, and then the other benefit is that marketplace discipline, that in attracting the type of leader that is able to go out there and put together a business plan and compete and also have that discipline of having to, you know, market products and services and look at how to grow them. It creates other benefits in terms of the workplace, and a lot of nonprofits don't really value marketing. And so it really puts a lot of focus on Brand and the talent associated with it.

We talked earlier about nonprofit and for-profit and other models. I think it's important just to spend a little time looking at this. Typically, there has been perceived a dichotomy between nonprofits being purely charitable and dependent on donations and grants and for profits maximizing profit. And even though some of them claim that they want to do social good, they're socially responsible businesses that's been around for a long time. Legally, shareholders can demand that you maximize profit for shareholders. So that is the dichotomy. Now, social enterprise in this space is I said. It's been around for a while, but it hasn't. The movement hasn't been around. The idea of truly blending going after social good and including environmental. Increasingly, as so many people are, passionate about climate change and the future of our world. The blend of profit and mission is as turned into a movement and really started to attract a different type of entrepreneur. They're not solely coming from the for-profit space, but a lot of them. Sometimes they do bring that, bring that discipline, and bring that interest in in blending the marketplace with the social cause.

So I'm a strategist. and I had the benefit of working with Bain and Company as a strategist, which is a premier strategy, consulting Firm, and also the former managing partner of Bain and Company, founded a nonprofit consultancy called Bridgepan, and as part of the Bridgepan model, I was part of looking at just the discipline of nonprofit strategy. And I think this is really a powerful discipline that is important for the context of should you do social enterprise, does it fit with your overall organization strategy and your intended impact. So how do you think about a nonprofit strategy? One is, you just start with, what are we trying to achieve? What?

What is the impact? What are we trying to accomplish? Who do we want to accomplish that with what is our target audience that we're trying to make a difference or our ultimate impact. And then then from that, you then decide, how do we make that impact? That's called theory of change, for profits have profit and loss nonprofits. Their ultimate aim is impact.

And then a logic model or a theory of change. For how to do that. That's the discipline of nonprofit versus the discipline of P. And L. That and that a for-profit has. It's hard for a lot of nonprofits to do that, because they don't have necessarily a lot of resources to go out there and measure and do surveys and do longitudinal studies. But it's a discipline. And sometimes that's not very well known, especially by board members and people from the from the private sector, and the best foundations require this discipline, and ask for what your theory of change is.

So that's important. And then from there you design your programs and services and who your target audience is. And then you have to figure out the right organization with systems, asset structure. And then the economics. Now, where does this fit into social enterprise? It fits in because there's social enterprises that are core to the mission and the intended impact.

And then there's social enterprise, income generation that's not. And so, since organizations only have so much time and energy and assets. It's important that you think about where the opportunity lies and understand your organization and its assets. So that's an introductory. Now talking about going back a minute economics. Typically that's where we're trying to solve the challenge of business models through social enterprise to create a better business model, a healthier 1, 1 that you can sometimes make profit to subsidize other aspects of your business and also attract capital and scale. So that's where that fits in.

There's another term that I think is important for people to understand, especially if you're not again in the sector, is nonprofits have what's called a business model.

There's a great book called Nonprofit Sustainability, that addresses this aspect of business. Model business models are how an organization funds itself. So that's like the economics of understanding. And you've got to be strategic about a business model that's going to work for your type of cause and your type of mission.

Certain missions are better suited to certain types of income streams than others. So a lot of times, people say, well, we just need to diversify our revenue. Well, that's true and not true, because it's true what the evidence is for the largest scale nonprofits. They have one predominant model. and frequently a second or a 3rd that helps address other aspects and provides different type of income stream. But they don't try to do 5 different ways of raising money. And if they do, they typically have one that's predominant.

So nonprofit models are difficult. That's why we're looking at social enterprise. How can we create a better, stronger, more sustainable, scalable nonprofit. And so it's important just to have the strategic context when you're looking at social enterprises. Because if you're not focused on you want to first focus on what is my strategy? Who? Who is our audience? What are we trying to achieve? What are the products and services? And then and then what's the opportunity for income?

And if you get too distracted and just chase income outside of the context, it can really put your organization at great risk. So again, just a little bit more about nonprofit business models and earned revenue. About half of nonprofit revenue typically is earned.

And that's not. Those are not always considered social enterprises, because, you know, schools, hospitals, daycares and whatnot. They've been around. They've been charging fees for years and years and years. Technically, you could say they have some social enterprise. But again, social enterprises a lot of times do really focus on it and establish it as kind of a startup operation or something new and different. But it's just important to realize that, you know, over time. Revenue has always been a thing. A lot of it is government earned, which is not always the same as the discipline of a marketplace. So you earn income, you have to deliver service, but as long as it's decent. You get that income stream. Social enterprise tends to be going out there and being a bit more in a marketplace where they're targeting beneficiaries or consumers as opposed to government, but that that is an income stream that's out there in nonprofits. So not to be confused with other types of income streams related nonprofits can earn both related revenue which is related to their mission. Nonprofits are given their 501 c. 3. Status for a designated purpose that has to be focused on community good. So that that is where it's okay to earn income. It's also okay to get some unrelated earned income, but generally nonprofits. Try to keep it what's called ubi at 20% or less, and there's strategies for not paying taxes. If you earn enough on that, and you don't have a way to allocate cost to keep the profit down. You are subject to having to potentially pay taxes on your ubi that's called unrelated business income.

Now we talked again about strategy and sort of how mission and profitability go hand in hand. Everybody's seen a good 2 by 2 before, when you're looking at mission and money together. That's the best way to look at a nonprofit's overall activity. Set and enterprise and figure out.

I always recommend this as a business planning tool, a strategic planning tool. It's really typically very helpful for board members, especially to come alongside their staff to map out their core activities, their core programs, and ideally, to have the discipline of looking at program level or major activity, level profitability. So that requires you to have financial allocation of overhead, direct and indirect cost

to attribute where your different key programs and major activities, major activity can be just a major event that takes an inordinate amount of time. And yes, you make money, but you should look at what it's costing you to do that. So this is helpful when you think about looking at your overall strategy and businesses, and then where some of your money makers might reside in the ideal world. Of course you want to have

moneymakers that are also high mission. So you want to be in this top right quadrant. If you're low mission and low profitability in this bottom left quadrant, then that really is distracting and important to see if you are holding on to some sacred cow activities or events that need to be sunsetted.

This is an example from an improv theater that I worked with, using this tool as they were a pretty income generating theater. A lot of theaters are. There is some Grant money out there, and whatnot, but a lot of them have to earn their way. But nonetheless, this theater had a lot of different types of activities, and what they really wanted to do more of was their scripted work.

Scripted work down here in the bottom right corner was high, is considered very high mission, but it was low money. and they saw that as a core activity that was essential to their mission and very motivating to their team.

When they look at that compared to classes and gigs that are also high mission and high money, then 2 and 2 you can put together. If we want to grow our scripted, then if we grow our gigs and classes and its profitability that can help fund more scripted work. So that's how you look at this together. You looked at look at your mission activities that might be losing money on a matrix, and then activities that are still high mission and high money.

You can see that big and fast is high money, but it's lower on the mission so potentially something to look at? Can we either make that more profitable? Or should we consider dropping that investing more of our time and energy into gigs and classes.

So some nonprofits are not very well suited to income generation. For a lot of reasons. I worked with a grief organization for kids. and grief can be an overwhelming thing when you lose a parent or you lose a sibling. And they really felt like it was super important to keep their programs free. Yet they were trying to figure out how to find income streams that could help them grow exponentially. Because, unfortunately, there's so many more kids than who they were serving in their intensive in their intensive member model. But it's just. It's not well suited to all nonprofits for a variety of reasons, including the fact that it complicates the work. If you're not, if you don't have a natural income stream from your model, certain types of activities like employment, where there's donated goods that you can sell are just more well suited to income generation.

So that's just important to know is that social enterprise is really not applicable to every, or it's not very strategic for a good number of nonprofits, particularly based on who they're serving and what type of model they have. Nonetheless, there's a lot that are well suited. So what I'm going to do is just talk through the core types of models of income generation and an example.

One of the most common and most well-known and utilize is basically the sliding fee model where profits from a full a more full paying group. and how it is at least covering more overhead, are used to subsidize the service for an underserved. So you have people that can afford to pay more who want to come there, and others that can't so much so it helps is a good example. Here in town. The Gwinnett Health clinic has a sliding fee scale, and that allows them to serve their community of a diverse community and subsidize those who cannot afford as much. They think it's important that everybody pays something, though, as opposed to being a full, free clinic.

Second model is fee for service. Beneficiaries pay directly for the goods or services when I was at the Georgia Center for nonprofits. That's a pure 501c3, I ran the Georgia Center for Nonprofits. Consulting services. We marketed and sold our consulting services to nonprofits and foundations, and we charge for those services and made a profit that could then cover other areas of activity, and it was considered core. We had to be careful not to get too pricey, because there is a marketplace of for-profit consultants, of which I'm currently as an independent consultant. I'm a for-profit consultant in the space so, and I sometimes compete now against Georgia Center for Nonprofits. Consulting services since I was there 10 years ago. Nonetheless, it is considered, you know, related. And so that's an example of going out there and selling to nonprofits, strategy, board development training and such.

Another model is an employment and skills training model. That's a 3rd model where organizations are trying to employ those who are perhaps difficult to employ need supports in order to be successful, to get an income and to have the worth of a job we're going to talk about in detail the model later, of First Step Staffing, who basically created an employment agency to employ formerly homeless and hard to employ leaders and got fees for service from that employment, just like an employment agency, would take a share of the fees from the employee. That was their model is their model.

So there's a couple other models. So bear with me on this, because I think it's important to understand the context that these are the typical models, and it doesn't fit for every nonprofit market intermediary, low income artist, seeking a marketplace.

It's not very efficient for them. Yes, there's now, Etsy, and there's marketplaces out there. But with support and guidance and more hands-on focus on low income artists, nonprofits, selling on creating a marketplace on behalf of low income artists as an example and serve as a large nonprofit doing that.

A market connector: social enterprise facilitates trade relationships between beneficiaries and new markets. So nonprofit incubators or CDFIs are helping disadvantaged people build businesses and gain skills, and how to and even relationships to customers on behalf of their audience. Here in Atlanta there's a nonprofit that is working with refugees to help them build businesses and they're supporting them through entrepreneurial training and relationships, mentorships and such. So that's an example of a market connector independent support.

The social enterprise is delivering a product or service to an external market that's separate from the beneficiary. A good example is just any organization that's selling clothes or books in order to generate income for their core services. Like here in town, we have must ministries that runs, runs, stores, and that income that net income is then able to be used for the core. Must ministries, activities finally, cooperative, a for-profit or nonprofit that is owned by its members, who also uses its services, and it can apply to many different types of goods or services.

So I know that's a lot. But I wanted you to have this as a leave behind, as you, as you both get educated about this market. And you think about the type of model that you not just your strategy. But what type of model are you engaged in? And is it well suited for social enterprise and income generation?

Now we're going to shift gears and talk about there are a lot of challenges. There's an opportunity. But there are a lot of challenges. Increasingly, as I have seen over the years, a lot of efforts by nonprofits to just say, Hey, shouldn't we just start a business to try to generate income?

I've seen a lot of them fail frankly and really be distracting. So it's not for the faint of heart. A lot of the ones that are successful, not surprisingly like anything else, have really entrepreneurial talent, good business planning, and marketing skill set, and they're also ideally lined up with great board members who really understand how to support and build a successful enterprise. So the leadership is hugely important.

The other thing, of course, is to really look at your just like a business would. Where should we grow? What, what new income streams are there? What are your capabilities and assets that you can leverage? Who are your customers? Do we have another opportunity to go after the same customer for a different, more profitable product? Or are we going to have to build a whole market to go after, or a new capability. Anytime you're building on your current and leveraging your current capabilities and assets is a good thing targeting and secure aligned supporters and investors who understand that, especially if you're launching something that it takes startup capital and may take a couple years to start to demonstrate success, and also that especially if you're competing in a marketplace. Or there's technology involved.

You're going to need some, some updating of that product or service or the infrastructure, the technology, the website so investors, and including your board and your staff that understand? You don't just build it once, and it flies. It is a business enterprise that needs to be nurtured and invested in on an ongoing basis, and the marketplace can change so, and then finally, a good nonprofit in general is good at partnering with businesses and other organizations to access their capabilities, their talents, their resources, and I see good social enterprises a lot of times having a very good way of partnering with businesses to access, customers, marketing resources, and other assets to help them be able to have a more cost, effective way to reach people and to keep their costs down so they can indeed make a profit. So partnering is important.

I talked about leadership before there's I spent 10 years at Georgia Tech's incubator, and we always talked about leadership, of course, and that was something that was essential. Yes, a good business plan, a good product, but I always found that that a leader, a good leader, can also frequently pivot to discover and enhance a product versus the other way around. If you don't have the strong leadership, it's hard to be successful.

There's a lot of commonality among the successful for-profit entrepreneurs who yes, they're taking risk, but they're very good at mitigating risk. They're very pragmatic and risk--able to navigate risk. They are curious; of course, they're resourceful in how they are able to secure resources, use resources, be smart and efficient. They're adaptable. You're going to be told. Know a lot. You have to be flexible and adaptable. They are good at collaborating and open to that. They're persistent, of course. And you know, it's interesting how this may sound surprising. But I was sitting down with a nonprofit leader the other day, and he was talking about losing some income and how they're the cheapest on one of the fees they charge to their to their customers. This is a nonprofit, and he felt badly about the. He felt good about being the cheapest, and I get that you know it ultimately.



But ultimately I encouraged him to think about what's the opportunity to position, to raise that fee and invest in the future of the organization, and to also make sure those people know that you're not just a business taking their money you're doing. You're doing community good. You're able to by the fees that we generate, we're able to serve these many kids and this much social impact here in town, we have open hand that has good measure meals, and they go to do a good job of saying for every good measure meal, which is a meal targeted to general consumers, but with the same healthy focus. That their core nonprofit mission has, they say, for every for profit meal that you pay for, you're helping fund to 2 of our open hand meals. So that's a way that they market the social cause.

Where can we get money to fund our social enterprises?

Well, in general, you know. Of course, you always have the way that you can raise money from individual donors, from foundations and grants and such. But social enterprise, when you put together a plan and a pitch, and and you can make you can make a case and be able to secure grants from savvy foundations for the launch development and even planning of a social enterprise. Here in town there was a refugee organization that applied to a major donor in order to look at developing a business to help refugees with their visa and their citizenship.

And they were interested in funding that specifically so just like a general program, you can put a grant out there and savvy foundations will see that as a fundable opportunity, individual donors who like to leverage their dollars, knowing that if \$1 goes in that it's going to lead to greater dollars of impact from their from their from their leverage.

There's also a unique type of financing available to social enterprises, that where they have the opportunity to make a profit or to make income, and it typically is organizations like housing, community economic development, we talked about employment. So there's something called PRI financing that private foundations can use their dollars that are mission aligned to provide loan, capital, debt, equity, and in turn. They can make a little bit of return, or they can recycle that money as opposed to that money, just going out the door and being used one time. So I think about 5% of foundation funding is used toward PRI financing. It's not simple. So I recommend, if you look at that that you get savvy about? Who are the who are the ones doing that? And what are? What are the types of investments that are able to receive PRI financing.

There's also social impact funds that have been established, including one here in Atlanta not long ago through our community foundation, seeking a modest return. Sometimes they can invest in both nonprofits and for profits, but they tend to go out there to toward investor type people and say, instead of just making a grant and writing checks. How about we raise a fund like you would for private equity or for a startup?

You know, early stage investment funds. So, seizing the opportunity and the knowledge of those investors, how about we start a fund? So we can grow affordable housing in Atlanta, or we can grow innovative schools, whatever it is. But typically though those funds would go toward investments where there is an opportunity for a modest return, or at least covering your costs.

Finally, there's crowdsourcing. We all know that crowdsourcing can happen on behalf of individuals. It can be happen on behalf of projects, and it can be utilized by nonprofits for their social enterprise.

What are the trends in nonprofit? There's a number of trends that we talked about. One is that again, this space is still developing and evolving. But it's relatively new in terms of the metrics and the data around it. So, continuing to enhance the field of social enterprise.

At schools and business associations and incubators there is a growth of incubators and targeting leaders that have innovative ideas and offering mentorship and frequently facilitating investors and capital along with those incubators, just like there are for pure, for profits and startups. So some of them are even mixing between social innovators and for-profit innovators.

New financing models are growing, including social impact funds. That's a trend that seems to be continuing for profits are partnering with nonprofits and vice versa. And then I would say that there, there seems to be a continued growth of for profit, social good models and impact investing where we're not. That's not our primary aim today. But there are new models that have been around B Corp models, beneficiary organizations, and others that seem to be getting even more traction. I think some of the entrepreneurial generation is cause oriented, and they're seeing it. And it's become trendy.

And again, there's nonprofit social enterprise, and there's for profit. And I see the growth of the for-profit continuing to grow and impact of investing along with it.

So there's an ecosystem in the entrepreneurial world. And there's an ecosystem in the nonprofit world. But there's increasingly an ecosystem of support of leaders, investors, mentors. Talent that revolve around the social enterprise innovation system. I just thought I'd share with you a little bit of my experience with that evolution. About 10 plus years ago none of this existed.

So this is relatively new where the field again and the movement continues to grow. And so here in Atlanta, I got to work on the plan and the strategic plan for the Georgia Social Impact Collaborative which was founded of investors and some foundations and other social entrepreneurs who wanted to say, Hey, let's create a movement and organization that can bring all these different types of entities together so that we can build some synergies. We can make connections, we can see where we can collaborate. So we can move this this movement forward and hand in hand with the Georgia Social Impact collaborative which was supported by our local community foundation. For Greater Atlanta was the launch of a Go Atlanta fund, which was an impact investing fund which is seeking modest returns and nonprofits and for-profits who invests in things like safe and healthy housing, new schools and underserved areas, as well as more equitable access to living wage careers. So that was also established in the last 5 plus years.

There's also the establishment of the center for civic innovation which people concerned with democracy in America. And what? Where are we with civics? What are the innovations and the enterprises that can help support us, coming together on the common square, and educating, bringing people together across diverse sectors. So center for civic innovation is a place where people gather, but also they support ideas that scale. For example, they were the how they house the 48 by 48, which was a just an innovation around pulling a community together to build websites for nonprofits.

There's an impact summit where people from all over the world went in March of 2024 in The Hague, focused on nonprofit social innovators, funders. The whole community. So there's conferences and such. There's business associations. I will share that one of the most predominant largest national funder of social enterprise and impact investing is the MacArthur Foundation and benefit. Chicago is an interesting model focused in Chicago that is, bringing together a lot of savvy investors to try to improve a low income, low opportunity community through strategic investment and impact investing. So that's a social enterprise.

So that's an example of how this ecosystem has evolved. I would encourage you wherever you reside, to see if you have some ecosystem, or if you're motivated to see more of it, to look at some of these models.

Now, I'm going to share a success story of one of my favorite successful scaled social enterprises that I had the pleasure to see get off the ground early when the founder founded it. He had.

He had been successful with a for profit. Startup sold it, and went to Africa, trying to figure out how he could make a difference in the world. And what am I going to do next? And then he came back and people challenged him. Well, why can't you do something here in America? And so he did, and he looked around and tried to figure out what his passions were, and he was, you know, disturbed by all these people who faced barriers to employment, who were homeless and saw that also. There's a lack of that. It's challenging for a lot of service businesses to get employees to show up dependently. And so he brought those 2 things together, the opportunity in the marketplace, with the challenge, and the barriers of the homeless, and people that are faced barriers to employment, like people who were formerly in prison and founded a nonprofit employment agency whose mission was to help them get employment. They also offer them supports and access to disability and income and other things and take them, take them to their provider, to their employer through transporting them to have a reliable workforce, which is a challenge for the businesses. So there was a there was a problem on the business side of employment. There was a problem and a barrier for the unemployed. And so, bringing those 2 together, he founded First Step Staffing.

He grew it through a more marketplace strategy of securing money so that he could purchase a for-profit agency and retain those jobs to bring those to First Step Staffing, and he had 60% success in his retention, when he moved from Atlanta to Philadelphia. His organization is now has is on its second set of leadership. So it's been successful in moving from a founder with this founding savvy board to multiple leaders and is now expanding in locations there in Atlanta, Augusta, Nashville, Orlando, and 2 in California. So this is an example of a relatively recent large social enterprise. They were able to raise 6.3 million public private funding to expand to Philadelphia.

And that's just an example. And there's a case study that you can see. That is in my resources that we'll talk about later. They had a number of large foundations, but they also had the city of Philadelphia come in as a Funder. So as an example, the impact in Atlanta alone. First Step Staffing was their ability to primarily through earned income. That doesn't preclude them from still getting some charitable income, because it's hard to fully cover all the investments they were able to secure. 11.0 7 million of total payroll, employ over 2,000 people, 1649 of which were homeless, provide rides and returning citizens.

So that's pretty exciting, of course, another very common social enterprise that you all can keep in mind is goodwill. But again goodwill was started a long time ago, so they're not necessarily always top of mind with social enterprise, but their predominant model is income generation from securing donated goods and then selling them in their store. It also happens to be core to their business, because they are also very much in the business of employing the underemployed. And they have a lot of employees working in those stores. So it's a double bottom line win.

So finally, we're going to talk about resources. There's a number of resources out there. You could. You could search all day. But I did want to introduce you to the fact that there are a lot of different. There are some legal issues related to social enterprise, and what you can and cannot do, and pros and cons of models. And so UNC School of law has a good overview of that I alluded earlier to funding models and business models. There's a good article called 10 Nonprofit Funding Models that if you don't know what your business funding model is for your nonprofit, I would encourage you to get savvy about that. And look at the core strategy of what you're currently doing and what's well suited to your type of nonprofit. There are examples greater details on the examples I earlier showed about the 7 different types of social enterprise models. And then you can access the full case study.

## Q&A SESSION

Dylan Romans: Thank you. Cindy

Dylan Romans: got a few questions here the first one being.

Dylan Romans: how's my nonprofit? Identify a social enterprise opportunity that can fit well with my organization?

Cindy Cheatham: That's a great question. It's

Cindy Cheatham: If we call the strategy slide.

Cindy Cheatham: you really need to just start by understanding your core mission and who you're serving your capabilities and opportunities to leverage those capabilities

Cindy Cheatham: in a way that doesn't, doesn't take you off your focus. So you know, as we just talked about earlier goodwill.

Cindy Cheatham: What is in the business of helping generate, helping individuals get employment, get ready for employment, and they integrated employment into their business model of stores. So kind of anytime you can find an opportunity

Cindy Cheatham: another example is a food delivery food service organization to seniors that leverages a kitchen

Cindy Cheatham: and the kitchen staff, and all that capital expense to then create meals, good measure, meals, which is an open hand enterprise. So just in business. You look at shared costs, shared customers, and shared capabilities. So try to use that framework as much as possible, and then obviously look at models.

Cindy Cheatham: Many organizations can create these models like a goodwill. But it's become increasingly competitive to have more of these stores out there. So even there, not everybody can do it as well as goodwill.

Dylan Romans: Right.

Dylan Romans: Thanks.



Dylan Romans: Another one here that we have is, how's going after resources to support a social enterprise? How's that different? How does that differ

Dylan Romans: than going after like a grant or donation.

Dylan Romans: and.

Cindy Cheatham: This is, you're making a case for support. Right? You have to, you know, sell your overall mission a lot of times. Sometimes it's program related grants. And so, of course, you have to package up your program. So it's not altogether different. What I would say is that the most sophisticated investors that are going to step up

Cindy Cheatham: to fund to more adequately fund a new enterprise or a social enterprise will.

Cindy Cheatham: We'll be looking for more of a business plan in the in the ideal world. You have it so that you're more likely to be successful. So probably just more.

Cindy Cheatham: you know, more business planning more. A nonprofit ideally does that every day. But we know that sometimes it's you know you do your best, and you don't have all the management resources to create business plans for all your programs and services. So I would say that that's the difference is, especially if you want to go after an existing funder and get extra money, you know, in the case of one of my clients

Cindy Cheatham: they were funded by a foundation, and they wanted to add this extra income, generating

Cindy Cheatham: activity for their core clients.

Cindy Cheatham: And so they were able to dig into a different pocket by

Cindy Cheatham: by, you know, making a business case and not having to, not having to say Well, it's either one or the other

Cindy Cheatham: that makes sense

Cindy Cheatham: right.

Dylan Romans: Yeah, absolutely

Dylan Romans: alright. So can I have a for profit nonprofit associated together in social enterprise. I know I have a few clients that have created like a C. Corp subsidiary recently. But just want to get your thoughts on that.

Cindy Cheatham: Absolutely. You know, it's interesting. As I was looking at some of the social enterprises that exist, that I'm that I've been a part of

Cindy Cheatham: a couple of them

Cindy Cheatham: started their social enterprises by purchasing a for-profit and then integrating it as a subsidiary of their organization. So and that's that was the example. First Step Staffing as they're growing. They're going. They're growing to a new community, and they'll buy a for-profit employment agency and then just try to

Cindy Cheatham: turn those clients retain those clients. So yes, and then there are for profits sometimes that

Cindy Cheatham: want to do social good. But you know they have investors, or they. They just feel like they. They owe it to their employees to mostly keep.

Cindy Cheatham: keep the profit and reinvest in their organization, and so they'll sometimes start their own nonprofit foundation or subsidiary. So there's it can go either way, and then there can be hybrids.

Dylan Romans: Great thanks. So what would you say? Are the biggest downsides to pursuing a social enterprise?

Cindy Cheatham: Oh.

Cindy Cheatham: time distraction risk.

Cindy Cheatham: you know. The, I think maybe 4 out of 5 businesses fail within 5 years, you know, and when you do have generally a healthier capitalization structure out there for gear, it up for profits, loans that you know, a whole entrepreneurial network. So it's definitely

Cindy Cheatham: you know, risky.

Cindy Cheatham: but nonetheless, for the right model for the right organization, where they've done their due diligence, they've vetted it, or they've had some track record a lot of times. Sometimes it just happens because you already are endeavoring in that direction. And you see success and see demand. And you know that there's a marketplace.

Cindy Cheatham: So yeah, I would just say that there's a lot of risk. There's distraction. There's just very little. There's always inadequate time for nonprofits to run their business from A, you know, for profits are given 30 to 40% investment in management. Nonprofits are asked to do it on 10% or 20%.

Cindy Cheatham: So you're already a little bit short staffed in terms of the management and leadership side of of planning, administering, and marketing.

Dylan Romans: Okay?

Dylan Romans: So what are the financial implications of earning income and key things to consider when it comes to managing your financials or taxes or things of that nature.

Cindy Cheatham: Yeah, well, you're probably the expert there.

Cindy Cheatham: I mean, I do know that. Of course you have

Cindy Cheatham: related income. You know where it's core to your mission. And any good nonprofit should try to do activity based costing to the extent that they can allocate their costs appropriately to their programs and services. That mission versus money chart that I had is an important one, as you're thinking about

Cindy Cheatham: just your existing activities being able to say, okay, if I've got this facility that's costing me a lot, I've got this marketing person have some methods for looking at, just, you know, profit and loss, direct and indirect costs. But then,

Cindy Cheatham: you know, if it's

Cindy Cheatham: unrelated business income, you've got to be careful. I know that I know one nonprofit that I'm a part of rents out our parking lot.

Cindy Cheatham: and we rented out to a theater.

Cindy Cheatham: But I think we're able to. Technically, it's not really related necessarily to our mission, although we love that people come to our church and get, you know, just hopefully find it to be a attractive church, and maybe some of them will come, but we are able to allocate

Cindy Cheatham: allocate costs. So it's not really profitable, you know. So I know there's strategies, strategies, and tools that a good CPA. A good tax attorney and others can help you look at. Generally, I think that the rule is to try to stay below 20 or 25% unrelated business income.

Dylan Romans: Yeah, yeah, I know I have several clients that that's where that they create that C corporation subsidiary. For that exact reason they knew they were going to be generating income.

Dylan Romans: And rather than try to mess with the 20% of getting your ubi.

Dylan Romans: they said, Hey, we're just gonna treat this as taxable income pay tax on it, and not muddy up the waters between those.

Cindy Cheatham: Right? Yeah, it's cleaner that way.

Dylan Romans: Absolutely

Dylan Romans: alright. So where can I learn more about social enterprise?

Cindy Cheatham: Yeah. Well, first of all, you came here today. So congratulations. There's the Social Enterprise Alliance, the National Association for Nonprofit that does focus a lot on nonprofits that you can be a member of. There are chapters of the Social Enterprise Alliance. I don't know if they're not that prominent, but I know that you can participate as a member with your peers. There's conferences, of course. There's the resources that I pointed us to in

Cindy Cheatham: you know that I assume you can get a copy of this presentation and go to those resources, whether they be legal, financial. And then.

Cindy Cheatham: like I said earlier. Look at your ecosystem, and you know a lot of times, some of these social enterprise activities. Do you know your local goodwill obviously is present in many communities. And then there's nonprofit associations. In some communities that are, you know. I know that Georgia Center for nonprofits produced reports and

Cindy Cheatham: was involved in social enterprise, including running Georgia Center for nonprofits, runs some social enterprises called opportunity knocks as a job board and such. So just, you know. And then the entrepreneurial community in your world. So and most people, most people have fields that they participate in. So if you're in a human service field or others. You know, I would look for field examples

Cindy Cheatham: in similar spaces that have been successful. So as another way to just vet opportunities. And you don't have to invent something from scratch. There's a lot of learning that can take place.

Cindy Cheatham: But you know, before you decide to invest.

Dylan Romans: Great. I think that's the end of our questions. For now, just wanna thank you for your time again. It's great presentation. So we really appreciate it.

Cindy Cheatham: Thank you. Thank you. Everybody enjoyed it. Good luck!