



Financing Social Enterprise

HBS Business Plan Contest & Social Enterprise Club

Michael Chu – February 16, 2004

Social Enterprise

An enterprise that has **social impact** as a principal component of its activity

- Non-Profit
- For-Profit
- Public Sector

Social Enterprise

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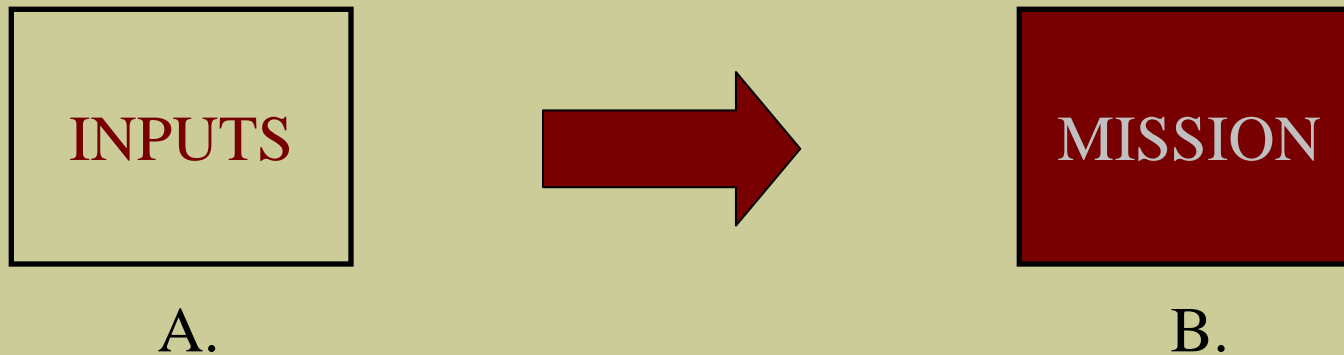
- Non-Profit
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MISSION

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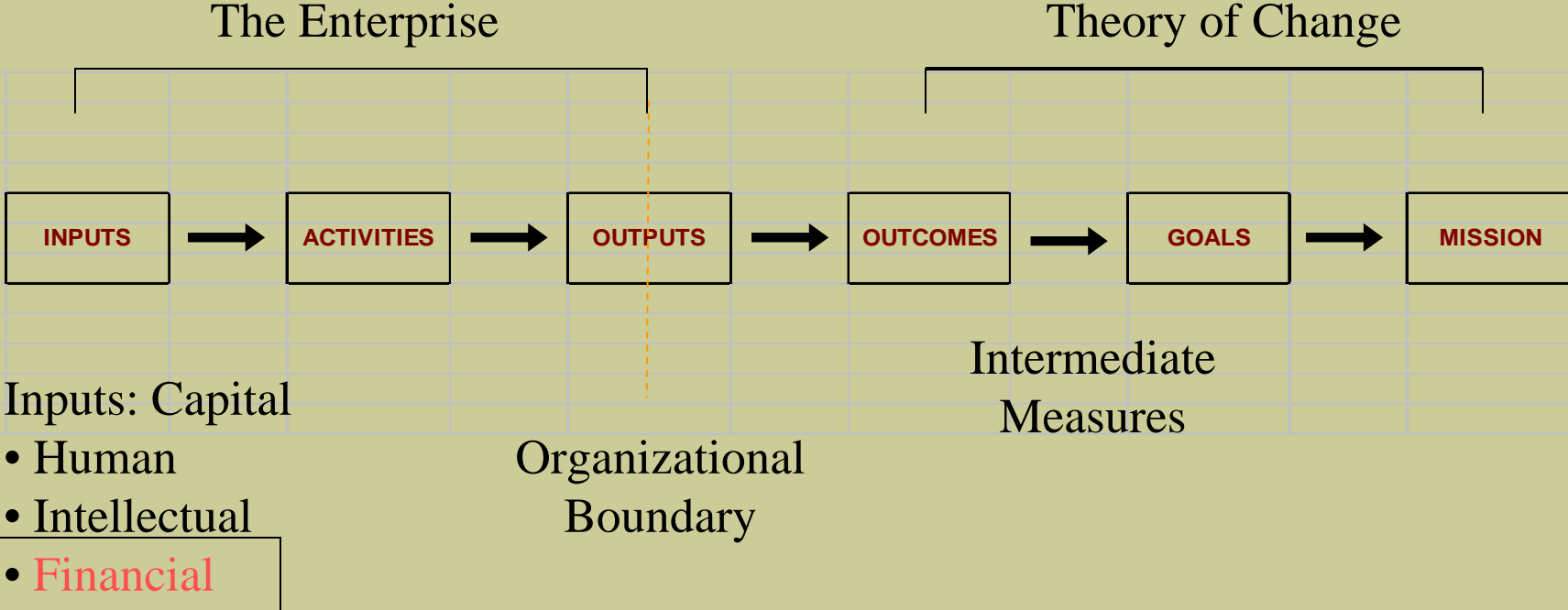
Fix a
Problem in
Society

What is a Business Plan?



How to get from A to B

The Full Business Plan



The Financial Model of a SE

All social enterprises have financial statements:

- Statement of Income
- Balance Sheet
- Cash Flow

...whether non-profit or for-profit.

All have **expenses**

All have the same basic financial questions:

- How do I fund start-up? ➡ Proof of concept
- How do I fund growth? ➡ Scale
- How do I fund sustainability? ➡ Survival / time

Who should be Non-Profit or For-Profit?

FINANCIAL PROFILE*	CHOICE OF S.E.
<ul style="list-style-type: none">• Little or no revenues from activities = Revenue < Costs• Earned income, but Total Revenues < Costs	Non-Profit <u>Model:</u> Social Value > Economic Value
<ul style="list-style-type: none">• Earned income > Costs	For-Profit <u>Model:</u> Economic Value >= Social Value

* Ultimate steady state of the Social Enterprise:

Financing Sources: The Non-Profit SE

Organization Stage	Sources	Comments
<ul style="list-style-type: none"> • Start-up • Growth • Sustaining 	<ul style="list-style-type: none"> • Philanthropy • PRIs (Foundations) • Government • U.S. and/or International Agencies • Contributions • Fees for service 	<ul style="list-style-type: none"> • Sustainability: key • Surpluses: +++ • Caveat: Earned income: Tail wag the dog? • Caveat: SE capital markets \neq financial capital markets

Financing Sources: The For-Profit SE – Market Model

Business Characteristics	Organizational Stages	Traditional Capital Sources
<ul style="list-style-type: none">• Capable of Market Rate of Return (ROS, ROA, ROE)• Liquidity Event possible	<ul style="list-style-type: none">• Start-up• Growth• Sustaining	<ul style="list-style-type: none">• Angels• Venture Capital• Private Equity• Capital Markets

Examples: Princeton Review, Edison

Financing Sources: For-Profit SE – Non-Market Model

Business Characteristics	Organizational Stages	Traditional Capital Sources
<ul style="list-style-type: none">• Below Market Rate of Return (ROS, ROA, ROE)• Unproven Financial Model• Liquidity Event questionable	<ul style="list-style-type: none">• Start-up• Growth• Sustaining	<ul style="list-style-type: none">• Venture Philanthropy• PRIs• Social Investors• Hybrid Funds• Community development funds

Examples of funds: New School Ventures Fund, Huron Foundation, Investors Circle

The SE Butterfly Model: From Non- to For-Profit

Example: Commercial Microfinance

Organizational Stages	Type of Organization	Financing Sources
<ul style="list-style-type: none">• Start-up	<ul style="list-style-type: none">• Non-Profit	<ul style="list-style-type: none">• Philanthropy, US & International Agencies
<ul style="list-style-type: none">• Initial Growth	<ul style="list-style-type: none">• Non-Profit \geq Break-even	<ul style="list-style-type: none">• Commercial Banks
<ul style="list-style-type: none">• Subsequent Growth	<ul style="list-style-type: none">• For-Profit	<ul style="list-style-type: none">• Capital Markets

Financial Return and Social Value

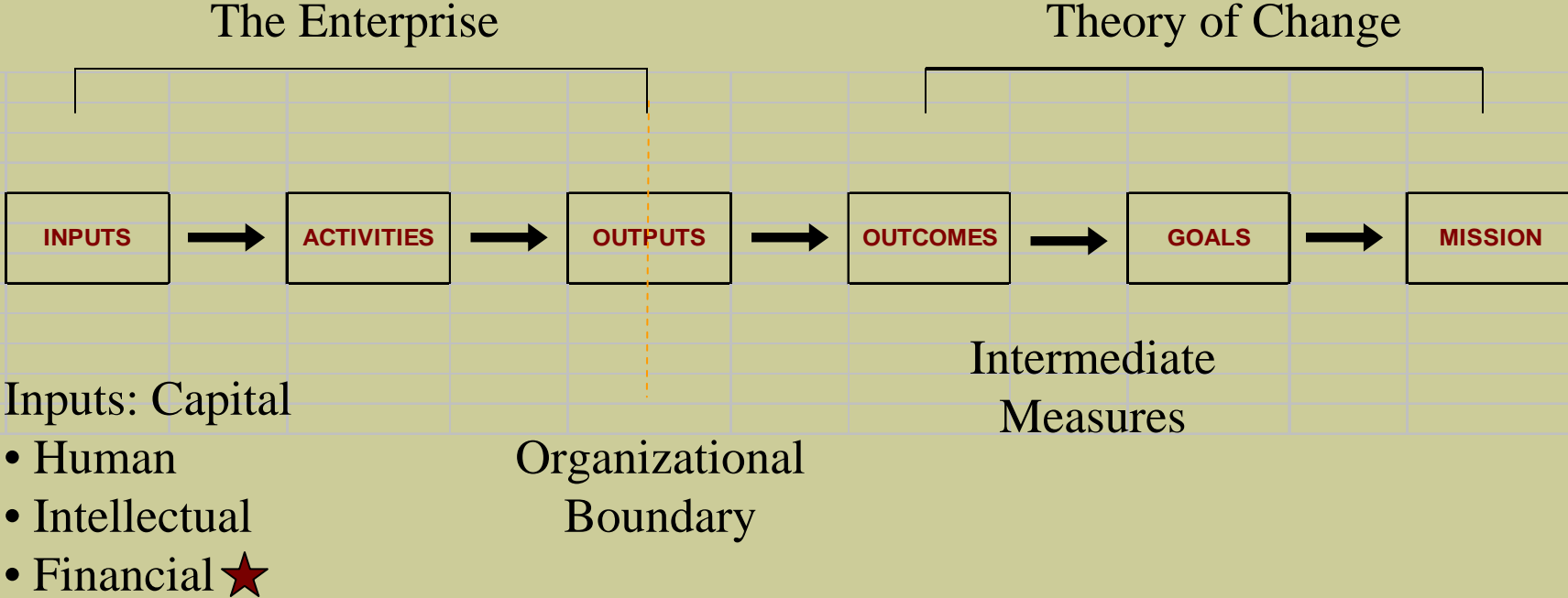
Low tension

- FR and SV creation coexist in harmony
 - College Coach
 - Modulo

High tension

- FR and SV creation in constant tension (economically, politically or both)
 - HMOs, EMOs
 - Microfinance

The Full Business Plan



Defining Social Value

Social need exists

- Size
- Importance

Theory of Change

- Cause and Effect

Mission

- Actionable
- Measurable