



Social Enterprise Start Up Financials

Prepared for:

**HBS Business Plan Competition 2009
Social Enterprise Track**

March 2, 2009

Objectives for Today

- I. Discuss the differences between a for-profit and nonprofit social enterprise
- II. Gain a sense for the nature of start-up finances
- III. Elements of a good “financing plan”
- IV. Revisit the decision regarding for-profit or nonprofit social enterprise
- V. Questions

This session is structured to be very interactive – you will receive a handout of the presentation at the end

Relevant Differences Between For-Profits and Nonprofits

	For-Profit	Nonprofit
Legal Form	<ul style="list-style-type: none"> • S-Corp, LLC, C-Corp, etc. 	<ul style="list-style-type: none"> • 501(c)(3)
Governance	<ul style="list-style-type: none"> • Board of Directors is not necessarily required 	<ul style="list-style-type: none"> • Board of Directors is required to receive status
Mission	<ul style="list-style-type: none"> • Mission is not required • "Mission" tends to be about making a profit 	<ul style="list-style-type: none"> • Mission is required to receive status • Mission always has a social purpose
Accounting	<ul style="list-style-type: none"> • Revenues = Revenues • Capital = Capital 	<ul style="list-style-type: none"> • Revenues = Revenues • "Capital" = Revenues • NO EQUITY
Ownership	<ul style="list-style-type: none"> • Owned by equity investors who expect a return on their investment 	<ul style="list-style-type: none"> • Owned by no one • No "return" expectations
Profits	<ul style="list-style-type: none"> • Can make profits and decide what to do with them 	<ul style="list-style-type: none"> • Can make profits, but they must stay within the company
Taxation	<ul style="list-style-type: none"> • Profits are taxed 	<ul style="list-style-type: none"> • Profits are not taxed • Contributions result in tax write-off for donors
Capital Sources	<ul style="list-style-type: none"> • Product/service revenues • Outside investors • Debt 	<ul style="list-style-type: none"> • Outside donors • Product/service revenues • Debt

Initial Show of Hands

Our Social Enterprise will be a For-Profit

Our Social Enterprise will be a Nonprofit

We are undecided and/or totally confused

The Decision: For-Profit or Nonprofit Social Enterprise

Why For-Profit?

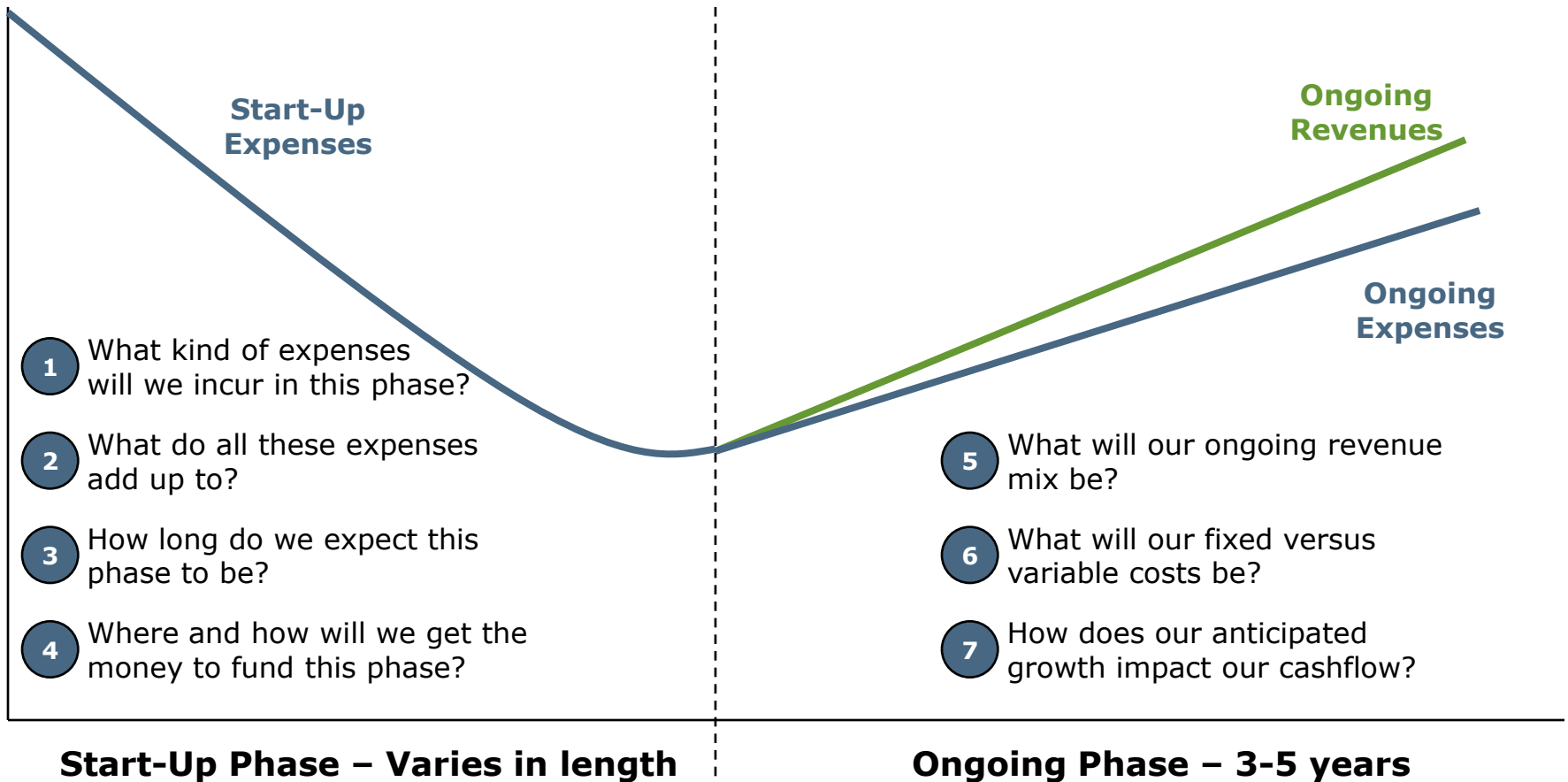
- You will have a **sustainable business model** that won't need outside subsidies once up and running
- You would like **ownership** of your business
- You need a **lot of initial start-up capital**
- You envision **rapid growth**
- You want to be able to **exit** eventually and **cash out**
- You want to be able to give your team ownership and/or **stock options**

Why Nonprofit?

- Your target population will not ever be able to afford your product and service – you need a **permanent subsidy**
- You want to build **credibility** with your target population
- You **do not want external investors** to officially own part of your company
- You know there is a **lot of grant funding** out there for your particular idea
- You just think a **for-profit feels wrong** for your particular social enterprise

There is no right or wrong answer – however this decision has enormous impact on your business model and financing plan

Questions Your Financial Plan Will Need to Address



We will go through the start-up phase related questions today – keeping the for-profit / nonprofit decision in mind

What Kind Of Expenses Will We Incur In This Phase?

For-Profit	Either	Nonprofit
<ul style="list-style-type: none"> • Pitching to investors • Testing for value 	<ul style="list-style-type: none"> • Rent • Travel • Staff costs / benefits • Fundraising • Marketing/Advertising • Material costs for proto-type • Utilities • Internet/communications • Office supplies • Legal fees to incorporate • Office equipment • Working capital 	<ul style="list-style-type: none"> • Pitching to donors • Testing for impact

Tip: Download sample budgets from the internet and see if you have included all the categories they have

What Do All These Expenses Add Up To?

Expense	Calculation
• Rent	• How much space do you need? What is the monthly cost?
• Travel	• Where will you have to go? How often? Flights, hotels, etc.
• Staff costs / benefits	• Will you hire people? What is the level, salary? Benefits?
• Fundraising	• Will you pay a grant-writer? Will you travel and pitch to VCs?
• Marketing/Advertising	• How will you create awareness? Ads? What does this cost?
• Material costs for proto-type	• What will it take to create test versions of your product?
• Utilities	• Don't forget that you can't work in the cold and dark
• Internet/communications	• Don't forget you'll need to make phone calls, be online
• Office supplies	• How much will you spend on paper, pens, etc.
• Legal fees to incorporate	• How much will it cost to incorporate? Will you need a lawyer?
• Office equipment	• How much will you spend on computers, copiers, desks, etc?
• Working Capital	• How will I bridge the gap between making a product and cash?

Tip: Once you have calculated these – take a step back – does it feel like enough? Is it so much that you won't find interested funders?

How Long Do We Expect This Phase To Be?

- This question will differ from business plan to business plan
- The most important thing is to be realistic and if anything, conservative
- Think about the following
 - How long until my product/service is developed?
 - How long until I can create awareness around my product/service?
 - How long until I see actual cash for selling my product/service?
 - How long does it take to raise capital from the sources of funding I am going after?

Tip: Remember if you have a small team, can you really develop the product, market it and fundraise all at once – use a gantt chart to map out this phase

Where And How Will We Get The Money To Fund This Phase?

For-Profit	Either	Nonprofit
<ul style="list-style-type: none"> • Do they expect equity? • What is your collateral? • Angel Investors • Venture Capital • Social Investors <ul style="list-style-type: none"> – Venture Philanthropy – PRIs • Bootstrapping <ul style="list-style-type: none"> – Your savings – Your credit cards 	<ul style="list-style-type: none"> • Friends and Family • Loans • Social investors 	<ul style="list-style-type: none"> • Do they want money back? • What is your collateral? • Foundations <ul style="list-style-type: none"> – Private – Corporate – Community • Government Funding <ul style="list-style-type: none"> – Bilateral – Multilateral • Corporate Sponsorship • Individual Fundraising • “Earned Income”

Tip: Find organizations similar to your idea and see where they are getting their money from

Where And How Will We Get The Money To Fund This Phase?

For-Profit Fundraising Considerations

Process – *how?*

- Assuming you are raising money from angel investors or venture capitalists, you will put a presentation together and hope they will let you come pitch to them
- These investors look at hundreds of ideas a month – how will yours stand-out, especially if the returns are low since you are a social enterprise?

Funding Levels – *how much?*

- Start-up capital between \$500k and \$1 million is a reasonable range
- If you ask for too little – not worth their time; if you ask for too much – too big a risk

Timing – *how long?*

- Pitching to investors and getting a “yes” can take from 6 months to over 1 year
- Also keep in mind that a “yes” will likely mean money in stages – not all you need in one lump sum upfront

Nonprofit Fundraising Considerations

Process – *how?*

- Organizations: competitive grant-writing processes
- Individuals: labor-intensive, time-intensive, expensive conversations

Funding Levels – *how much?*

- Organizations: do not expect to get more than \$500k in start-up funding total – organizations are reluctant to fund an untested idea
- Individuals: how many will you target – what will their average giving be? Don't assume you will get a lucky \$1 million check from one donor

Timing – *how long?*

- Organizations: the grant-writing cycle is always very long – it can take around 1 year from writing a first proposal to receiving any kind of cash
- Individuals: Very hard to tell – but be conservative and assume it will take time

A Good Fundraising Plan Will Be Realistic About Your Start-Up Costs, Sources and Plan

- The judges reading your business plan first and foremost want to be wowed by how your idea will tackle an important social problem
- However, no matter how ground-breaking and impactful your idea is, you will have to convince the judges that you know how much it will cost to get off the ground, and that you have a solid plan for raising this money
- You have to convincingly walk the line between conservatism and optimism in your financial plan since we all know fundraising is hard
- You should list specific funders you are going to go after and demonstrate why your plan fits into the funders' agendas
- You should keep in mind that a one-year start-up phase is likely needed at a minimum

Sample Elements of Funding Plan: For-Profit

1

Uses of Funds		Sources of Funds	
Staff Salaries	\$150,000	Management Team	\$25,000
Staff Benefits	\$30,000	Friends & Family	\$15,000
Marketing	\$160,000	Loan	\$100,000
Product Development	\$250,000	Investor A	\$250,000
Occupancy	\$60,000	Investor B	\$150,000
Working Capital	\$15,000	Investor C	\$125,000
Total	\$665,000	Total	\$665,000

2

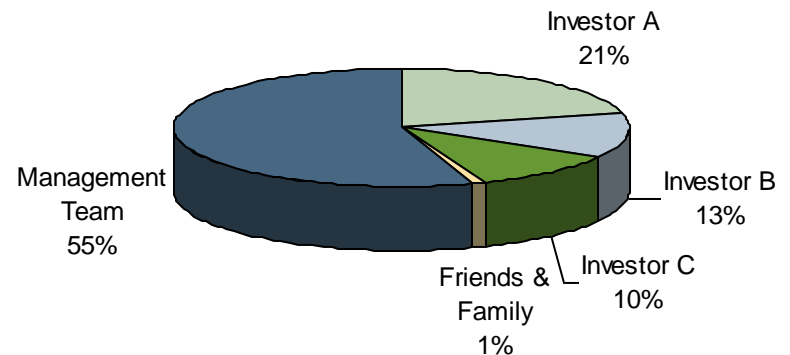
Targets

Funding Targets

Blue Moon Ventures	<i>Healthcare focus</i>
Brown Capital Partners	<i>Healthcare focus</i>
Social Investors Inc.	<i>Africa focus</i>
The Green Fund	<i>Vaccine focus</i>
Angel Partners	<i>Africa focus</i>
Boston Capital	<i>Healthcare focus</i>
Technology Ventures	<i>Biotech focus</i>

3

Ownership



Sample Elements of Funding Plan: Nonprofit

1

Uses of Funds		Sources of Funds	
Staff Salaries	\$100,000	Individual Donors	\$30,000
Staff Benefits	\$20,000	Foundation Grant A	\$60,000
Marketing	\$35,000	Foundation Grant B	\$40,000
Product Development	\$25,000	Foundation Grant C	\$35,000
Occupancy	\$25,000	Office Space Donation	\$25,000
Working Capital	\$10,000	Corporate Sponsorship	\$25,000
Total	\$215,000	Total	\$215,000

2

Targets

Foundation Targets	
Massachusetts Foundation	<i>Education focus</i>
Cambridge Bank Foundation	<i>Middle school focus</i>
Boston Community Foundation	<i>Boston focus</i>
The Start-Up Foundation	<i>Seed money focus</i>
Reebok Foundation	<i>Youth sports focus</i>
Alfred P. Sloan Foundation	<i>Education focus</i>
Susan B. Anthony Memorial Fund	<i>Girls Focus</i>

3

Donor Pyramid

Individuals		
\$5,000	2 people	\$10,000
\$2,500	2 people	\$5,000
\$1,000	5 people	\$5,000
\$500	10 people	\$5,000
\$100	20 people	\$2,000
\$50	35 people	\$1,750
\$25	50 people	\$1,250

Let's Revisit The For-Profit / Nonprofit Debate

For-profit

- Once up and running, you will have a reliable revenue stream that always covers costs
- There are traditional for-profit investors who will be interested in your idea and whose return expectations you can satisfy

Social For-profit

- You will have program revenues that don't cover costs initially, but hopefully will eventually
- You will be able to provide a modest return (2%-3%) to your investors eventually

Nonprofit

- Your program revenues, if any, will consistently be insufficient to covers your program costs
- There are philanthropic donors who will be interested in funding your idea for years to come

Discussion: Let's talk about some of your ideas and decide which model makes the most sense

Start-Up Financing Plan Checklist

- Have we captured every expense category?
- Have we remembered working capital for the ongoing phase?
- Have we budgeted enough time for the start-up phase?
- Have we designated who on the team is going to fundraise?
- Have we described how we are approaching fundraising?
- Is the required start-up capital realistic given our target funders?
- Have we listed specific target funders?
- Have we stated how our business idea fits into their agenda?
- Do we have a long enough list given low odds of getting selected?
- If we are targeting investors – how much will they own?
- If we are going after loans – what are the terms?

Resources

- Sample Social Investors
 - Calvert Foundation
 - Venture Philanthropy Partners
 - New Profit Inc.
 - New Schools Venture Fund
 - Acumen Fund

- Info on Philanthropic Funding
 - Foundation Center
 - Chronicle of Philanthropy
 - Grants.gov
 - Ashoka
 - Echoing Green

- Helpful Guides
 - <http://www.inc.com/guides/finance/20797.html>
 - http://www.managementhelp.org/np_progs/fnd_mod/fnd_raise.htm
 - <http://www.arts.state.tx.us/toolkit/fundraising/>
 - <http://www.startupnation.com/articles/1248/1/startup-costs-new-business.asp>

Questions