

# Branching out

Routes to enterprise for the  
voluntary and community sector



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Excitement, fear and doubts can all surface when contemplating branching out into unknown territory. What is it like? Is it a place I want to go to? What routes are there? How long is the journey? How can I book my ticket?

This booklet is a travel guide for voluntary and community organisations, who are seeking routes to enterprise and considering developing trading activities.

We recommend steps to take in deciding your travel arrangements, answer your questions, shatter some of the myths about your destination and include travel reports from those who have already made the journey.

Happy Travelling!

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## What is social enterprise?

When a not-for-profit organisation earns income through trading in an effective and enterprising way to help achieve its social objectives, you have social enterprise! It can be both a way of operating and a type of organisation.

Developing trading activity in stages is generally the best approach for established voluntary and community organisations. A positive attitude towards enterprise and innovation is central to successful trading, whether it is small scale or generates a significant income. Whether you regard your organisation as a charity, or as a social enterprise, is less important than whether you are achieving your aims effectively.

### **If you are enterprising you will:**

- Be innovative in the way you respond to problems.
- Seek to work effectively and in a professional way.
- Be open and responsive to change.
- Recognise the value of earned income.

### **The key elements of an organisation recognisable as a social enterprise are:**

- Has a social purpose.
- Earns significant income through trading.
- Has a business-like, entrepreneurial approach.
- Profit/surplus is used for the benefit of the organisation.



## The purpose of trading

The purpose of trading may be to:

- Generate extra income from surplus.
- Fulfil your mission.
- Provide a product or service that is needed but is not readily available.

It is important to be clear which of these are important to you as that will influence how you run the trading activity.

## Benefits of trading

Income earned through trading:

- Gives a wider financial base, reducing financial vulnerability and dependence on external funding sources, especially when a major source of funding ends.
- Is unrestricted, so it can be used for a wider range of activities.
- Makes planning for the future easier, by creating a potentially longer term funding source than short term grants offer, with the associated increased security of employment for staff.
- Gives greater independence to operate in the way that best fulfils your social purpose.
- Makes the whole organisation more responsive to client needs.
- Brings new skills, enhancing the performance of the whole organisation.

But do bear in mind that for most organisations, trading income is only one part of the funding cocktail.

## Types of trading

Trading involves earning income from the sale of services and/or goods. This will come in many different forms, including:

- Generating income from the organisation's expertise and assets (e.g. running training courses or hiring out rooms).
- Sale of donated or bought in goods.
- Sale of goods made or assembled by your beneficiaries.
- Delivery of services on behalf of local authorities.

# Stages on your journey

## 1. Do you want to travel?

**Exploring the opportunities offered by social enterprise to see if there is something in it for you**

- Start by choosing someone in the organisation to find out how trading may help your organisation and what social enterprise is all about.
- Get in touch with appropriate support and advisory organisations; your local CVS and the Herts CVS Group website [www.hertscvsgroup.org](http://www.hertscvsgroup.org) are good places to start.
- Talk to and visit other local organisations who are already earning income through trading.
- Share this new knowledge of trading and social enterprise within the organisation.
- Consider how trading could help your organisation fulfil its mission.
- Identify and assess any obstacles to going down this track.
- Invite your management committee to commit your organisation to exploring trading opportunities further.

## True or False?

**“Social enterprise seems like a risky business to me...”**

We are continually exposed to risk in whatever we do; we make constant decisions about the level of risk associated with a particular course of action.

When deciding whether to commit to new trading activity, the risks of embarking on that must be properly weighed against the alternatives, including the ‘do nothing’ option.

Charitable organisations reliant on grants expose themselves to risk, dependent perhaps on a single source of funding, often living a hand-to-mouth existence, with their vision and performance limited by short term plans.

Commitment to trading involves different risks. Some risks depend on your approach to trading and are significantly reduced by undertaking proper research and planning beforehand. Some (just like grant applications) are outside your control; for example, fluctuations in the market affecting numbers of customers.

ASCEND is a charity, set up in 1996 in South Oxhey, one of the most deprived areas in Hertfordshire. They have successfully helped many local people overcome the barriers to moving into work and learning, by providing free training, information, advice and guidance.

An injection of government money helped them to start the project and a second tranche of funding helped them develop their activities until they had 10 employees. Eighteen months ago, as the Single Regeneration Budget funding was drawing to a close, the Trustees and Project Manager, Christine Wyard, realised that they could not remain grant-dependent and survive. Together they looked at ways of

dealing with the problem. Last year, they secured contracts of £45,000, generating approximately a third of their income.

Recently, the organisation reached a crossroads as grant funding dried up, and the trustees realised that they could not sustain their previous level of activity. Determined to continue their valuable work with local residents, they made the difficult decision to cut back on jobs and services. They are now reviewing their priorities for the future, researching the current needs of their community, before deciding their strategy for the future. One thing is certain, they know earned income will be essential to secure their future.

## Earning income from contracts





## True or False?

**“I thought charities were not allowed to trade...”**

Contrary to popular understanding, it is perfectly legal for charities to trade. There are some limits however on the level and type which is permitted, which are explained in detail in Charity Commission leaflet CC35.

Charity law allows charities to exercise a trade in the course of the actual carrying out of a primary purpose of the charity. An example would be the provision of residential accommodation by a residential care charity in return for payment. There are no limits on the amount of primary trading undertaken by a charity, provided profits are applied solely for the purposes of the charity.

Trustees may also use trading activities as a way of raising money, unless prohibited by their governing document. If fundraising is the main or sole aim of such trading activities this is called “non-primary purpose trading” and there are limits on the amount of funds which can be generated this way, as shown in the table below\*.

Total of all incoming resources in a particular tax year of charity	Maximum permitted non-primary purpose trading turnover in that tax year
Under £20,000	£5,000
£20,000 to £200,000	25% of charity's total incoming resources
Over £200,000	£50,000

\* Correct at time of print – May 2006

A charity may also exercise a trade which is ancillary to the carrying out of a primary purpose of the charity. An example of an ancillary trade is the sale of food and drink in a restaurant or bar to members of an audience by a theatre charity.

Where a charity wishes to benefit substantially from permanent trading for the purpose of fundraising, trustees may need to consider creating a subsidiary trading company.

## 2. How far are you ready to go?

**Deciding how well equipped you are to start the journey and to see it through**

Start by considering the following questions:

- Are you already innovative and open to change?
- Is there enthusiasm for change?
- Can you access the resources, either from within or from elsewhere, to branch out?

Positive responses to these questions suggest that your organisation is at a good point to start exploring trading opportunities. If not, then your organisation will probably struggle to make headway earning income in this way; you may do better to explore other avenues.



### 3. Who is committed to travelling with you?

#### Agreeing to travel together and dealing with those who object to plans for enterprise

- Check out whether the management committee, including the chairperson, is willing to go in this direction; their commitment is essential for effective progress.
- Find ways of informing and consulting all stakeholders within the organisation about your plans for enterprise; their commitment may well be necessary for long-term success.
- Allow people to question. Take objections to becoming more enterprising seriously, and weigh their validity. There may be good reasons which justify not proceeding; in contrast, some objections may be based on inaccurate information or perceptions, which can be corrected.

### True or False?

**“We want to run a charity not a business...”**

It is not incompatible to be a charity and to be business-like. The key difference between a charity and a business is its purpose. One is driven by its social purpose; the other is driven by the profit motive. They both need to keep costs under control and bring in all the resources they need to deliver their services/goods. Both need to be efficient to achieve their goal. A charitable organisation which is business-like in its activities and is seen to be successful, may well find it easier to draw in funding.

## Making the most of under-used space

Watford Printers is a long established co-operative based in West Watford. Several years ago they decided to widen their sources of income by letting under-used space.

Firstly, they reorganised the layout of their printing equipment, which released space which could be let off as a shop. Secondly, they refurbished the old farmhouse which was part of their premises. They were then able to let this office space to the engineering contractors redeveloping the adjacent hospital.

The organisation is now generating income from an otherwise unused asset. They are also less reliant on income from the print business, at a challenging time for the print industry. The benefit of rental income is that it is predictable and generally reliable. The major cost may be in the initial refurbishment, but where this is grant-funded, there will be a good rate of return, as little investment of either management or money on a day-to-day basis is needed for this kind of rental arrangement.





## True or False?

**“Our beneficiaries can’t afford to pay for our services...”**

Many people reject the idea of charging for their services out of hand, because they, quite rightly, say their beneficiaries cannot afford to pay. However you may well be able to offer services or goods to others who can afford to pay them. You do not have to charge all your customers the same amount for similar services.

For example, if you are a disability support group, you may be able to earn income from providing advice or training to commercial businesses which will help them comply with the Disability Discrimination Act.

You could also consider selling goods or services to supporters of your organisation.

## 4. What are the choice of routes?

Looking at the different ideas for generating income

- Brainstorm possible ideas for earning income, without any evaluation initially of how good they are. Consider opportunities with existing and new stakeholder groups, and new and existing services/products. There are four broad options to consider, three of which offer real opportunities, but the fourth one is a danger zone, which is a no-go area for organisations with little trading experience.

<p>Develop your <b>existing</b> services for your <b>existing</b> customers</p>	<p>Develop <b>new</b> services for your <b>existing</b> customers</p>
<p>Develop your <b>existing</b> services for <b>new</b> customers</p>	<p> Develop <b>new</b> services for <b>new</b> customers</p>

- Consider what you have already that you could sell. What are the distinctive features of your organisation and its strengths? What assets could you use – visible and invisible? (people, skills, buildings, finance, specialist knowledge, track record).
- Ask who might want to buy from you. What unmet needs do your beneficiaries have? What other existing stakeholders might want to buy from you? What other groups or commercial organisations might want to buy existing or related services from you? What need is there for your services outside your normal catchment area?
- Think about what can you do better than, or differently to, others.

## 5. Which is the best route?

### Evaluating options and selecting the best

Positive answers to the following questions suggest an idea is worthy of further detailed investigation:

- Does it fit your mission?
- Is there some enthusiasm and support for it in the organisation?
- Does it make use of your strengths and assets?
- Is there a demand for it in the foreseeable future?
- Is there little evidence of competition?
- Is the potential return high enough to justify the amount of resources and effort required to get it going?
- Is it low risk? Is it easy to implement the project? Would damage to the organisation be minimal if it went wrong?

You can put scores on these criteria and total them up to see which idea is the best one to develop further.

## True or False?

### “Our existing donors and funders won’t like us trading...”

Donors and funders prefer to give to organisations with sound financial foundations, in which they have confidence. If they see that your trading activities will secure the organisation’s future, you will become a more attractive organisation to support. If trading pays for your running costs, donations and grants can be used for front-line services.

## Taking a low risk approach to trading

St Albans Council for Voluntary Service (CVS) is an umbrella organisation which provides support to local voluntary organisations and community groups. As grants for their core services have become increasingly difficult to obtain, they have looked for ways of earning income.

They started by obtaining funding from Awards for All to run an Office Services Project, buying office equipment which could be used for marketing activities – digital photocopier, colour printer, photocopier, digital camera, laptop and portable overhead projector. They wanted to get better use out of their own existing equipment i.e. laminator, scanner and display boards and to use the new range to develop

their own marketing activities and to earn income from hiring them out.

This project was an ideal, low risk way of starting trading. The CVS was able to get grant funding to pay start-up costs. They have improved the quality of their own marketing and their services to their members. Their own members have benefited directly in being able to access expensive equipment at reasonable prices.

Laura Cronshaw, the Chief Executive, is enthusiastic about the project, saying “It has been rewarding to demonstrate to groups that by working together we can make better use of available resources, as well as sustaining the service through earned income”.





## True or False?

**“We haven’t got the time or the skills to start trading...”**

It is always difficult to find the time to embark on a new long term project when you are under pressure with day-to-day activities. Just consider however how much time goes into putting together grant applications, with no certainty of success and attracting donations. It may be a good investment to spend this time in developing a trading activity which will bring in income for many years to come and which will provide services to your clients at the same time.

It is right to be cautious about developing trading without suitable skills. However you can get help from specialist community business advisors, usually free, to help you through the process. You may need to bring on board new people, or to offer training to existing personnel, to make sure you are properly equipped.

## 6. Booking the ticket

**Checking if your preferred option is viable and committing to going ahead**

Now the project leader must prepare a business plan with:

- Clear objectives for the trading project.
- Financial forecasts – the amount and source of the initial investment required; forecasts of cash flow, profit and loss, balance sheet for at least the first year and for three years for bigger projects.
- Pricing proposals, taking into account costs, customers’ willingness to pay and competitors’ prices.
- Operational plans – how the activity and its administration will be run on a day-to-day basis.
- Marketing plans – how you will promote and sell the product/ service.
- Staffing plans – the numbers, roles and costs of employees and volunteers needed.
- Contingency plans – how you will respond if problems arise.

The next step is for the management committee to consider the viability of the business plans and, if they are satisfied, to:

- Give it their approval.
- Allocate the resources needed.
- Set a timetable for implementation.
- Disseminate the plans, as necessary, through the organisation.
- Test market or pilot the project if possible.

## 7. Setting off

### Trading and monitoring progress

Once you are trading, you need to make sure that things are progressing in line with your plans and to respond accordingly. For example, if demand is double that forecast, then you may need to take action to ensure you can handle that level of extra business.

- Monitor actual performance against projections.
- Check objectives are being met.
- Take any corrective action necessary.

And when you begin to reap the rewards for your efforts, you will know all your research and preparations were worthwhile and your earned income will help to secure the future of your organisation.

## Using your skills to meet a gap in the market

The Hertfordshire Society for the Blind is a registered charity supporting people with visual impairment in Hertfordshire. They provide free support and information to them through visitors, befrienders, a telephone line, and a newsletter, and they provide equipment through their resource centre. Volunteers play an important role in providing these services.

As grant funding has become increasingly difficult to obtain, the Society has been looking for new ways of earning income to fund their core services. They looked at their activities to identify their areas of expertise, to see if any offered opportunities for earning income. One of their particular strengths is in training people to be aware of visual impairment (VI) issues, having trained many volunteers over the years. The Disability Discrimination Act has stimulated a new demand for VI awareness training within commercial organisations and the public sector.

Tony Edwards, the Chief Executive, saw how their training could be developed to meet a demand from people who would be able and willing to pay for it. He researched the market so they

could decide which particular customer group to target first and to tailor their training to meet specific customer needs.

Quality trainers are a key part of the service, so Tony is making sure all staff are equipped to a high standard, giving them extra training as necessary. He is also putting in place robust administrative, financial and marketing

systems, so they will be ready to start trading by the end of 2006/7.

Tony's top tip is "Be ready to change your approach, to really understand potential customer needs and tailor your service accordingly. What is important in the voluntary sector is not what is important in the commercial sector, but you do not need to compromise your principles".



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