Exploring the Social Enterprise Business Model: How to Write a Business Plan

by Andrew J. Germak *

Marketing plans, milestones, financial statements – core elements of business plans – are no longer just the talk of for-profit entrepreneurs. Today, many funders in the human service sector view grants as investments, which requires that human service managers develop sustainable business plans for social programs. Commonly referred to as social enterprise or social entrepreneurship, the practice of infusing business planning into the management of human service programs is a relatively new phenomenon, but has quickly become a popular practice as human service managers seek new and sustainable revenue sources for programs. This paper will introduce the concept of social enterprise as well as explain how to write a business plan that maximizes social impact. The key components of a social business plan will be discussed such that readers will have a framework from which to write a successful business plan to achieve social impact.

* Executive Director of the Institute for Families at the School of Social Work, Rutgers, The State University of New Jersey. Contact: agermak@ssw.rutgers.edu.
Introduction

Amid constrained budgets and dwindling sources of traditional revenue, social work managers and others that lead human service organizations and programs are increasingly being forced to behave in business-like ways (Germak & Singh, 2010). To be sure, foundation and individual charitable giving markedly decreased during 2008 and 2009 (Banjo, 2010) as donors evaluated where best to invest their discretionary dollars during the recent recession. Although charitable giving ticked up slightly during 2010 (Chicago Sun-Times, 2010), competition for funding by charities has remained unusually strong, which has put tremendous pressure on human service organizations to sustain their essential human services in a post-recessionary environment (Thomson, 2011).

It is clear that the game has changed in how social agencies are funded. In addition to individual donors pulling back as described above, governments are significantly cutting back support that has traditionally propelled human service organizations (Nonprofit Finance Fund, 2011; The Center for Nonprofits, 2011). Additionally, there are proposals presently being debated in the United States congress that could dampen charitable giving through capping the tax-deductibility of donations made to American charities (Germak, 2012). In light of this “new normal” economy, it is clear that a viable option for human service managers is to embrace a more entrepreneurial orientation in carrying out their missions. In turn, such an approach, if done appropriately, could provide for enhanced social justice, access to services, and equity across populations of service beneficiaries.

Indeed, many grant-making foundations that traditionally made grants to organizations year after year with little emphasis on sustainability now require that grantees develop plans to sustain programs even after the initial grant period has ended and further grant funding is not available. In fact, some funders – including foundations, government, and individuals – describe their grant making as investing in which the funder expects a social return on investment (Grace, 2002; Firstenberg, 2003; Frumkin, 2003). In some cases, funders may even require a financial return in addition to a social one, a so-called double-bottom line financing scheme. Essentially, human service managers must increasingly view their programs as social businesses in order to sustain high-quality services going forward.

A business plan is a tool with which a human service manager can demonstrate capacity for sustainable program management and therefore raise funds from investment-oriented funders. In addition, a business plan can serve as a roadmap with which the manager can launch a new social program and navigate its success based on milestones or benchmarks (Score Foundation, 2010). In an attempt to communicate this relatively new process to human service managers, the objectives of this paper are to familiarize social workers and human service managers with the concept of social enterprise, introduce the thought process behind business planning for social impact, and explain how to write an effective business plan for this purpose.

Background on Social Enterprise, Entrepreneurial Orientation, and Entrepreneurial Human Service Management

According to Germak and Singh (2010) and Germak and Robinson (2012), social enterprise (also referred to as social entrepreneurship or social innovation) is a practice in which an entrepreneur – either a traditional one or an individual that emerges from the public or nonprofit sectors – sets out to solve some social problem
by way of combining business management skills with social sector acumen to yield a sustainable enterprise that produces both financial and social returns (a so-called double-bottom line). In some cases, environmental returns may also be sought resulting in a so-called triple-bottom line. These entrepreneurs can operate alone or as part of a special project borne out of a larger organization.

There is a growing body of literature related to so-called social enterprise in the nonprofit sector, specifically in the human service arena, and organizations’ implementation of earned-income profit strategies (Anderson, Dees, & Emerson, 2002; Firstenberg, 1986; Germak & Singh, 2010; Ridley-Duff and Bull, 2011). Ironically, for human service organizations, the shift toward entrepreneurship over traditional revenue-generation models is the reactionary result of increased competition for funding and the associated budget constraints in the sector (Jaskyte, 2004) whereas, in the for-profit sector, entrepreneurship is the norm and successful entrepreneurs are often rewarded by investors that contribute capital to innovative enterprises. In other words, entrepreneurship in the for-profit sector is a proactive process in which funding often follows it. In contrast, for nonprofit or non-governmental (NGO) human service organizations, when traditional funding dries up, entrepreneurial activity is utilized as a reactive process in order to find other revenue streams (LeRoux, 2005; Morris, Webb and Franklin, 2011).

Entrepreneurial orientation among top management has long been studied by management scholars and is in practice associated with firm performance in the for-profit sector (Rauch et al, 2009; Lumpkin and Dess, 1996). In fact, a whole industry of investment – venture capital investing – has revolved around the success (and sometimes the failure) of entrepreneurial companies such as Apple, Microsoft, and various pharmaceutical firms of all sizes. Venture capitalist investors seek companies with a talented management team, a promising outlook for entrepreneurship, and viable avenues for business development and growth (Cardis et al, 2001). All of these ingredients are believed to result in high levels of firm financial performance thereby reaping profits for the firm’s management team and the outside venture capital investors.

In the academic literature, entrepreneurial activity within an organization has been conceptualized as the process by which an entrepreneur or a team of entrepreneurial leaders in a given company implement innovative ideas for new products or services (Covin and Slevin, 1991). Most of these ideas start with a business plan as the foundation for funding and management of the project. Some scholars argue that organizations can also be entrepreneurial in their internal processes, such as human resources practices, which can often lead to a more entrepreneurial culture within an organization (Kim, 2010; Fayolle, Basso, & Legrain, 2008). The drive toward entrepreneurial activity is related to the shear competition of the industry in which a company operates; managers are forced to partake in entrepreneurial activity in an attempt to outperform rival firms in the industry. According to Porter (1980), competition and rivalry are key forces that drive performance of companies in any given industry; those that can out-compete their rivals will thrive while others will fail if they do not find ways to beat the competition. Likewise, Oster (1995) points out that a similar competitive landscape also exists for nonprofit organizations. Thus, it would behoove human service managers to embrace an entrepreneurial orientation especially in this economic climate.

Indeed, certain human service organizations have begun to partake in entrepreneurial activity as a means to an end in this difficult economy (Cooney, 2011). Thus, marketing plans, outcome milestones, and earned-income strategies have become part of everyday business – just as they would be in a for-profit enterprise.
Additionally, according to Dart (2004) and Brewster (2006), in recent years, some NHSOs have even engaged in business lines unrelated to their social missions in order to raise revenue to sustain their programs. There is nothing wrong with a human service organization launching an unrelated business venture for the purpose of raising funds as long as the venture does not detract from the original human service mission. Importantly, unlike the for-profit mentality described above, nonprofits and NGOs in the human service space have a social mission, which is paramount. Such organizations are allowed by law to earn a profit, often referred to as a surplus, but these profits cannot inure to the personal benefit of any stakeholder and must be reinvested into the programs and services of the organization (Hopkins, 2009).

**Components of a Business Plan**

Given the importance of entrepreneurship within the human service sector as described above, managers would benefit from being able to describe social programs as businesses and to plan for new programs in a business-like manner. To this end, the following are descriptions of the key components of a business plan, which is quite similar to a plan used by for-profit firms. The ideal business plan has eight sections: Executive Summary, Venture or Program Concept, Market Analysis, Marketing Plan, Operations Plan, Financial Plan, Management Team, and Appendices. The final plan should be approximately 30 pages in length, including all of the components as described herein.

**Executive Summary**

The executive summary is an opportunity to make the initial sales pitch for a particular social program idea. It should be no longer than two pages. This may often be the only section that investors or funders will look at in the plan. If the executive summary sparks some interest, they may read further. Often, it is easiest to write this section last after all the other business plan components have been completed and understood. Nonetheless, it is essential that the executive summary include the following components written in a concise and engaging style:

- Basic program concept
- Market size and opportunity
- Key competition
- The general plan to make money and achieve impact
- Brief management biographies

**Venture or Program Concept**

In this section, there is an opportunity to delve deeper into the details of the program concept. For those interested in launching products instead of services, this section would be similar but would be used to describe the product concept instead of the service. It is important to understand the program concept in the context of the entire market. That is, there must be a demonstrated and strong grasp of the industry in which the social program resides as well as knowledge of the history of the particular service and its success or failure and why it did or did not succeed. The following components should be included in this section, which should be between two and four pages in length:

- Description of program service, or product in some cases
- Description of industry
- Overview and capacity of organization
- History of program service or product
- Explanation of milestones: How and when will venture achieve financial (sustainability) and social
Market Analysis (Needs Assessment)

This section differs considerably from what some human service managers may have experience writing in more traditional grant proposals. The key idea here is that a business plan is based on customer demand, which is dictated by looking at the potential market for a particular service and making some estimate of demand for the service: why should people want this service and what would they be willing to pay for it? This is different from a needs assessment in which a professional determines what a population needs based on secondary data. Here, the emphasis is on what a customer wants and is willing to pay for, which may not always be the same as what the customer needs (and may not be willing to pay for). Very often, this section is based on surveys and primary data collected from the prospective market. The following should be expanded upon in this section:

- Demonstration of market need
- Who are the customers (these are the clients in a traditional sense)?
- Market share, size, and trends
- Willingness of customers to pay (or investors to fund)
- Value-added, customer benefits, problems solved
- Analysis of competition
- Statement of competitive advantage

Marketing Plan

In this section, a plan or a roadmap should be presented as to how the social program idea will be brought to market. In other words, the business plan up to this point should have successfully presented the program concept and explained the need that exists in the marketplace for the particular program concept. Now, the business plan must effectively explain how the idea will connect with the market and fill the market demand. A marketing plan can take a variety of forms. Some marketing plans alone may be dozens of pages for very complex products in global markets! However, to keep things simple, a concise marketing plan for a social program idea housed within a business plan document should discuss the following frameworks in two to three pages:

Segmentation-Targeting-Positioning (STP) Framework
- Segmentation – the breakdown of the market – what are the various groups?
- Targeting – selection of segment on which to focus – who is the target?
- Positioning – establishment of competitive advantage – why is this idea the best?

The 4 P’s Framework
- Product (or service) – what is being pitched to the market?
- Price – how much will it cost?
- Place – where will it be offered?
- Promotion – how will customers know about the service?

Operations Plan

So far, the business plan has not focused on how the manager or organization will actually execute the program concept. Up to this point in the document there should have been ample discussion about what this concept is, how the marketplace looks for the program concept, and how the concept will be effectively marketed (e.g. sold) to the marketplace. But, what are the mechanics of the actual program? How does it work? How does the organization execute the program? These questions need to be answered succinctly in this section of the business plan, which should be about two to three pages in length, and should include the following:

- Description of how venture or program works
- Operating cycle (timeline and schedule)
- Logistics (locations, delivery of product or service, manufacturing process, etc.)
- Human resource strategy and plan for acquiring talent
- Discussion of regulatory and legal issues as necessary

Financial Plan

The financial plan section of the business plan document is probably the most important section. Together with the executive summary, the financial plan may represent a key decision point for investors and funders. It is not uncommon for an interested investor to flip through the business plan – before reading anything except the executive summary – and take a look at the financial viability of the proposed idea. The financial plan section should be presented with both financial projections in the form of a spreadsheet (see Figure 1) and with a narrative explaining the numbers in the spreadsheet and how they were...
derived. Altogether this section should encompass two to three pages of the entire business plan. Some investors and funders will require more detailed financial statements once they express some initial interest in a project. For the initial business plan, however, remember to always include the following key elements:

- Start-up funds required and planned use
- 5-year summary projections for new venture/program
  - Income statement
  - Statement of cash flows
  - Balance sheet

Figure 1. Sample spreadsheet with 5-year summary projections:

Management Team

Almost always, funders and investors want to know more about the key managers and personnel that will be the custodians of the financial investment. It is important to investors to understand that the management team is not only entrepreneurial and innovative but also capable of managing investments, which in many cases are large sums of money that need to be managed appropriately. Therefore, a business plan should include bio sketches of all of the key personnel, including the board of directors and top management team. In addition, if there are program personnel further down in the agency structure, they should also be included in this section. Investors will be interested in what type of compensation is being offered to the management, which can help them understand whether the funds that are being requested are sufficient enough to support the necessary talent for the venture. Finally, an organizational chart can help to pictorially explain reporting relationships in more complex organizations. The following is a list of what should be included in this section not to exceed five pages in length:

- Biographies of key personnel
- Board of directors listing/biographies
- Management and key personnel compensation (and ownership structure if for-profit)
- Organizational chart

Appendices

Finally, a business plan may require that certain documents be appended to the back of the document. When possible, this section should be limited to five pages so that the entire business plan is approximately 30 pages in length. Some items that may be important to include as appendices are the following as appropriate:

- References/Bibliography
- CVs of key personnel
- Media articles
- Product specifications
- Geo-spatial mappings
- Miscellaneous charts and tables
Conclusion

The aims of this paper were to introduce the concept of social enterprise to human service managers, which is essentially the process of merging business practices with the management of human services. Specifically, this paper introduced the concept of business planning and provided a framework for writing a business plan for a social program concept. It is clear that today’s social problems require new management solutions amid a constrained economic environment. Social enterprise and business planning are ways to ensure sustainability of social programs. Social workers and others that lead human service organizations are inherently well prepared to be entrepreneurial social change makers. If managers lack the skills necessary to behave entrepreneurially, such skills can be learned through further training and education.

Helpful Online Resources

Ashoka – global organization supporting and promoting the work of social entrepreneurs: http://www.ashoka.org
Social Enterprise Alliance – membership and networking organization based in the United States: https://www.sealliance.org
NJ Social Innovation Institute – training program and symposia sponsored by Rutgers Business School-Newark and New Brunswick: http://www.njsesummit.org
References


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References


