

Trading/Social Enterprise

Creating Sustainable Revenue and Unrestricted Funding



“The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man” (Shaw)

- **Entrepreneurs**
 - Unreasonable i.e. dogged determination, a healthy impatience
 - Change agents/shaping events
 - Passionate idealists
 - See change as the norm and as healthy
 - Take risks, work with uncertainties/doubt
 - Constantly shift resources from lower to higher areas of productivity and yield
- **They live their values, turning their dreams into reality**
- **They combine art and science; being creative, whilst trusting logic and intuition**
- **Have a dream, live it**

Being an Entrepreneur is Crucial

Social Enterprise - Definition

Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven (solely) by the need to maximise profit for shareholders and owners

- Combines Social and Financial Return
- Can be a NGO with Social Enterprises/Trading
- Can be a Pure Social Enterprise/social firm or SME with a social purpose/outcome

A Variety of Return Possibilities (Venturesome)

- **Model 1: Profit Generator**
 - Maximising profit; no predetermined social impact
 - Profits goes to NGO and investors (potential average FROI)
 - E.G. Oxfam shops, VST, TSN, Belu Water
- **Model 2: Trade-off**
 - Trading creates social impact and some profits (potential below average FROI)
 - Increase social impact at the expense of profit
 - E.G. Fair trade businesses, microfinance, social firms employing disadvantaged people, Ethical Property Company
- **Model 3: Lock-step**
 - Trading has a social impact
 - If increase impact, profits increase (potential average FROI)
 - E.G. Cooperatives, wind farms, Justgiving.com

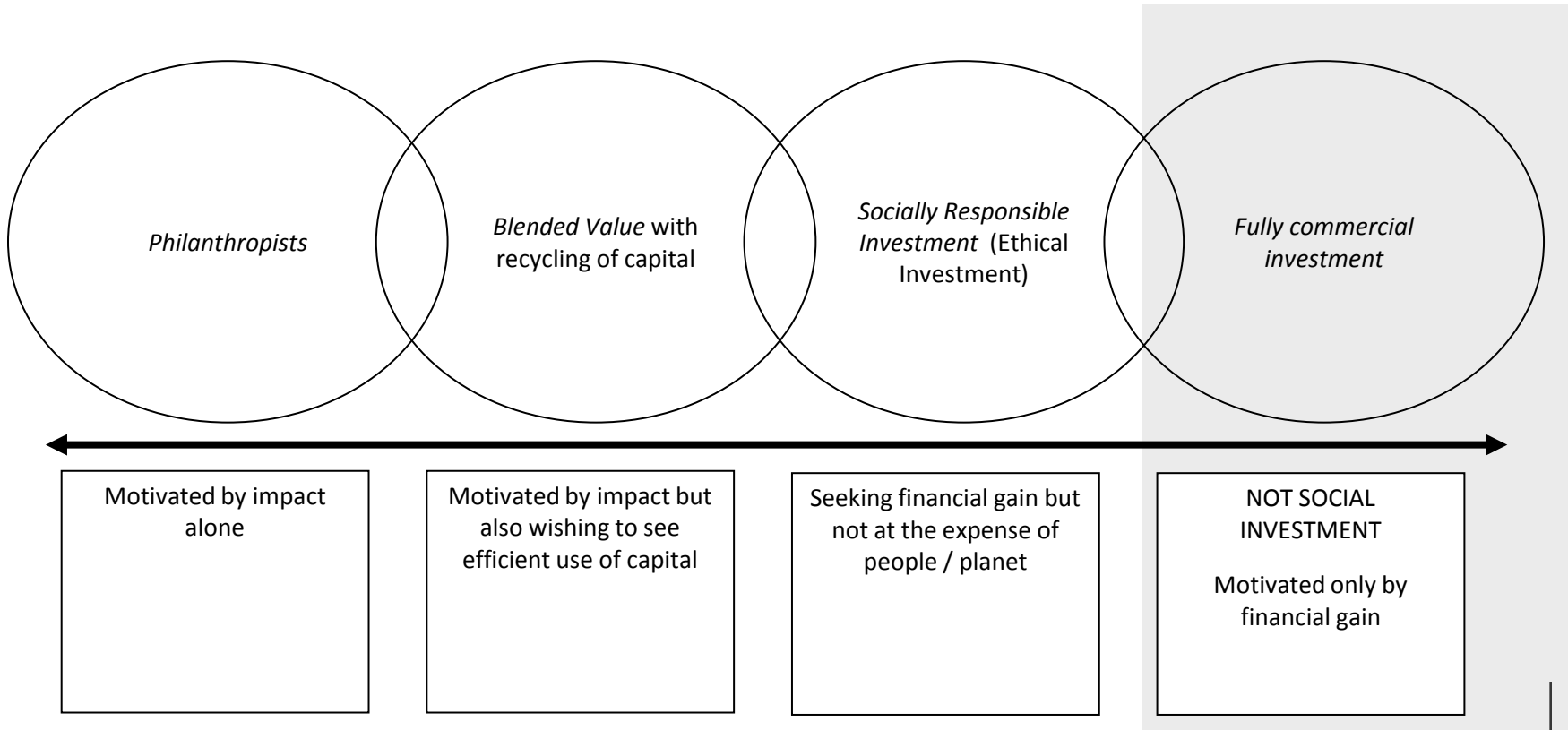
Case Studies – Process and Outcomes

1. Mission related counselling services, not maximising profits; created service £1.8m turnover/£100k profit, 110 contracts; with 20FTE new jobs and 60 independent contractors (Counselling)
2. Charity trading, creating EAP programme generating unrestricted funds (dividends) plus value (one SE values at £1.9m) (Counselling and Well Being)
3. From a regional base - mission related SE £2.5m turnover, 20% profit, created 50 jobs (Advocacy and Support Services)
4. Taking an existing mission related training and consultancy service from loss to profitability (Service Delivery and Campaigning)

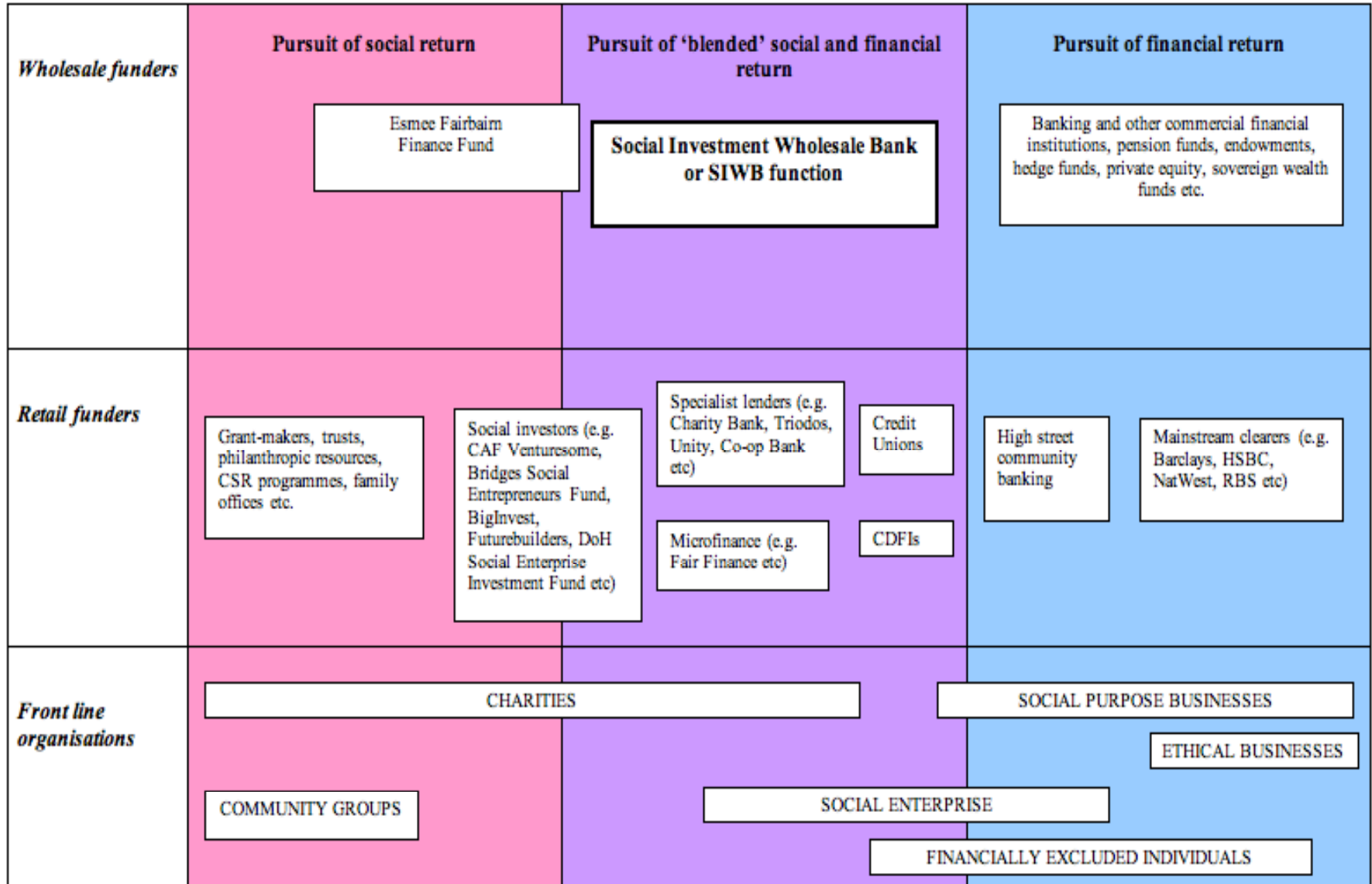
Social Investment - Definition

- **Social Investment is defined as being the supply of finance and non-financial support with the objective of either:**
 - Strengthen an organisations social, environmental, economic or cultural impact (or)
 - Achieve above and see a financial return on capital
- **Investing for financial gains alone would not fall within this definition**
- **Existing funds/create funds**

Investor Motivation



Multiple Funders/Multiple Needs Venturesome



**High
repay
rate**

Secured
loans

Charity Bank
Triodos Bank
Unity Trust Bank

Futurebuilders
Big Issue (Loans)

Unsecured
loans

Futurebuilders
Communitybuilders

Futurebuilders
Venturesome
Big Issue (Loans)
Adventure Capital
Fund

Communitybuilders
Futurebuilders
Health SE Fund

Equity /
Patient
Capital

Bridges S.E. Fund
Triodos S.E. Fund
Venturesome
Adventure Capital
Fund

**Low
repay
rate**

Grants

Impetus
Breakthrough
.....

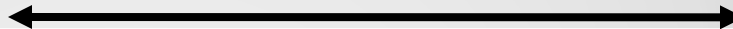
Fixed Asset
Acquisition

Working Capital

Growth and
Development

Low risk

High Risk



Degree of Engagement by Investor

Highly Engaged

Impetus Trust
VPF
PEF
Launchpad

Bridges SE Fund
Triodos SE Fund

*[Venture Capital /
Private Equity]*

UnLtd Ventures
Breakthrough

Venturesome
Adventure Capital
Fund

Not engaged

Various grant
making trusts

Charity Bank

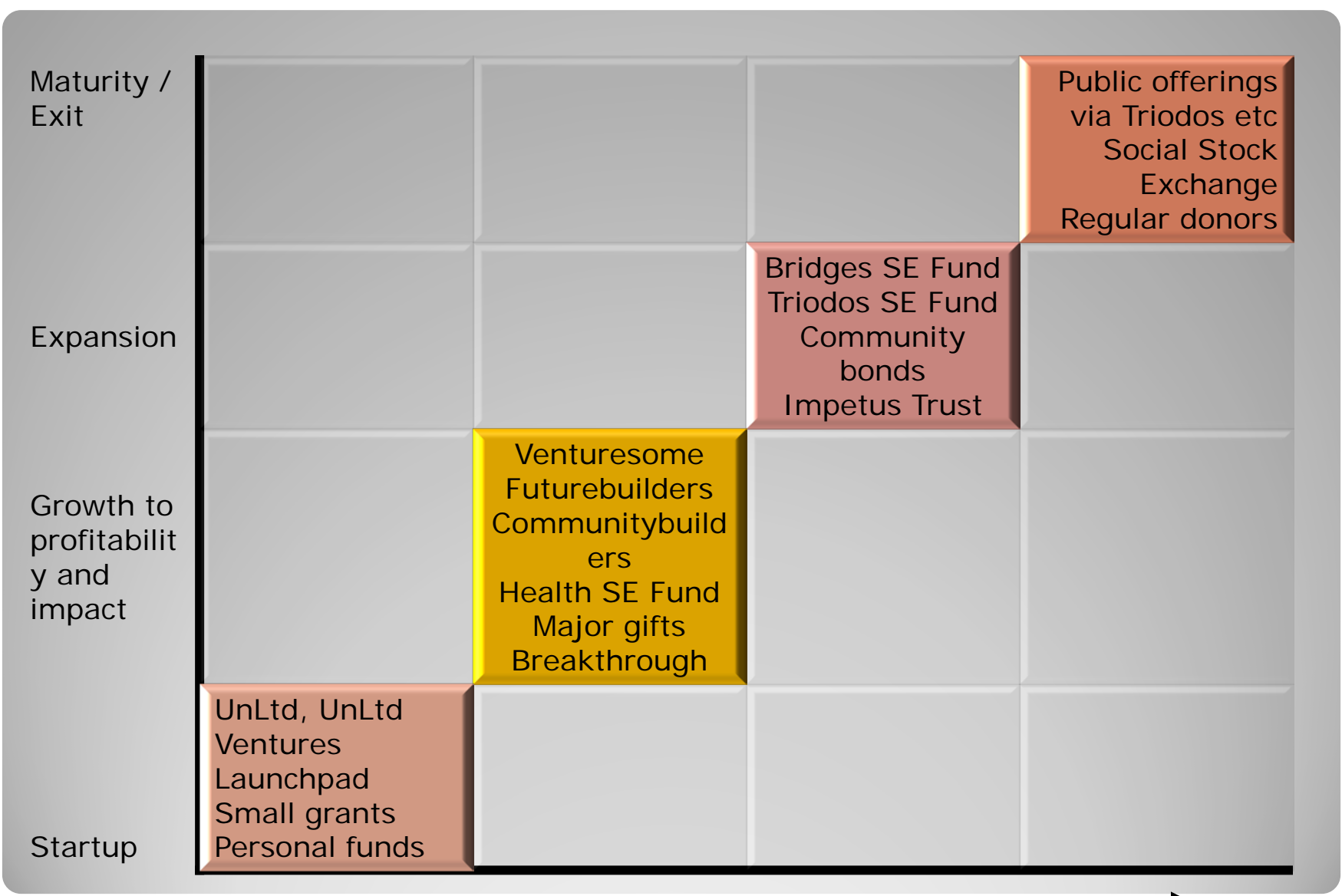
Various SRI Funds
Triodos Bank
Unity Trust Bank

Philanthropy

Blended value

Commercial

Investor Motivation



Increasing time

Financial pricing

Commercial
risk adjusted
return

Triodos Bank
Unity Bank
Charity Bank

Bridges SE Fund
Triodos SE Fund

**All funds aiming
for this level of
performance**

Futurebuilders
Communitybuilders

Venturesome

No financial
return
(Philanthropy)

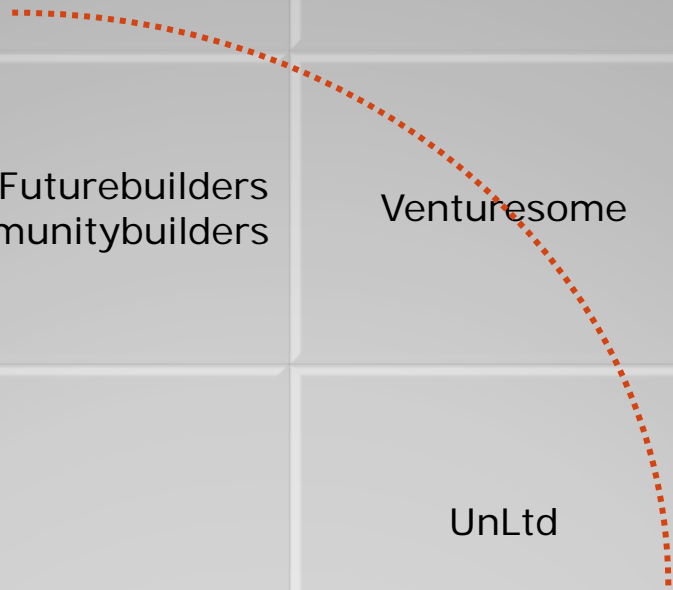
UnLtd

Impetus
ARK
Breakthrough
VPF
PEF

Willing to invest for
low social impact

Willing to invest for
high social impact
only

Social impact pricing



Emerging Activities

- **In-house social investment funds (regional and national)**
- **Social Impact Bond – raising £5m pilot**
 - Investors take the risk/provides working capital/payments tied to government cost savings
- **Big Society Capital – Investing in:**
 - Financial products e.g. Social impact bonds and intermediaries
 - Issues matching supply with demand
- **Scope VP Fund to build housing for disabled adults**
 - Leveraging - combining donation, gift aid, loans - £18k unit costs donor £1,750
- **Big Issue Invest Fund £10m – risk capital to SE**
 - NESTA: £1m; Esmee Fairbairn £750k; Deutsche Bank £450k
- **Bonds/shares**
 - Scope £20m bond
 - East London Bond (Royal Bank of Canada bond trustee/funder)
 - Shares: Cafe Direct £5m, Ethical Property £7m
- **Impact investing**
 - Growing (est. in 10 years \$500bn)

Innovate

- 'The cure for Apple is not cost cutting. The cure for Apple is to innovate out of its current predicament'
Steve Jobs
- Innovation is one of the main ways to survive and thrive in a recession
.....but it has to be the right type of innovation

Some SE Legal Choices

- **Legal**
 - Company Limited by Guarantee (CLG)
 - Company Limited by Shares (CLS)
 - Industrial and Provident Societies (Cooperatives)
- **Status**
 - None
 - Charity status (Usually for a CLG)
 - Community Interest Company (CIC) (Can be a CLG, CLS)
- **When choosing consider the purpose of the enterprise**

Unincorporated

- Informal
- Advantages
 - Quick/inexpensive
 - Can achieve charitable status
 - Easy to wind up
- Disadvantages
 - Does not exist as a legal entity
 - Members held personally liable

Company Limited by Guarantee

- Traditionally used by charities
- No shareholders, just members
 - Power to elect Board, appoint auditors, change Memorandum and Articles of Association
- No dividends
- Financed by loans/grants
- Advantages
 - Separate legal entity/limited personal liability
 - Can own property etc
- Disadvantages
 - Fees to incorporate
 - Regulated by Companies Act

Company Limited by Shares

- For profit/commercial with share capital
- Objects may include social mission
- Profits paid out by dividends
- Company/assets may be sold
- Board members may be paid
- Shareholders own company
 - Power same as CLG plus approve payment of dividends
- Shareholder agreement
- Financed by grants/loans/equity

Industrial and Provident Societies (Mutual or Cooperative Bodies)

- Directors (Management committee members) are elected from the membership on the basis of one member, one vote
- Liability of Members is limited
- Loan finance with interest payable
- A form of equity is available through shareholding membership, capped at a maximum of £20,000 per member
- May be charitable in terms of tax status

Charity

- It is a status (incorporated or unincorporated)
- Exclusively charitable objects
 - Relief of poverty
 - Advancement of education or religion
 - Beneficial to the community
- Benefits
 - Not pay income/capital gains tax; gift aid/rate relief
 - Public image
 - Funding opportunities e.g. trusts
- Some limitations on political activity/trading
- Can 'own' CIC/CLG/CLS

Community Interest Company

- **Social benefit whilst being commercial**
 - CIC's may not be a charity/no tax advantages
 - Mission is in the community interest
 - Potential confusion of ends – help vs. profit
- **Assets are locked in**
 - Limited dividends to shareholders
 - Restricted interest payments re loans
- **May be financed by grants/loans/equity**
- **CLS/CLG can be converted to a CIC**



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