



USING THE BUSINESS MODEL CANVAS FOR SOCIAL ENTERPRISE DESIGN

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Knode

The story of this publication:

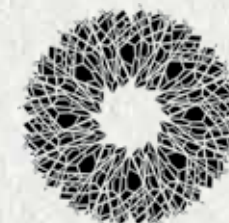
I have been using, testing, learning about the Business Model Canvas for a number of years now. I've attended a master class in the use of the Canvas, presented by one of the authors of the BMC book, Alex Osterwalder. My interest in BMC grew out the realisation that many social enterprises found it difficult to explain their business models, and that many started work on their business plans before understanding their business models thoroughly, which seemed like a topsy-turvy process to me!

When I first discovered the BMC and tried to apply it to social enterprises I believed, like many others, that social enterprises and not-for-profit organisations needed their own 'special' canvas. As I worked with the BMC in and around the social enterprise sector I came to realise that this was not the case - however, I also realised that there were some 'special' things about social enterprises that could easily be reflected in the BMC using a few simple adaptations. As I shared my learnings with others in the sector there were numbers of requests for me to provide some written materials. So, this is my attempt at documenting my learnings. I would welcome any comments or discussions about what I am sharing here! Please contact me: ingrid@knode.com.au

This paper is not a substitute for deeper materials on the Business Model Canvas nor for the Business Model Generation book written by Alex Osterwalder and Yves Pigneur and I would urge anyone using BMC in social enterprises to also access the book and web resources at www.businessmodelgeneration.com



The photo on the cover was taken at the Haley House Bakery Cafe in Roxbury Massachusetts when I visited there in 2008. I don't know who the artist is who painted this picture which hung in their front room, but it impressed me as a wonderful summary of the intention of many social enterprises - to nourish community and build economic independence. In their own words, "a model of social enterprise, Haley House Bakery Café promotes the physical, economic and social well-being of the community. Our programs provide on-the-job training for those seeking to become financially independent and introduce young people to the power of cooking from scratch and making other healthy life-style decisions". I was very impressed with their programs and their food - delicious! Check them out at: <http://www.haleyhouse.org/>



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What is a social enterprise?

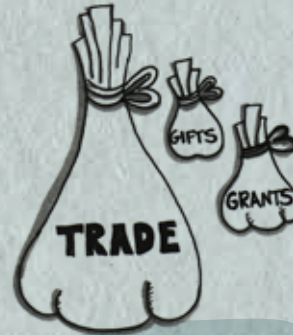
Social Enterprises are organisations that¹:



Have an **economic, social, cultural or environmental mission** aligned to **public or community benefit**.



Trade to fulfill their mission.



Derive a **substantial portion of their income from trade**.



Reinvest the majority of their profit/surplus in the fulfillment of their **mission**.

There are different ways in which social enterprises organise themselves in achieving these goals:

they may directly support, train and employ people who are experiencing some form of exclusion and disadvantage (for example, a social enterprise cafe may employ people who have been homeless and unemployed);

they may provide services or products to directly meet a social need or achieve a social impact (for example, a community supported agriculture enterprise may make fresh, local produce available whilst also supporting smaller, local farmers); or

they may generate income for a charitable or social purpose (for example, an op shop may generate income to support a larger charity deliver other social purpose programs).

This booklet focusses particularly on the first two types of social enterprises, where the financial and social value coexist inside the same enterprise.

¹ This definition comes from FASES (2010), see: www.socialtraders.com.au

What is a business model?

A **business model** clearly articulates “the rationale of how an organisation creates, delivers and captures value”

(Osterwalder and Pigneur 2009;p14).

If we boiled down the idea of an enterprise or a business to its essence, we could say that it is all about the exchange of value. I create something inside my business that is of value to others, so they seek this out, and in exchange they give me something that I value (usually money!).

The differences between a business plan and a business model lie in purpose and substance.

The purpose of a **business model** is to help stakeholders understand and clearly articulate how a business is configured so that it creates, delivers and capture value. In the case of a social enterprise this would ultimately be about how the enterprise will generate both financial and social value, and what the relationship is between the two types of value in the enterprise. The business model should be able to be articulated in one page, and its substance focusses on how an organisation does business, how that business generates revenue, what value a business offers to whom, who the customers are, and why customers would keep coming back to us. It can help us understand how and why our business works, and it can help us to design and innovate our business.

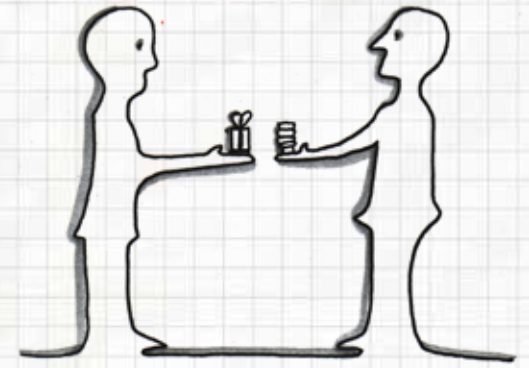


A **business model** helps us to design and articulate how a business could work, and how we can innovate inside the business.

A **business plan** is a much more detailed, lengthier document that sets out in detail the goals of the business, how they will be attained and

what evidence there is that the methods employed will attain those goals. Business plans outline our mission, vision, goals, strategies, our financial assumptions and projections, and our marketing strategies. Business plans have dominated the business strategy landscape. However, increasingly there are suggestions in both practice and research that business plans are too static and cumbersome to help businesses survive complex and constantly changing environments. They may still be helpful in setting directions, or to access some forms of finance and investment, but they won't necessarily help us design and test business ideas, nor to innovate within a constantly changing environment.

A **business plan** is a detailed document setting out the goals of a business and how they are to be achieved.



Business models for social enterprise



Social enterprises are often started by people who are passionate about making a difference. Often it is not the actual 'business' that captures their imagination, but the impact it will have for the social or environmental issues they are seeking to address.

Understanding the business model of a social enterprise can have two key benefits:

1. It can help us to understand, design, articulate and discuss the 'nuts and bolts' of our business concept;
2. It can help us to test, and develop prototypes so that we can see if what we passionately believe about our impact and our business actually 'stacks up' in practice.

Over the last decade I have met many social enterprise managers and stakeholders, and have helped to start up a number of social enterprises myself. Working with social enterprises I have come to appreciate the value of clear business models. I believe that if more social enterprises learnt to use and develop their business models, many of their challenges could be more easily identified early on in their evolution, and we would then have greater opportunities to work to design solutions to these challenges. It is sad to see social enterprises close down or fail - because in this case it is not only the business that we lose, but its potential or actual social impact.

Understanding business models and their potential in terms of designing social enterprises could help us to avoid some of the pitfalls and increase the likelihood that more social enterprises become viable and sustainable both financially and in terms of their social impact.

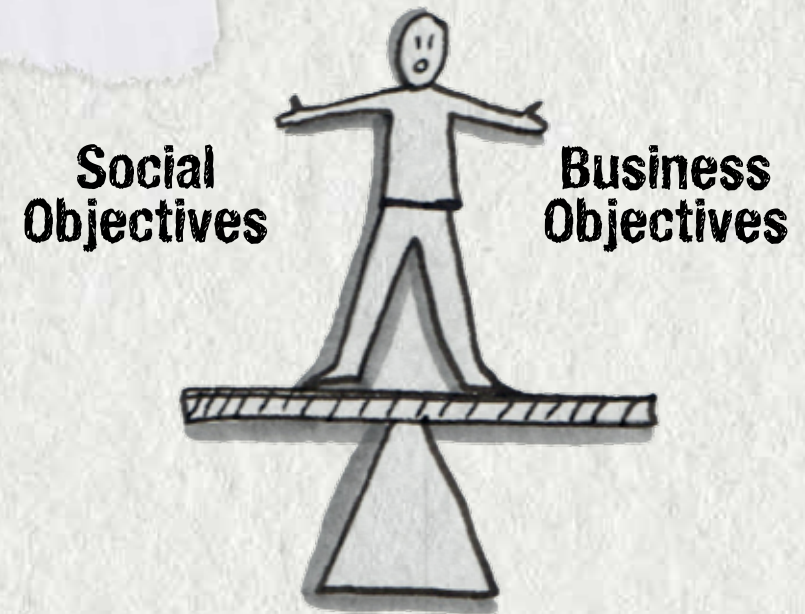
What is the Business Model Canvas?

The Business Model Canvas (BMC) was developed by Alex Osterwalder and Yves Pigneur, and co-created with an array of 470 practitioners from around the world. It offers a simple, visual, one-page canvas on which we can design, innovate and dialogue about our business models. It is not the only framework that has been developed to articulate business models. Like many of the frameworks this one was built out of careful research, but unlike many others, it has also been tested and enhanced through the input of many practitioners. In addition, the BMC itself sits inside a very innovative business model, including licencing under Creative Commons and a commitment to co-creative innovation within the methods around the BMC (see www.businessmodelgeneration.com).

I have used the BMC to work in the social enterprise sector and have found the canvas to be very helpful, particularly in early exploratory stages of development and in relation to growth and innovation stages. In using the BMC inside social enterprises I have found a few additions and adaptations helpful, and it is these that I want to focus on in the remainder of this paper.

What's special about social enterprise?

Managing a social enterprise is not about just adding business skills to the realm of social impact and stirring! Balancing a social (or environmental, cultural or economic) mission WITH an intention to trade and manage a business requires a blending of skills which is greater than the sum of each set of skills alone.



Furthermore, addressing a social impact inside a business operation is not necessarily cost neutral – so both the skills needed to deliver on a social impact and the costs involved in doing so need to be considered in designing a viable and sustainable business model. So, for example, if you are focussed on employment outcomes amongst people who have previously experienced long-term unemployment, then you need to be fully aware of the business model implications of supporting and training people who may not have worked for some time. There may be cost implications, in addition to challenges in relation to key activities, customer relationships and key resources. Further, you may need to explore options for accessing non-trade income to pay for additional supports that are needed to ensure that employees can sustainably participate in the workforce over time. Profits from the business may not actually cover the wages needed to pay for support workers. However that doesn't mean that a viable business model cannot be developed! It is just that we need to recognise that social enterprises have business models that can be a little different from an ordinary business – indeed social enterprises are EXTRAORDINARY BUSINESSES!

It is not that we need totally different business model canvasses nor that there are wildly more complex business characteristics. It is just that somehow we need to build into the canvas a clear picture of the social objectives (or the mission) of the enterprise, in addition to all the vanilla dimensions of the actual business of the social enterprise.

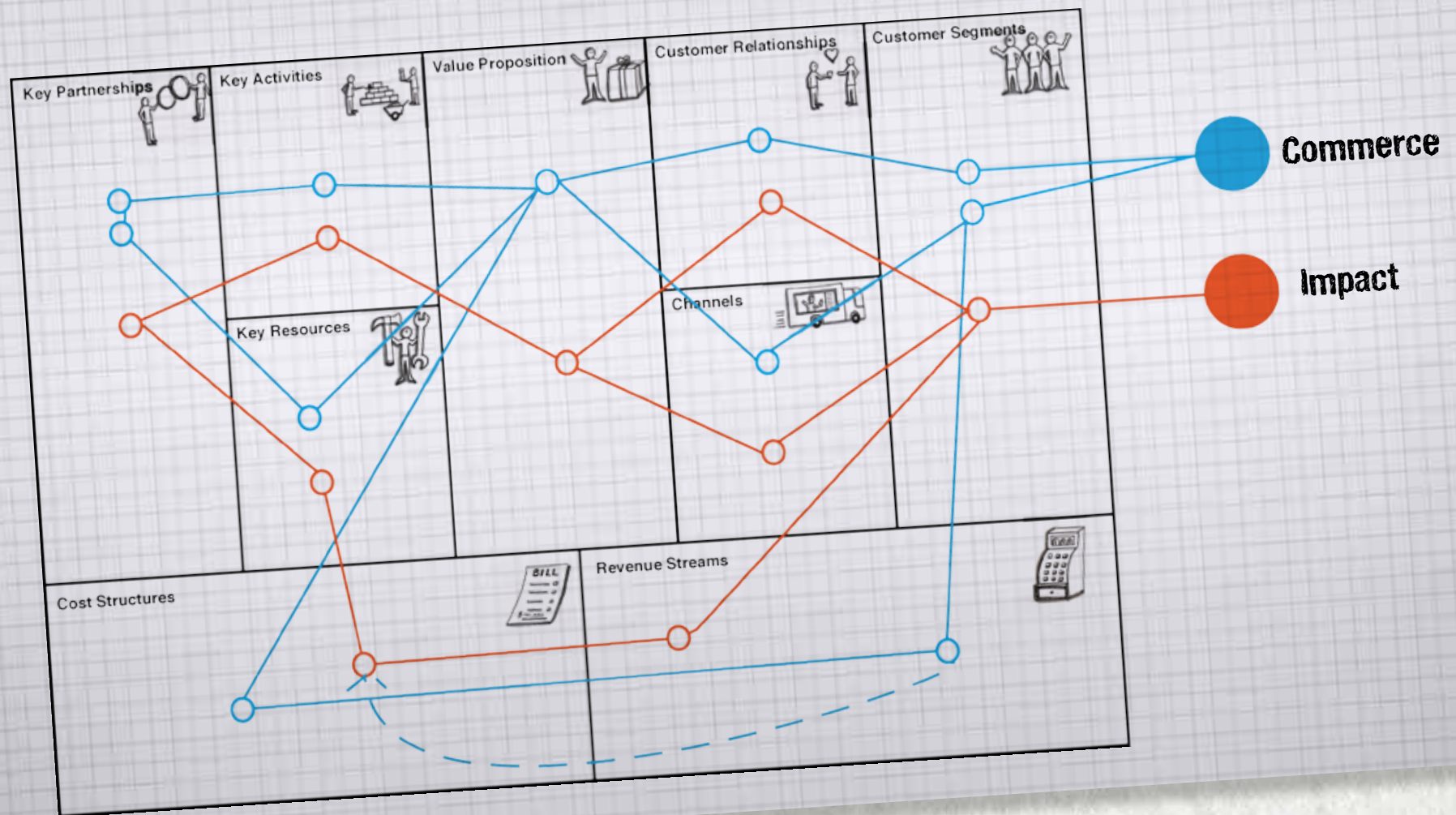
For social enterprises, the business model canvas should provide an opportunity to see not just the BUSINESS, but also to identify the SOCIAL IMPACT they are trying to achieve. And importantly, to see clearly how the two interact - how they are symbiotic, how they compete, what opportunities there are to bring them into alignment and what tensions exist in between them. Understanding this can be



immensely helpful to social enterprises and can lead to a greater capacity to effectively manage for viability and sustainability. The reality for social enterprises is that they cannot work if the business model does not work financially (then there is no business). But they also cannot work if the social objectives are not realised within the business (then there is no social enterprise, just a business). Business models that achieve both a social and financial value are by no means impossible - they are very possible and they are very special!

It can be helpful to see this separation between 'commerce' and 'impact' as a variation of what is called a 'double-sided platform' in business modelling. This is where a business services two different customer groups, and in the case of a commercial business, the aim is to facilitate interaction between these different customer segments. In social enterprises, the aim may not be to facilitate interaction between these groups, but rather, to facilitate a connection that enables the delivery of sustainable social impact within a viable business model. In this way the social enterprise becomes an intermediary between impact and commerce.

The way to represent this on the Business Model Canvas is to differentiate between that side (or sides) of the social enterprise that is directed to impact, and that side directed to commerce. By separating and visualising both sides on the canvas we can begin to see how they interact and what the story of the social enterprise is in relation to both commerce and impact. In a social enterprise neither the commercial nor the impact story is sufficient in and of itself - the important part of telling a business model story is for there to be a coherent and sensible relationship between commerce and impact.



The key to using the BMC in social enterprise is to separate out our commercial and impact models, but then to integrate them inside the story of the business model.

Being able to visually and concisely tell the story of how commerce and impact are linked inside a social enterprise business model is a critical part of designing an effective and sustainable enterprise. If a social enterprise manager is expecting to be able to fund a significant and complex social issue using a flimsy and unrealistic commercial model, this will be obvious to an astute observer as soon as the elements and the relationships are mapped out on a business model canvas. If, on the other hand, the commercial model is robust, but the impact is weak or

meaningless, using the canvas will help all involved to develop a shared understanding of this and potentially open dialogue to deepen and strengthen the impact through business model innovation.

Mapping both impact and commerce models on the one canvas helps us to understand and innovate around not just each element alone, but about how they interact and support each other. This is an essential part of social enterprise design.

Key Partnerships



The **network of suppliers and partners** that **make the enterprise work**

Key Activities



The **most important things that** need to be done to **make the enterprise work**

Value Proposition



The **products and services that create value** for specific customer segments - **what keeps customers returning to your enterprise.**

Customer Relationships



The types of **relationships** an enterprise establishes with specific **customer segments**

Customer Segments



The **different groups of people or organisations** an enterprise aims to **reach and serve**

Key Resources



The **most important assets and resources** (physical, intellectual, human, financial) **required to make an enterprise work.**

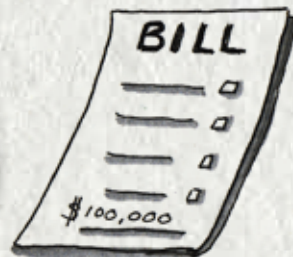
Channels



How an enterprise **communicates with** and **reaches its customer segments** to deliver a value proposition.

Cost Structure

All the costs incurred to **operate an enterprise**



Revenue Streams

The cash an **enterprise generates** from each customer segment (subtracting costs from revenues to create earnings)



How are 'social impact' and 'commerce' related?

One of the first decisions that need to be made when you establish a social enterprise and you start to look at the potential business models is the decision about what your social mission means for you (and the stakeholders) and for the business of the enterprise. How often have we heard of the 'great idea' of starting a social enterprise cafe that employs people who have experienced long-term unemployment? Unless there is some remarkable business model design innovation it is unlikely that such a business will generate the sorts of profits needed to ensure that trade alone will be able to subsidise the costs of generating the social impact. HOWEVER, this does not mean that an effective business model for this sort of a social enterprise cannot be generated - it just means that we need to go into the business model design process with our eyes wide open that we can actually make it work on both a commercial and an impact basis!

High levels of social impact and commerce can be balanced

This is a dream business model design for a social enterprise! It does, however need some careful thought at the design stage! It means that we are looking for a business model that can generate sufficient revenue from operations to ensure viability for an enterprise (more likely if the business itself is one that has potential for viability even before the 'social' impact dimension...many social enterprises begin with a business that is marginal at best and then when you add the intention to generate social impact, becomes financially non-viable without other types of support such as funding). Business model design can still be valuable for a social enterprise such as this because it can help aid discussion about potential innovations and opportunities for growth.

When social impact is paramount

For some social enterprises, the social mission is paramount, and the business something of a sideline - it's great as a source of revenue, but there are bigger things at stake than the bottom line. For these social enterprises the business model needs to ensure that revenue flows from sources other than trade so that if push comes to shove, the enterprise can continue to operate even if costs exceed revenue generated from trade. It may be, for example, that a not-for-profit organisation sets up a social enterprise to offer employment to its constituents. They are fully aware that the cost of operations for the business exceeds the trade revenue it generates, but the social impact of maintaining the business is so great that they are able to find grant revenue to subsidise the costs. There is nothing wrong with this as a business model, except that it requires focussed attention on ensuring that the impact generated is, in turn, able to generate ongoing revenue. The big challenge in this type of model, however, is not to let the impact focus result in commercial complacency - even if the social impact is paramount, this should not be an excuse for poor commercial management!

When it seems the 'social' is diminished

The BMC can help to explore the potential for strengthening the social impact dimension of a social enterprise. It can help to generate honest and open conversations about the links between financial viability and impact, and it can help us to make some design decisions as to how we could strengthen impact.

When it is time to rethink and redesign

Finally, the BMC can help us to visualise and understand when it's time to reassess whether there will ever be real social impact or opportunities for financial viability, and to either decide to redesign or to walk away.

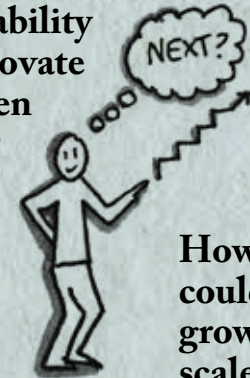
high

How can we innovate to increase the social impact?



Are we really a social enterprise?

How can we continue to build sustainability and innovate to deepen impact?



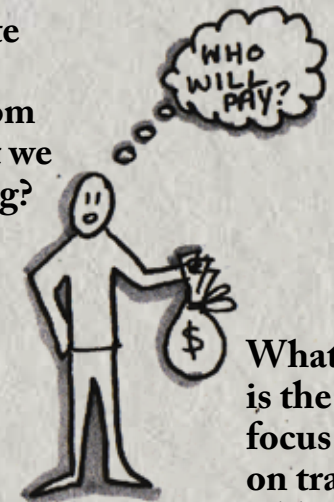
How could we grow or scale?

financial viability

Should we rethink this whole thing or innovate / redesign the enterprise



How can we generate sustained income from the impact we are creating?



What is the focus on trade adding?

low

social impact

high

Value Proposition

When exploring the business model of social enterprises we start with the question, 'what value are we creating?'. When we use the BMC in commercial businesses we often start with the customers - because ultimately they are at the heart of the business. Of course this is the case for social enterprises as well, however, most social enterprises begin with a quest to generate some kind of 'social value' alongside or indeed through a commercial value proposition. Social value is defined as the social outcomes and benefits that are generated through the enterprise - it's what makes the enterprise a 'social enterprise'!

Articulating the social value that we are seeking to generate inside our social enterprises is a critical first step in designing a social enterprise. However, a social enterprise cannot exist through generating social value alone! As an 'enterprise' it also needs to generate 'commercial value' - the goods or services that you are wanting to sell in the marketplace. So, a social enterprise often has two value propositions - the impact value proposition (the social value you are seeking to deliver, and what makes it attractive to customers) and the commercial value proposition (the goods and services you are producing and selling, and what makes these attractive to customers).

At the early stages of designing a social enterprise in particular it can help to separate out the commercial value proposition and impact value proposition. They are ultimately linked, but separating them out for discussion can help us to see how each relates to our different customer segments.

It is likely that the commercial and impact value propositions will be inter-dependent, but one may be more important to particular customer groups than the other. If government funders or philanthropists are our **customers**, then they may be much more interested in our impact value proposition than in our commercial value proposition. On the other hand, if we are operating a retail business, our retail customers may or may not be interested in our impact value proposition. Ultimately, if the business of the social enterprise is to be successful from a financial perspective, then our commercial value proposition has to hold up whether or not we have a parallel impact value proposition. Doing good will not suffice if the service or product is done badly.

Questions to ask about the value proposition of a social enterprise

- What value do you provide your customers? Why would they keep coming back?
- What is the relationship between your commercial value proposition and your impact value proposition?
- How visible or prominent is your impact value proposition? Who values and would pay for your impact value proposition? Who understands it?
- How do you account for / measure your value proposition (both commercial and impact)?



Commercial Value Proposition Examples



Catering

Quality, affordable catering using local produce



Garden maintenance

Careful, chemical free and knowledgeable garden maintenance just the way you want it.



Retail

Clothes with a difference, flair and style made in Australia



Impact Value Proposition Examples



Employment

Sustainable and meaningful jobs for people with disabilities



Local Economic Development

Revitalising the local economy of this rural town



Fair Trade

Quality coffee that ensures quality of life for producers

For some social enterprises the commercial value proposition is taken for granted - we imagine that because we are 'doing good' that our customers will automatically be lining up for our products and services. Unfortunately this is a misguided assumption. There are only so many times I will buy a bad coffee or pay for a badly mown lawn - no matter how much good you are doing. And there's only so many times I'll believe that you're doing good if I can't see any evidence that that's the case.

For example, I run a small business. I try to purchase from social enterprises whenever possible. However, if the social enterprise I purchase from consistently delivers products that are sub-standard, or the timeframes always blow out, or they are radically more expensive than other options, then it won't be long before I have to seriously reconsider the arrangement. I am a supporter of social enterprise, so I may give them one or two chances. Others are not so generous - it's often one strike and you're out.

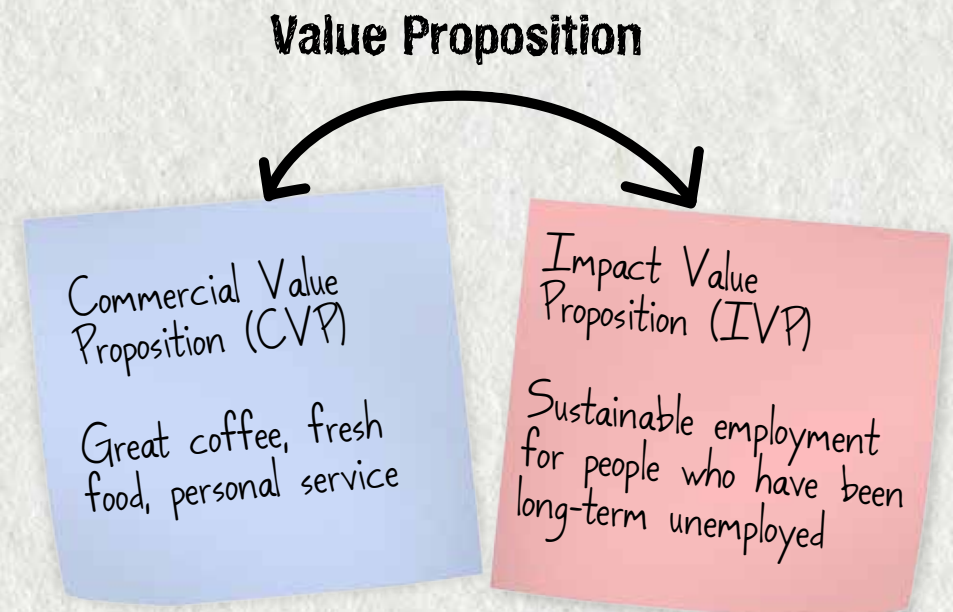
In other words, no matter how laudable and ethical your impact value proposition, if the business value proposition doesn't add up for your customers then you may as well be running a not-for-profit organisation! A social enterprise can't run on an impact value proposition alone!

It is also important for social enterprises to work out how they will present their value propositions to customers. For some it may be the case that the only visible part of the enterprise is the 'business value proposition' - the impact value proposition is inherent inside the enterprise but it is not what is visible to customers and it is not the reason why customers engage with the enterprise. For others the impact value proposition may be very visible, and it may be important to present it in a way that will draw customers in.

The way a social enterprise communicates its impact value proposition is an important design decision, and requires a deep understanding of customers and of the nature of the impact itself. If your impact value proposition is centred, for example, on generating

sustainable employment options for people who have experienced long-term joblessness, then articulating your impact value proposition to customers may involve sharing some employment success stories. However, sometimes customers want more detail about the impact before they 'buy' your impact value proposition. This may mean that you need to think through how to present the impact to customers - how will you measure the impact and how will you share the data on the impact with actual or potential customers. Many social enterprises in Australia are presenting information in the form of 'Social Returns on Investment' (SROI) measures, but there are many other ways in which such information can be shared with customers.

Making decisions about what and how to share impact measures with customers can be an important part of making sure that your impact value proposition is a part of purchasing decisions by your customers. Do you share stories that illustrate your impact as part of your marketing? Do you share impact evaluation reports? Do you rely only on your commercial value proposition to promote your enterprise, leaving the impact value proposition implicit?

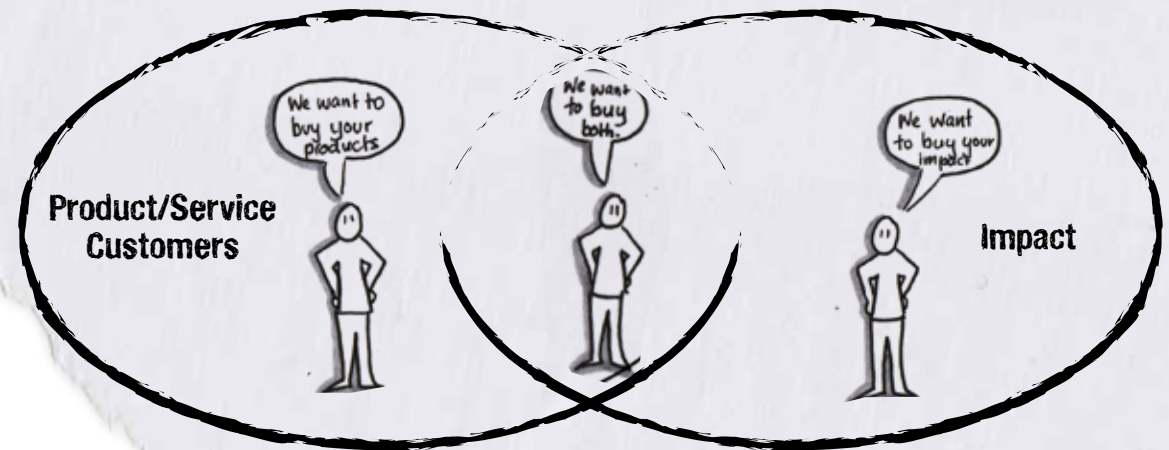


Customer Segments

Given that social enterprises are in the business of trading for the purpose of generating social impact, they can have at least two different (though potentially overlapping) categories of customers - the customers who are wanting to purchase their goods and services (ie. the commercial customers) and the 'customers' who are wanting to support the social impact that they generate and/or potentially benefit from this impact (ie. the impact customers). Understanding these two key customer segments (which could potentially be segmented down further within these categories) is critical to understanding a social enterprise business model.

When social enterprises use the BMC for discussion and design purposes it can be helpful to distinguish business and impact customers for number of key reasons.

- 1 Some social enterprises don't see their 'impact' as potentially having 'customers', or don't *see the full range of possibilities* that could occur under this scenario. So, for example, some social enterprises might see funders as 'partners' rather than customers (and that's fine!). But this may make invisible the potential that there may actually be people/organisations/corporations out there who are willing to 'pay' for your impact services. If you are having a significant impact, for example, on crime rates in a local area, are there potential 'customers' who may benefit from this (eg. insurance companies) and who may indeed see a logic in paying for this service in some way?
- 2 Sometimes social enterprises can make *assumptions* about how important their 'social impact' is in the eyes of their customers. Exploring how much our customers value our impact and our products/services can yield some interesting design insights for social enterprises.
- 3 Understanding the different customer segments and whether they value your products/services and/or impact can help business *design innovation*. For example, if your 'impact customers' are currently all government and philanthropic funders, can you explore additional opportunities for growing the interest of these 'customers' in your products and services (eg. procuring your cleaning services



through a contract)? Or if you have regular corporate customers purchasing your services, are they also interested in exploring potential opportunities in relation to the impacts that you generate (eg. could they encourage their employees to give to your enterprise through an internal gifting program)?

Operating a social enterprise involves a few more complexities than operating a traditional commercial business because social impacts are not necessarily cost-neutral, and sometimes our customers don't necessarily understand exactly what they are buying (ie. that their purchase of the service/product results in the impact). Of course in some instances it is not necessary for customers to understand or even know about the impact (especially if the product/service speaks for itself). But in other social enterprises it can be important to 'sell' the impact and thereby ensure that the impact costs can be covered by revenue beyond the earnings from trade. Understanding the customer segments and their connection to and valuing of products/services and impact can provide some great food for thought in using the business model canvas for enterprise design.

For social enterprises, understanding your customer segments is critical. In addition, it is vitally important to understand the balance within the customer segments. If an enterprise is consistently disappointing its core business customers and is increasingly relying on 'selling' its impact, then work needs to be done to understand the implications of this.

Constituents as 'customers'

For some social enterprises it is important that 'clients', 'beneficiaries' or 'constituents' are co-creators of solutions. In this case it is important to think through whether it is helpful for 'constituents' to be seen as a distinct customer segment, and whether a value proposition needs to be co-created between the social enterprise and the 'constituent'.

In some instances, particularly when 'constituents' have individualised support packages of funding, they are actually key customer in the business. For social enterprises exploring their way into the Disability Care (NDIS) environment, for example, having a clear value proposition for constituent customers is critical. It is also going to be important that this value proposition is co-created with 'constituents' to ensure that support packages and services are actually meeting their needs.

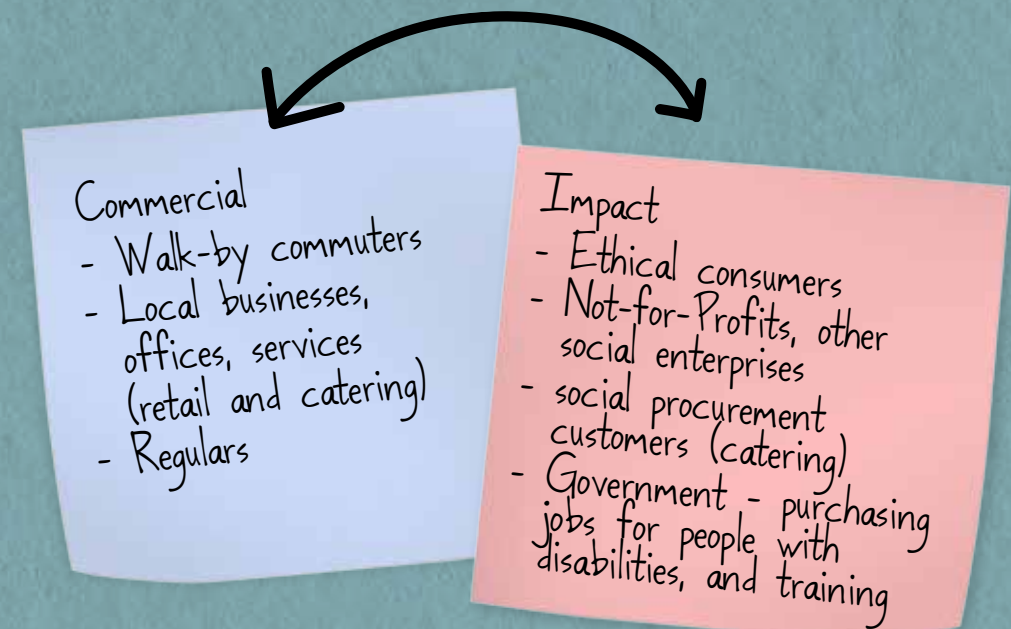
When are 'funders' really 'customers'?

Understanding where government funders and philanthropists fit into the business model of a social enterprise can help us to understand their role in relation to our business model. If they are customers then we will need to be clear about the value proposition we are putting forward to them, and to build a relationship with them that ensures their ongoing custom. If they are partners, then we may want to find ways to rely less on them as a source of revenue but to explore what other value they could add to our business model.

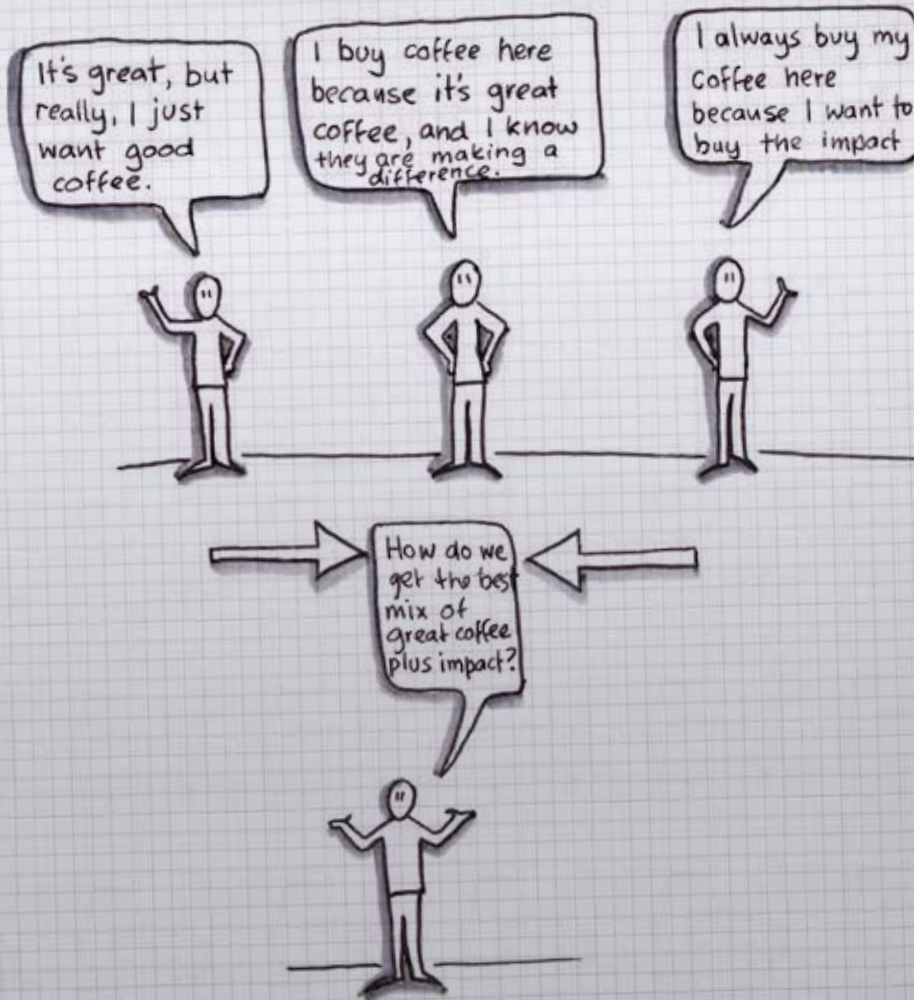
Growing repeat customers

In both customer segments (commercial and impact) we need to look at ways to convert one-off customers to repeat customers. If we need impact customers to support our impact in an ongoing way, then we want these customers to commit to more than a one-off grant. Effectively we need to frame our value proposition to them in ways that help them to commit to becoming repeat impact customers, and more than this, help them to explore opportunities to join our commercial customer base.

Customer Segments



Questions to ask about customer segments in a social enterprise



- For whom are we creating value - and what kind of value are we creating for them?
- Who are our commercial customers and why will they continue to be our customers? Who are our impact customers and what value are they seeking from us (and how much are they willing to pay for this)?
- How important is the linkage between our products / services and our impact to our customers? Are they prepared to pay more for the impact? Who else would / could pay for the impact?
- Are our constituents customers? co-creators? partners?
- Are our funders customers or partners, or both?
- What kind of value proposition will keep customers coming back over the long term?

Channels

Working out how to reach and communicate with customers and help them to evaluate a value proposition is a key part of opening business opportunities in social enterprises. For social enterprises it may not only be about helping customers to evaluate business value propositions - some

customers may also need to understand our impact value proposition.

Osterwalder and Pigneur (2009) outline five phases that are important in designing and nurturing effective channels inside businesses. They are equally important for social enterprises, and a few other questions are raised in the process!

Commercial

- Retail - high traffic near public transport station
- Word of mouth
- www

Impact

- Social enterprise networks and directories
- Social procurement directories



Awareness

Questions raised by Osterwalder and Pigneur (2009;p.27)

How do we raise awareness about our company's products and services?

Additional questions for social enterprises

How does this social enterprise stand out in a crowded market? Do we raise awareness of products/services AND impact? If so, how? Particularly if we are wanting to raise awareness of our impact, how do we do this in a way which highlights our business, not just our cause?

Examples of where this can be important

There is a growing interest in social procurement - but many procurement officers are not aware of social enterprises. How could this change?



Evaluation

How do we help customers evaluate our organisation's Value Proposition?

How do we help our customers evaluate our organisation's impact value proposition? What evidence and stories can we / should we share? Why should customers buy from us as a social enterprise? Do we compete directly with mainstream businesses? If so, why would customers choose to buy from us?

Many corporate and government customers are interested in the value proposition of social enterprises but are looking for evidence. How could this happen?



Purchase

How do we enable customers to purchase specific products and services?

How do customers find and access us? Are direct sales through retail outlets the only way customers can purchase from us? How can we extend the ways customers can find and purchase our goods/services? Who can we partner with to extend our sales reach?

It can be difficult to build financial sustainability into retail focussed social enterprises. How could you address this challenge?



Delivery

How do we deliver a Value Proposition to customers?

Can we extend our range of delivery mechanisms? Are there more efficient, effective or innovative ways we can deliver our goods/services and/or impact? How can we connect our customers more effectively through our delivery mechanisms?

Some social enterprises turn their 'customers' into their 'communities'. How could you connect your customers more directly?



After Sales

How do we provide post-purchase customer support?

Do we follow-up our customers to ensure that they will be repeat customers? What after sales support or information do they need or want about our products/services and/or impact? How can we ensure that they will champion social enterprise?

Dissatisfaction can have a flow-on effect not just for repeat custom in this enterprise, but for purchasing from other social enterprises. How do we ensure satisfaction?

Customer Relationships

In social enterprises customer relationships are critical. Customers may be attracted to our value proposition just from a purely business perspective, and we should aim to retain their custom on this basis. However, some may 'fall in love' with us as social enterprises once they learn of the 'added value' our social impact brings to the exchange.

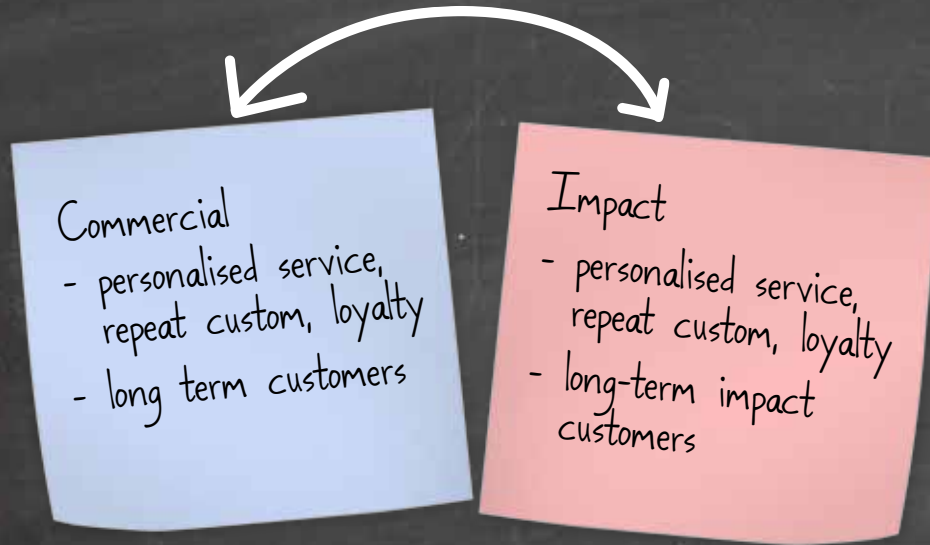
On a recent overseas trip I stayed in a hotel that is a social enterprise. They did not advertise it as such and there was no mention of it during my stay. In their relationship with me as their customer their primary concern was that I was happy with their service. They chose not to use their impact value proposition or their 'mission' in any of the information or advertising of the business and so most customers did not know of this when they chose to stay there or chose to come back on the next trip. This decision related partly to their commitment to offer their employees a job that did not stereotype or identify their personal circumstances. This meant that they embedded in to their business model a high degree of confidence in their employees and a belief that that the 'business' would speak for itself. However, knowing that they were a social enterprise employing people with mental illness meant that I was prepared to pay slightly more than I would usually pay for a hotel stay.

This story illustrates the importance of thinking through what role your 'impact' should play in the relationship you have with your customers. Sometimes it is important for the impact to be very present in the relationship (your customers may LOVE you for it!) and in other circumstances it would be inappropriate for your mission to form any part of the relationship. As I have mentioned before, if 'mission' is the only thing you are offering to your customers, and if the products/ services you offer are inferior, exaggerate the value proposition, or if they are not delivered on time and on budget, then it is likely that no matter how much your customers love your mission, they will eventually decide that, unfortunately, they are not able to continue as your customers.

For social enterprises it can be interesting to push out what we would consider 'traditional' customer relationships with a business, and explore how customers could become our 'community' or how they could co-create or co-produce the business with us. For example, Food Connect has established a network of customers referred to as 'City Cousins' who are willing to take on a role of distribution hub in their local communities (see: www.foodconnect.com.au). When customers become active in your social enterprise they can also take on roles associated with deepening or scaling your social impact. They can become champions of your cause; they could volunteer; donate; become your network or your partners. There is so much more to customer relationships than consumption in a social enterprise!

Another interesting way to approach customer relationships from the perspective of social enterprises centres on the idea of building customer loyalty, and in turn, exploring what customer loyalty can build in terms of social impact. For many social enterprises, growing their customer base means that they also grow their potential to deliver on their social mission. So 'customer loyalty programs' may look different in social enterprises...they may focus on what can be co-created or what difference can be made together rather than what rewards individual customers could receive. Loyalty programs in social enterprises could thus be seen as potentially the base for an impact movement. There's exciting design possibilities up for exploration here and opportunities to reposition customers as change agents for your cause!

Customer Relationships



Of course it may well be the case that your customers only love you for the value you can produce for them and in that case we need to accept this or at least see it as the foundation for our business. As in any relationship, it takes two to tango, and there is no point trying to force an impact value proposition based on love into a relationship that is plutonic and focussed on commerce! In designing social enterprise business models it is all about what is appropriate for the particular circumstance, and what will drive the business engine so that ultimately you are able to achieve your social mission.



Questions to ask about customer relationships in a social enterprise

- What kind of relationships do our customers want? Are they or could they be interested in our social impact?
- What could happen if customers fell in love with our impact? What other roles would they be willing to play if they did?
- What do we need to be mindful of to ensure that we retain our customers?
- Are the relationships with 'impact customers' different?
- What do they expect when they 'purchase' impact from us? How can we ensure that they fall in love with our products/services too?

Revenue Streams

For just about all social enterprises I have worked or talked with, revenue streams are top of mind most of the time. Revenue streams are what enables social enterprises both to run the business and generate the impact - but they can also be the source of much debate and tension. The contention comes predominantly from different interpretations of the mix of revenue that flows into social enterprises. Sometimes the contentions stem from ideology rather than practical reality. Some people argue that social enterprises should avoid any revenue other than trade or earned revenue. In an ideal world this would be great! However in reality, this assumes that there is no difference between running a social enterprise and running a commercial business, and we know this is not the case. If we cut out the ideology and adopt a completely pragmatic perspective, we would see that the source of revenue is only part of the picture - and to make sense of a social enterprise the source of revenue needs to be linked to: its purpose and application inside the enterprise, the social benefits it can generate; and its contribution towards building viability and sustainability over time.

By definition, a social enterprise derives a majority of its revenue from trade. This is what makes it a social ENTERPRISE. However, it also needs to deliver a social impact, which is what makes it a SOCIAL enterprise. In many ways, understanding revenue inside a social enterprise requires some consideration of the costs of mixing together social purpose and commercial realities - ingredients that are sometimes like oil and water.

If we look at the revenues that are generated from trade. In designing social enterprises it is critical that we explore the business models of analogous commercial businesses. So, if we are wanting to set up a social enterprise cafe, then what do we know about the commercial realities of running a cafe? How much revenue is possible from operating a single, independent cafe? How much profit can we expect to generate? Understanding the commercial realities of a business can be very helpful if we are designing a social enterprise that

wants to generate profits and IN ADDITION, deliver impacts. If a commercial business in a particular sector and location has little potential to deliver profit, then a social enterprise operating in that sector and location will have no chance of generating a profit sufficient to cover its impact costs! It is a never-ending source of fascination to me that social enterprises continue to pop up in business sectors or industries that struggle or are marginal in a purely commercial context. Expecting to operate a successful social enterprise in such a sector without significant non-trade revenue sources or substantially innovative business models is living in fantasy worlds.

Equally fantastical, however, is assuming that all social enterprises can get to a position where the impact they deliver can either be cost neutral, or that it can be cross subsidised from within commercial operations. As we will explore in the 'cost structure' section, impact is never or only very rarely, cost neutral. And given this, not only do we need to know the potential revenues that can be generated by any given business (to know if cross subsidy is even possible), but more importantly still, the costs need to be assessed in relation to the social value that is generated. It is ideological tom-foolery to assume that we can have a raft of completely commercial social enterprises across all impact fields that are independent of any kind of funding or donation revenue.



Different revenue streams can have different functions in a social enterprise. The trick is to find the best fit between form and function of revenue in the model, and this will vary according to the impact, the industry, and the business model itself. But as a broad proposition, using grant or philanthropic funding to cover up an inherently inefficient or failing business is not effective use of such monies, and neither is it helpful, in the long run, to delivering sustainable social impact.

In some ways it is important to understand the impact and commerce inside a social enterprise as two separate but symbiotic systems. The commercial business around which a social enterprise is structured needs to operate as such - it needs to be able to get to a stage where it is viable, and hopefully sustainable, generating sufficient revenue from its trading activities to not only cover operating costs, but to generate a profit.

At the same time, the impact system needs to be understood in terms of the social value it is generating. We need to be able to honestly and openly assess whether this social value is actually 'saleable' - whether our commercial customers, or impact customers will pay for this social value and thereby generate revenue. If the social value can be articulated in

terms that it can attract revenue in its own right, then a social enterprise may get to a point where there could be independent revenue streams flowing into the enterprise around the impact value proposition. However, it may not be 'saleable' - in which case, the costs of generating this impact either need to be covered internally, or you could look at the 'key partners' part of the business model and develop partnerships around the social value in order to ensure that even if there are no direct revenue streams, the costs incurred in the process of generating the impact will be covered.

Problems arise when the symbiotic relationship between the two systems is not being worked on. When, for example, an unviable commercial model is being propped up by a temporarily funded impact system. Or, when an impact model is designed that doesn't deliver real or needed impacts, even when the commercial model is powering along!

What is important in a social enterprise is that there is a focus on **RIGHT REVENUE** - that is, a mix of revenue that is appropriate for the particular impact being delivered, and where there is a real probability that the business of the enterprise will generate profits and become commercially viable.



Revenue Streams

Commercial

- Retail sales
- Catering sales

Impact

- Participation and support funding
- Training funding
- Donations








Questions to ask about revenue in a social enterprise

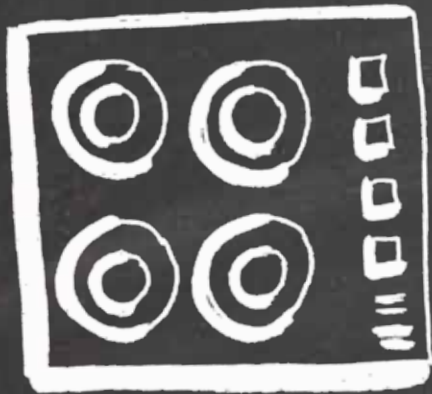
- can we unpack and unpick the revenues that are generated through the commercial activities of the business from the revenues generated through the impact? This effectively means knowing what revenue is derived from and driving what part of the business.
- have we examined analogous commercial business models to explore potential revenue streams from our chosen business sector, which can help us to predict, to a certain extent, the potential for profits to cover impact costs;
- What ongoing sources of revenue could be generated in relation to impact delivery, and how are we 'valuing' this?

Key Resources

Key resources are the assets, tangible and intangible, that make your business model work - and in the case of social enterprise, this refers to the resources that drive your commercial model AND the resources that drive your impacts. The table below outlines both the commercial resources that may be needed by social enterprises (based on Osterwalder and Pigneur, 2009) and the impact resources. Decisions need to be made within social enterprises about whether these resources are needed inside the enterprise, or whether key partnerships can be developed to ensure that these resources are accessible to the enterprise.

Of course when social enterprises start-up they, like many start-up businesses, may not have all the resources in place to scale up their businesses or their impact. This can be a work in progress. However, for social enterprises it is imperative to understand how critical it is to ensure access to the key resources needed to drive both the commercial business and the impact, and to plan ahead for how such resources can be developed and maintained. Further, it is important to think through the best ways to access the necessary resources and the sorts of capital and networks that may be needed in the process.

	Commercial		Impact
	Physical Resources Facilities, infrastructure, buildings, vehicles, systems, distribution networks	+	Special equipment and infrastructure, systems, accessible buildings.
	Intellectual Resources Brands, knowledge, contact management systems, partners, business knowledge and skills	+	Impact knowledge and skills, pro-bono support partners
	Human Resources People, staff, partners	+	Champions, support staff, brokers, powerful allies, support networks
	Financial Resources Cash, lines of credit, access to finance	+	Access to funds to cover impact costs
	Impact Resources		Methods and networks to assess and evaluate impact, all other assets needed to ensure impact delivery



WHAT REVENUES CAN WE
COOK UP?

WHAT WILL OUR COOKER
COST US?

Questions to ask about resources in a social enterprise

For example, many new social enterprises are bootstrapped - they rely on whatever resources are readily available at the time. Sometimes these are borrowed, or the founder's personal resources are used. If you're running a gardening and landscaping social enterprise using the founder's ute and lawnmower, it should be a priority to acquire commercial equipment as soon as possible. If you're running a social enterprise restaurant with a three-burner stove, then the limitations of this resource will be reflected in your bottom line, which in turn will limit your potential impact. Resources are the tools for driving your business and delivering your impact. If the resources are lacking, then your business bottom line and your impact will suffer as a result.

Commercial

- kitchen / coffee equipment
- Shop (asset)
- Location
- Brand
- Staff

Impact

- Support expertise
- Support staff
- Impact brand

- What physical, intellectual, human, and financial resources are needed for your commercial operations?
- What physical, intellectual, human, financial and impact resources are needed to ensure you deliver on your impact objectives?
- How could lack of commercial resources impact on the achievement of impact objectives? And vice versa?
- Do all the resources need to be located inside the social enterprise, or can some of them be located with and accessed through partnerships?

Key Activities

The key activities of your social enterprise encompasses the things you must do to deliver value to your customers - so, to ensure both commercial and social value.

Key activities across the commerce and impact of social enterprise may be:

- **complementary** - that is, the business activities are complemented by and/or complement the impact activities. So, for example, in the cafe, having a range of activities in food preparation, customer service and cleaning, may offer an array of potential jobs suitable for staff needing support and having different interests. Complementary activities may be leveraged for greater efficiencies across the delivery of commercial and impact value.
- **opposing** - there may be activities where it is difficult to balance commerce and impact value delivery. For example, if the cafe regularly has times when there are long queues and the pressure to serve customers quickly and efficiently is very high, then these commercial imperatives and the activities needed to meet them may be in conflict with activities associated with supporting workers who may not have experience or capacity to cope easily with high stress customer service. In this case problem solving is needed so that commercial and impact imperatives are balanced or at least can co-exist!

Being specific about what activities are critical to support and deliver your impacts is helpful not only in understanding what needs to be done on a daily basis to maintain your impact focus, but also to costing your impact. Unpacking your impact activities is an important part of understanding your business model as a social enterprise. Your impact customers and partners may also benefit from understanding just what it takes to achieve your impacts.

Commercial

- Baristaring
- cooking / catering
- customer service
- Front of shop and backroom management

Impact

- support and participation activities

Activities needed to deliver commercial value



Activities needed to deliver impact value



Questions to ask about activities in a social enterprise

- What are the key activities that we undertake to deliver our commercial value propositions to customers?
- What are the key activities that are needed to deliver our impact value proposition?
- What overlaps are there between the two sets of activities?
- What are the complementary activities? Are there ways we can build efficiencies into these complementary activities?
- What oppositional activities are there? How can we address these so that they are more balanced?

Key Partnerships

Partnerships refer to the network of suppliers, allies, supporters, co-creators and champions that are needed to ensure that a social enterprise can deliver on both impact and commercial objectives.

Partnerships can support and enhance both the commercial and the impact objectives of a social enterprise. The enterprise may have an active network of supporters who promote products and services or who are vital as a distribution network. Equally, the enterprise may have a network of partners who offer value-adds to your impact - they may support the participation of employees who have been unemployed, or they might help a social enterprise to scale its impact through social franchising mechanisms.

There may be different motivations for engaging in partnerships according to whether the partnership is centred on commerce, impact or both.

Questions to ask about partnerships in a social enterprise

- What partnerships are critical to helping us achieve our commercial objectives?
- What partnerships can help us deliver, strengthen or scale our impact objectives?
- What motivations underpin our partnerships?
- How do we structure our partnerships?
How do we demonstrate the value of our partnerships to each other and externally?

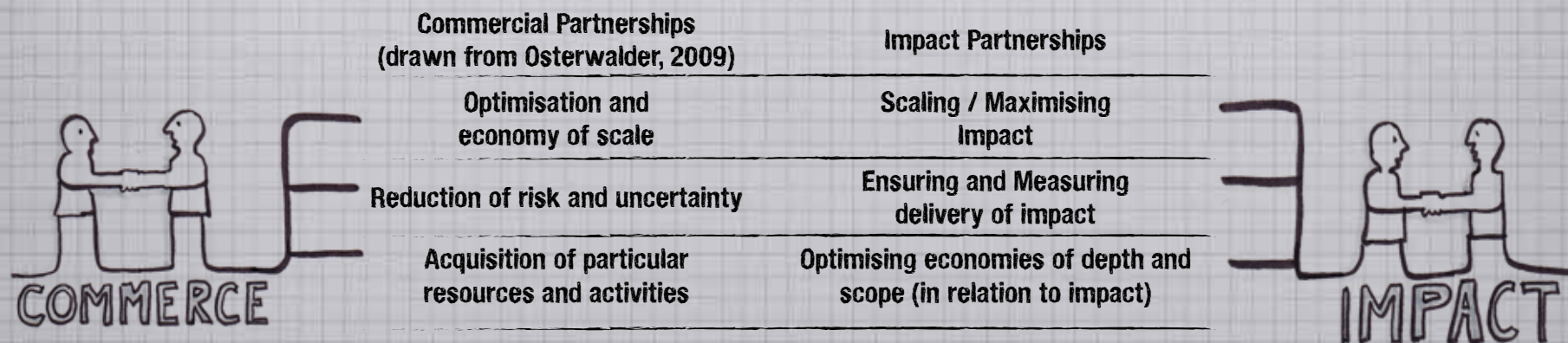
Commercial

- Coffee distributor
- Drink distributor
- Local chamber of commerce

Impact

- Not-for-profit partner supporting people with a disability
- Social Enterprise Alliance
- Social Investor

Potential Motivations for Partnerships in a Social Enterprise



Cost Structure

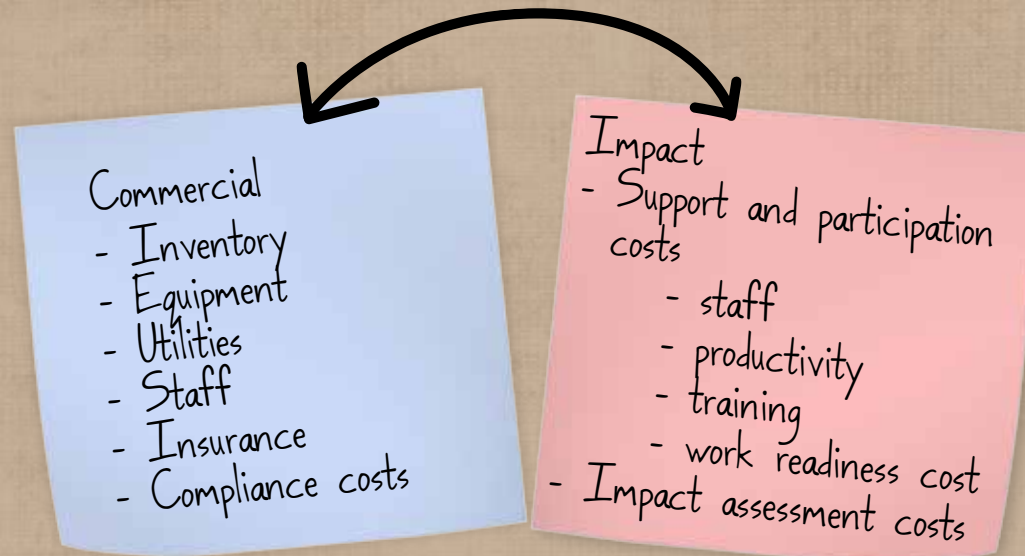
Like other parts of a social enterprise business model, the cost structure needs to take account of both the commercial operating and production costs AND the costs involved in delivering an impact. For most social enterprises this means understanding the costs involved in keeping the 'business' going, and unpacking what extra costs are needed to actually deliver on the impact of the enterprise. Impact is rarely, if ever, cost neutral - if it was, then every business would be a social enterprise! If you are employing people who have experienced long-term unemployment, this can cost you in terms of extra training, support, reduced productivity, poor performance. These are costs that are incurred above and beyond the commercial costs of operating your business. And of course, they are costs you are willing to incur in order to achieve your impact objectives!

Similarly, if you are operating a social enterprise that aims to ensure the long-term survival of local farms and farmers by running a community supported agriculture model, then you need to think about the costs that

are involved in achieving this impact by asking what costs you incur that most commercial operators are not willing to incur? In other words, what costs are stopping commercial operators from purchasing from the local farms and farmers that you are building your business around?

Understanding and articulating your impact is critical to being able to unpack its cost structure. If your impact is vague or ill-defined, costing it will be equally imprecise.

Next it is important to articulate what activities are undertaken and what resources are needed to deliver your social impact. This can be done visually by mapping the business process, all the activities that are undertaken in the course of delivering value to your customers, and then exploring the 'impact costs' associated with each of these activities. The resources needed to undertake these activities can then be added to the map, alongside additional resources needed to deliver on the impact.



Typical Business Operation Costs

Inventory
Premises
Wages/salaries
Equipment, machinery and tools
Utilities
Communication and postage
Insurances
Printing and Stationary
Advertising /marketing
Bank charges and interest
Vehicles / transport
Accountancy and other professional fees
Tax
Depreciation
License and compliance costs
Training



Impact Costs

Support and participation costs (extra staff costs for people to support workers)
Work readiness costs (licences, permits, uniforms etc. for disadvantaged workers)
Provision costs (for non-attendance, extra sick leave etc)
Impact training (eg. training for support staff)
Opportunity costs (eg. reduced productivity, costs of recruiting and training new staff constantly if you are an intermediate labour market social enterprise)
Fundraising costs
Impact assessment costs
Ethics costs
(eg. premiums for fair trade goods)



Three Critical Questions to ask about Costs in a Social Enterprise

What is the impact you are seeking to achieve in the social enterprise (and what is the difference between your ideal and real impact!)?

What activities do you have to undertake to achieve this impact?
Which of these activities would not be undertaken if this was a typical commercial business?
What costs do these activities incur?

What resources are needed to achieve this impact?
Which of these resources would not be needed if this was a typical commercial business?
What costs do these resources incur?

Key Partnerships

Commercial

- Coffee distributor
- Drink distributor
- Local chamber of commerce

Impact

- Not-for-profit partner supporting people with a disability
- Social Enterprise Alliance
- Social Investor

Key Activities

Commercial

- Baristaring
- cooking / catering
- customer service
- Front of shop and backroom management

Impact

- support and participation activities
- support

Key Resources

Commercial

- kitchen / coffee equipment
- Shop (asset)
- Location
- Brand
- Staff

Impact

- Support expertise
- Support staff
- Impact brand

Value Proposition

Commercial Value Proposition (CVP)

Great coffee, fresh food, personal service

Impact Value Proposition (IVP)

Sustainable employment for people who have been long-term unemployed

Customer Relationships

Commercial

- personalised service, repeat custom, loyalty
- long term customers

Impact

- personalised service, repeat custom, loyalty
- long-term impact customers

Channels

Commercial

- Retail - high traffic near public transport station
- Word of mouth
- www

Impact

- Social enterprise networks and directories
- Social procurement directories

Customer Segments

Commercial

- Walk-by commuters
- Local businesses, offices, services (retail and catering)
- Regulars

Impact

- Ethical consumers
- Not-for-Profits, other social enterprises
- social procurement customers (catering)
- Government - purchasing jobs for people with disabilities, and training

Cost Structures

Commercial

- Inventory
- Equipment
- Utilities
- Staff
- Insurance
- Compliance costs

Impact

- Support and participation costs
 - staff
 - productivity
 - training
 - work
- readiness cost
- Impact assessment costs

Commercial

- Retail sales
- Catering sales

Impact

- Participation and support funding
- Training funding
- Donations

Revenue Streams