Charities Unlocked

Realising the Commercial & Social Value of Charitable Assets

Prepared by

The Social Investment Consultancy

London | Dubai | New York
www.tsiconsultancy.com

About TSIC

The Social Investment Consultancy (TSIC) is a strategy consulting firm operating at the intersection of the for- and non-profit worlds.

Our consultants have in-depth experience of working in-house for and consulting to many of the world's leading private and charitable organisations. The integration of skills and expertise from across the public, private and third sector forms the basis for a range of professional services that drive social impact and organisational change.

We provide businesses, foundations, philanthropists, charities and social enterprises with the advice and support they need to reach scale and maximise their social impact.

For more information on our research and services, or to connect with our teams in London, Dubai or New York, please visit www.tsiconsultancy.com, or follow us on Twitter @tsiclondon.

Acknowledgements

This report was researched and written by The Social Investment Consultancy and published in April 2013.

Special thanks to Clore Social Leadership Fellow Aftab Hussain for his help in preparing the report.

Foreword

Talking strategy with the senior leadership of 50 charities representing a combined annual turnover of around £0.5 billion is always interesting. The fact that nine out ten of them told us they are already involved in generating their own income and, on average, want to double the amount they're earning from trading demonstrates a sector that is truly shifting.

For charities, entering into more commercial ventures can seem a real threat to core mission – diverting strategic focus and staff to running a successful business in addition to creating social impact. It is a departure from the operating model charities know best, and can be a significant investment risk at a time when the commercial sector is struggling just as much, if not more than, the charity sector.

So why are so many charities interested in pursuing enterprise? There is a new generation of social entrepreneurs directing charities – a wave of career-changers bringing commercial skillsets into the charity sector and young leaders who have grown up with the social enterprise movement. The gaps between the worlds of business and charity are closing, while consumers are demonstrating genuine interest in buying from charity brands. These factors are combining with the attributes of determination and innovation which the sector has drawn upon to respond to broader financial distress.

In the report, we combine original research into sector trends with our own experience in launching social enterprises to help charities take the first steps down the path to launching a successful business. In order for a charity to provide an incredible service in any field, it needs to have assets, people, products, services, brand or reach that make it unique. We propose that charities look at how these core strengths can be leveraged to start businesses that are based on assets rather than ideas. To help charities do this, we introduce a new assessment tool, 'TSIC Unlock', which any charity can use.

While some charities will replicate existing models of opening charity shops, pursuing cause-related marketing or selling charity-branded products to ethical consumers – and there is still a place for these activities – we get most excited by real product and service innovations designed by charities for the benefit of the markets they know best.

The challenges to making this happen are significant, but for those pioneers who can audit their assets, attract investment and bring in the relevant expertise to make a success of their commercial ideas, the prize is a real one.

We hope you enjoy the read and share your reactions with us.

For any questions on our research and our services, please contact me on jake@tsiconsultancy.com.

Jake Hayman
CEO, The Social Investment Consultancy
London | Dubai | New York

Introduction

Imagine an economy in which you could get your car repaired, book a holiday, or purchase day care entirely from charities selling quality services.

While charitable activities traditionally have been thought of as dependent upon private giving and government grants, the past few decades have seen a flourishing in entrepreneurial activity on the part of charities looking to offer competitive products and services to consumers as well as core beneficiaries in the open market.

There is a long tradition of charities leveraging their donor base and the goodwill associated with their brand to receive free stock and a line of customers in charity shops. With the rise of the social enterprise movement, charities are becoming more entrepreneurial and increasingly charging for services as well as looking to launch commercial activities to diversify and augment their revenue streams. Particularly during an economic downturn, when private and public funding to support the third sector can become scarce, such ventures present an attractive way for charities to make their own money.

TSIC believes there could be a bright, lucrative future for the next generation of charity-businesses. However, getting the model right takes careful and creative planning, as well as significant resource investment. As a result, many charities that are new to enterprise will face difficulties in knowing where to begin in scoping opportunities and understanding the unique offering their organisation could bring to the marketplace.

Report Overview

This report examines the current funding landscape for charities in the UK and provides insight into the income strategies of sector leaders based on original research and interviews with UK charity executives. Overall, the findings present a picture of a sector that is already highly entrepreneurial and set to become more so.

An overview of the scope and diversity of current revenue-generating activities is provided alongside case studies of a few of the most forward-thinking examples from the sector. The report profiles some of the common challenges faced by charities in pursuing such ventures, and ultimately provides a means of helping charities answer the question 'What makes us successful in creating social impact and how can we profit from that?'

TSIC Unlock – A New Assessment Tool for Charities

As an effort to help charities understand whether and how they can build successful businesses out of their work, The Social Investment Consultancy is excited to launch 'TSIC Unlock'– an open-source tool to help charities assess their core assets, scope market opportunities, and generate viable business models which unlock the hidden commercial value within existing resources. The approach centres on leverage – understanding how the investments a charity already has made to carry out its social mission can be refashioned as free investments into potential businesses to give it an advantage in the marketplace.

The research and TSIC Unlock tool as a whole are intended to shed light on what often feels is a highly interesting but poorly understood area of activity within the charitable sector. The report aims to shift the debate forward on what is possible for the sector and what actually works, as well as help charities better understand the opportunities in front of them.

Charity Income Strategies

Growing earned income is a priority for many UK charities and will be a site of continued experimentation in coming years.

Charities earn income through a variety of activities, which can broadly be classified into 3 types:

- **Voluntary Income**: Income freely given, usually as a grant or donation, for the purpose of doing good. Examples include private donations, legacies, grants, and corporate gifts.
- **Earned Income:** Income generated from the sale of goods and services, whether through unrelated trading activities, charging beneficiaries, delivering services under contract, or membership fees.
- **Investment Income:** The proceeds generated from a charity's investments and cash reserves. Examples include dividends, investment payments and rent from investment property.

In the UK earned income for charities has grown significantly over the past decade and in 2010 represented 55% (£20.1bn) of all income in the charitable sector – nearly double the amount that was being earned in 2001/2 (£10.6bn in 2010 prices). Within this category, funding from statutory sources – such as a government contract for a social care organisation to provide fostering services – is currently the largest source of earned income at £10.9bn.[i]

While the amount of money available from statutory sources has grown significantly in recent years as local authorities have moved away from making grants to charities and towards payment by results contracts and competitive bidding, the number of charities receiving such funding is relatively small. On average less than 1 in 3 charities that generate earned income receive funding from statutory sources. Furthermore, the majority of these organisations are focused on delivering a specific range of services that local authorities are responsible for providing – namely employment and training, social services, law and advocacy work or community development initiatives.[ii]

Statutory funding is thus not a realistic option for many charitable causes while public sector funding is also not expected to be a strong area of growth for UK charities in coming years. In line with an overall reduction in government spending, the charitable sector is estimated to lose around £1.2 billion in public funding a year by 2015/16, leading to a total reduction of 9.4% (£3.3 billion) on 2010/11 figures.[iii]

To add to this, many charities are finding it increasingly difficult to secure the funds they need to sustain their work from individual donors in a sustained economic downturn. While the UK public remains widely supportive of charities, with over half (55%) of the adult population donating to charity in the past year, total donations fell by 20% in real terms between 2010/11 and 2011/12, as donors squeezed by the recession reduced the average amount they gave.[iv]

> **“We need to diversify into more sustainable sources of income - it's about survival. When you are as reliant on government contracts and voluntary income as us, you have to think about what the world will look like in 2-3 years. The truth is it's going to be moving further into payment by results contracts and away from grant funding. We are looking at how we can take advantage of this and earn more income from trading.”**
>
> *Charity Executive in Youth Sector, TSIC Interviews*

Charity leaders are highly conscious of the immediate impact of these trends. 47% of charity leaders surveyed by NCVO in late 2012 said they expected that they would need to cut spending in 2013 and a third that they would need to cut staff.[v] As a result, charity leaders are highly attuned to the need to augment – and sometimes replace entirely – current income streams.

What are charity leaders thinking?

To shed greater light on current thinking across the sector, between December 2012 and February 2013 TSIC interviewed 50 executives from UK-registered charities representing a variety of cause areas about their current income streams and future strategies. The results provide a snapshot of a sector that is, in many ways, facing huge challenges, though also highly entrepreneurial and looking to become more so in response to the current climate.

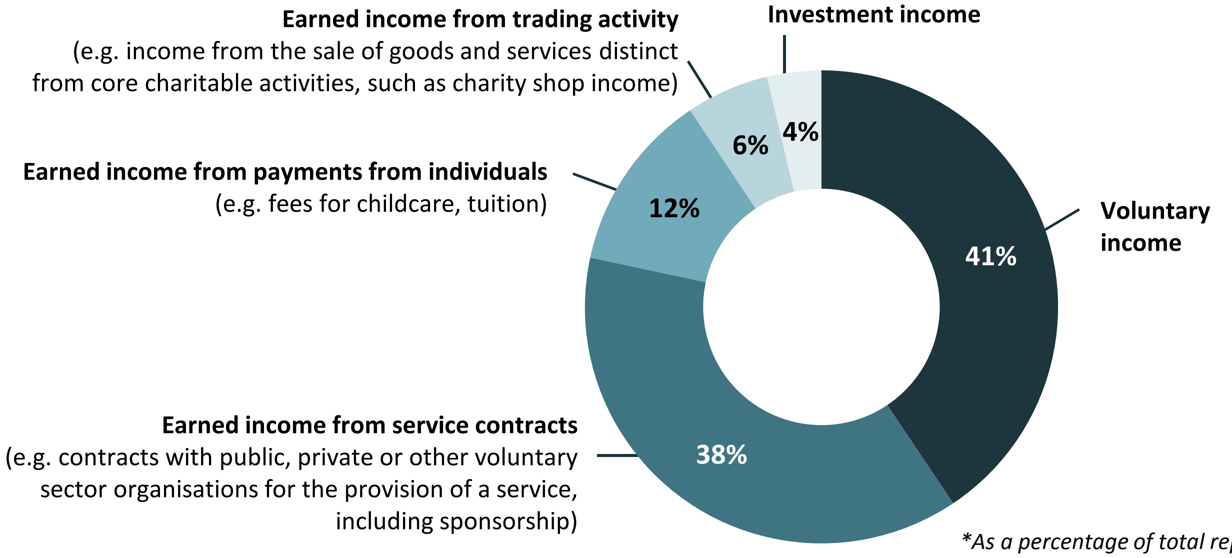
On average, 9 out of 10 charity executives (88%) interviewed by TSIC reported they were currently earning a portion of their income, accounting for 56% of the total income reported by respondents or £265m across the 50 charities interviewed. Among the different categories of earned income, income from service contracts – whether with public, private or other voluntary sector organisations for the provision of a designated service – accounted for the largest portion of earned income (see Figure 1) and closely mirrored trends within the sector as a whole.

While generating revenue was already a regular practice across many charities regardless of their size or strategic focus, a solid 65% of interviewees reported they planned to grow the relative share of their earned income further over the next five years. This appeared a particular priority among smaller charities, many of whom face greater risk in the case of, for example, losing a large government or private grant. 91% of interviewees from charities that are currently receiving less than £1m in income annually indicated they were looking to grow the share of their earned income within the next five years.

While the reasons for looking to increase sources of earned income varied from organisation to organisation, frequent explanations included reducing a reliance on government sources of income as well as growing a reserve of unrestricted income. The latter was cited as a priority by charities who felt the movement towards payment by results contracts and programme specific grant-making by government and private funders had left them with little seed funding to trial new programmes or flexibly move resources to where they are most needed.

Exploring trading activity in particular was referenced as a potential way of generating unrestricted funds to replace a fall in unrestricted grant income. Furthermore, charity leaders expressed interest in social enterprise approaches

Figure 1. Survey Respondents – Current Income Streams*



**As a percentage of total reported income* as potentially the most promising avenue for charities to trial new service delivery models and programmes due to a feeling that appetite for 'risk' has migrated away from grant-making bodies and into social investment.

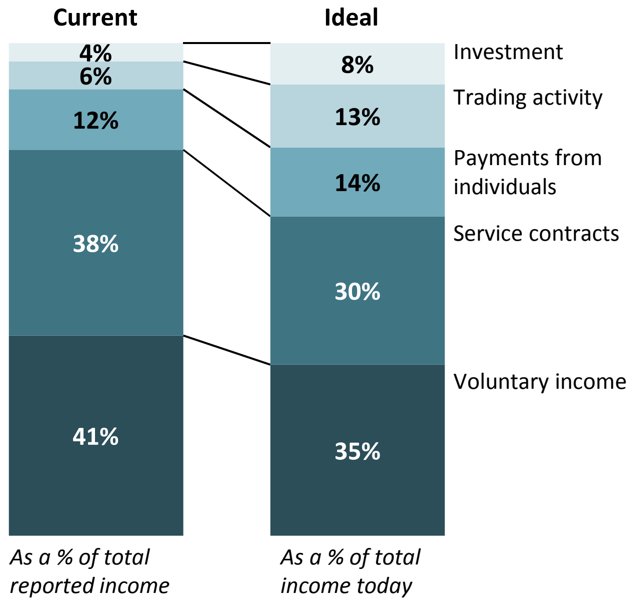
> **Governments want to back things that are proven and take them to scale. As a consequence, the funding for truly innovative approaches has completely disappeared – it is government grant funding that used to allow charities to innovate. I think where this may now come from is the social investment space, which is still able to take a venture approach and tolerate failure on occasions.**
>
> *Michael Chuter, Director of Finance and Resources, National Children's Bureau*

Where is the third sector headed?

Finally, TSIC asked charity executives what they would consider an ideal income mix for their organisation. The response reflects a sector that, on the whole, aspires to become more self-reliant and generate its own finance through selling quality services direct to beneficiaries and/or proxy organisations serving them, as well as through selling products or services to the general public. As a trend across all respondents, charity executives wanted to reduce their reliance on voluntary income as well as income from service contracts (see Figure 2). The latter reflects an interest in moving away in particular from reliance on government contracts. In the place of these sources, charity executives wanted to grow the share of income they receive from investments, payments from individuals for core services as well as trading activity.

The interest in developing trading activity demonstrated a rise from 6% of all reported income today to 13% in an ideal world across all respondents. This indicates that, while trading activity is not seen as a 'cure-all' that can rapidly

Figure 2. Survey Respondents – Current v. Ideal Income Mix



take over a large portion of income, it is an area that many charities are interested in exploring further as part of achieving a more balanced income mix. Exploring trading activity is thus likely to be an area of growing experimentation in the coming years.

> **We definitely want to diversify our income streams – at the moment, most of our income comes from statutory contracts but we want to see an increase in investment income and trading activity in the form of delivering training. Over the last 1-2 years, statutory grants have become contracts which limits what our organisation can do.**
>
> *Jeremy Todd, Chief Executive, Family Lives*

Revenue Generation Approaches

While charity shops are undoubtedly the most familiar form of charity-owned enterprises, a wide range of different initiatives exist in the market at present.

These commercial ventures cover a spectrum from being closely connected to a charity's core work, such as identifying a paying market for an activity already carried out by the charity, to less-aligned activities that may make use of an existing resource but target a wholly different market – for example, facilitating market research focus groups with young people on behalf of commercial brands.

Similarly, current initiatives may make extensive use of a charity's existing assets (see Figure 3) or represent wholly separate ventures which exploit an identified commercial opportunity and may not even use the charity's brand. Charityclear – a trading subsidiary of Epilepsy Scotland – offers a competitively priced secure payment gateway to compete with online service providers such as Sage Pay and World Pay, while guaranteeing that 100% of the profits from transactions will be directed to charity.

Though it is difficult to gain an overall picture of the success rate of charity enterprises relative to other businesses, there is clearly the potential to do very well out of these ventures. Age UK Enterprises (see pg. 9) generated a net contribution of £26m in 2011-12 to its parent charity, representing approximately 1/3rd of the charity's income.[iv]

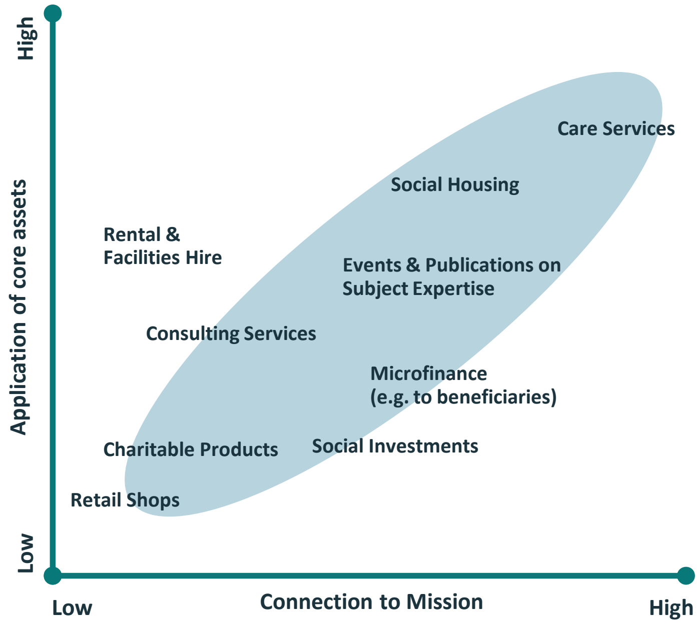
Given the diversity of current activity, it is understandable that many charities will face difficulty in knowing where to begin in scoping market opportunities and understanding where they have the strongest prospects of developing viable businesses. As a result, many of the new businesses in this sector have been replications of existing models rather than examples of genuine innovation – a strategy which carries risks of its own.

Effectively, by investing in replicating the models of others, charities are crowding small markets and failing to realise new ones. More importantly, they are building businesses that are focused on what has worked for others rather than what would make the best use of their unique assets. In a time when business on the whole is struggling to cope with the economic downturn, charities considering investment in enterprise need as much competitive advantage and leverage as they can find.

Charities already possess a wealth of unique resources that can be the starting point for developing new businesses. Charities have made significant investments to hire and develop talented staff, acquire infrastructure, build networks, and develop a brand which are capable of generating real commercial as well as social value. These assets can be further utilised in potential new business ventures, opening up the possibility for margins that mainstream businesses could not deliver.

Additionally, ventures that are more closely connected to a charity's core mission – in essence, initiatives moving towards the top-right corner of Figure 3 – are likely to be more satisfying to staff and trustees and preserve the charity's core brand with consumers and beneficiaries.

Figure 3. Overview of Revenue-Generating Activities



TSIC Unlock: A New Tool

TSIC Unlock is a market-leading assessment tool designed to build successful businesses out of charity assets.

Based on TSIC's experience incubating social enterprises in education, professional services and other sectors, the process maps a charity's resources against commercial opportunities to identify where the organisation possesses unique talents that can be applied towards pursuing successful revenue generating activities. Figure 4 (overleaf) provides an overview of the TSIC Unlock process.

Stage 1: Audit Organisational Assets

The process begins by breaking down a charity's core assets in seven key areas:

- **Brand:** The charity's brand recognition, reputation and reach – both among target beneficiaries and with domestic and international audiences.
- **Products & Services:** The core products and services that the charity delivers.
- **People & Expertise:** The skills held by paid staff, volunteers and trustees, as well as organisational expertise (e.g. service delivery models, advocacy expertise).
- **Knowledge, Research & Development**: Information and data held within the organisation (e.g. data on key social groups), product research and development capacity.
- **Infrastructure**: Physical infrastructure (e.g offices, community centres), delivery infrastructure (e.g. a rural delivery system), and IT/Systems infrastructure.
- **Communications & Networks**: The audiences and networks within the reach of the charity, including fundraisers, volunteers, advocates, and patrons.
- **Investments:** Cash reserves and financial investment strategies.

This audit provides a comprehensive picture of where the organisation possesses unique resources that could be applied towards commercial and social value creation.

Within this initial stage, the charity's mission and current strategy are also brought into consideration to understand what it is that the charity wants to achieve in the world and how any revenue-generating activity should fit into furthering that mission. Furthermore, potential risks are assessed to identify upfront any challenges the charity needs to navigate and to set critical success factors.

Stage 2: Map Against Commercial Opportunities

Having gained an understanding of the charity's unique talents and capacities, the second stage of the process involves mapping assets against potential commercial opportunities. Based on where the charity possesses unique resources, existing social enterprise and commercial business models in relevant markets can be examined and considered as starting points for developing new ideas. Some markets well-known to the charity may be underdeveloped and an area where the charity's specialist knowledge can be used to identify gaps and to develop competitive products and services.

In addition to potential trading opportunities, market opportunities can also be considered to:

- Reconfigure and/or develop the charity's existing activities to tender for available public, private or third sector contracts;
- Sell existing services into new markets; or
- Sell services into current markets through a fee-paying model.

This scoping process helps charities identify where they can generate the greatest potential value out of existing assets.

Stage 3: Design Potential Products & Services

After identifying market opportunities, the charity's leadership team and successful entrepreneurs from relevant sectors are brought together to creatively brainstorm what products or services could be developed. In addition to considering which ideas are the most lucrative, ideas are also assessed alongside the charity's mission and pre-identified success factors to filter out the strongest ideas that both utilise a charity's existing assets and support its goals.

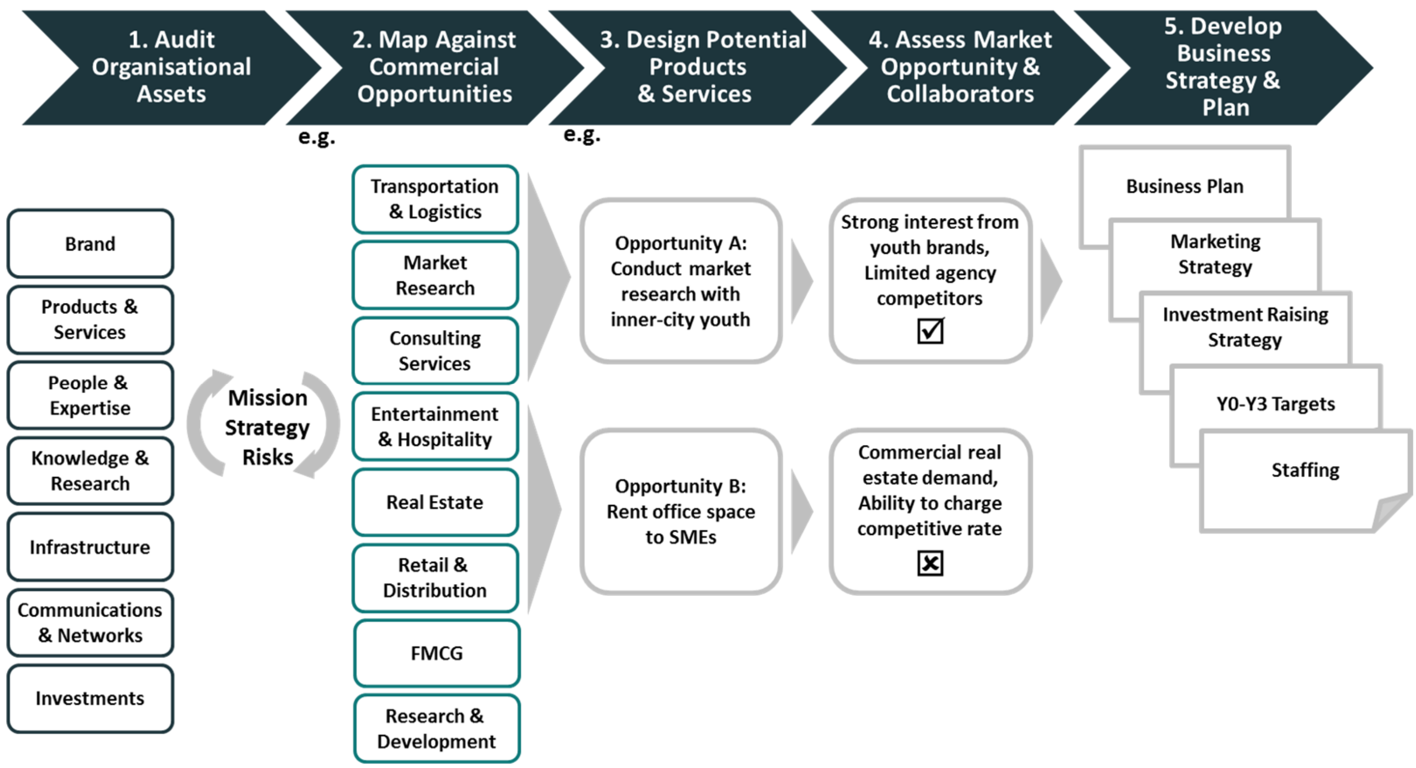
Stage 4: Assess Market Opportunity & Collaborators

After prioritising ideas, relevant market research is conducted to assess the feasibility, potential profitability and investment required to pursue each potential venture. Industry experts are consulted and existing businesses operating in the market are examined to understand what the charity would need to do to compete successfully, what profit margins and revenue forecast it could expect, and what investments the charity might need to make – such as hiring additional staff – to pursue the idea successfully. Potential collaborators and end users who would be critical to the success of the venture – for example, schools willing to purchase a new workplace readiness training course – are also consulted.

Stage 5: Develop Business Strategy and Plan

Having obtained an objective assessment of whether and where the charity could pursue revenue-generating activities successfully, a business strategy is developed to help the charity pursue the top opportunity/ies. A business plan is created that identifies key revenue targets, milestones and the route to market. A marketing strategy is developed to ensure the successful launch and promotion of the new venture, along with key messages to communicate to internal and external stakeholders, as well as potential investors. A strategy is developed to raise any needed finance, for example through identifying appropriate social investors and acceptable investment terms. A staff recruitment plan is also devised according to need to ensure the right individuals are in place to drive the new venture.

Figure 4. TSIC Unlock Overview



Activities	▪ Conduct audit of organisational assets in seven key areas ▪ Understand charity's mission, strategy and potential risks	▪ Identify potential commercial opportunities using key assets ▪ Conduct research into existing products, services and competitors	▪ Brainstorm new products or services with leadership	▪ Identify additional resources and investments required (e.g. staff, infrastructure) ▪ Conduct market and competitor analysis	▪ Develop business strategy, timeline and route to market ▪ Design marketing strategy ▪ Develop investment raising strategy ▪ Develop plan for staff recruitment
Deliverables	Complete assessment of core strengths, capacities and key success criteria	Identification of 3-5 potential commercial opportunities	Outline of 2-3 potential products or services	Prioritised list of most lucrative opportunities, risks and unique selling points	Detailed business plan and strategy for taking new products or services to market

Unlocking Value: Case Studies

The advantage of undertaking a structured assessment is that it provides an objective view of whether and where charities possess viable opportunities.

Rather than beginning with chasing ideas, it enables charities to look at the most cost-effective and intelligent ways of using their existing resources to develop ideas that can truly compete in the market.

Importantly, not all charities will find highly lucrative commercial opportunities, or will conclude that the investment needed to realise a potential revenue stream outweighs the anticipated short- or long-term benefits. However, the value of applying a process such as TSIC Unlock is that it enables charities to conclude definitively what opportunities might be available to them and whether they are prepared to pursue them successfully.

The case studies in Figure 5 (overleaf) provide an overview of existing charity revenue-generating activities explained through the TSIC Unlock process.

Age UK Enterprises

Age UK, a recent merger of Age Concern and Help the Aged, has a combined history of nearly 120 years working to improve later life. Through its intimate knowledge of working with older people, the charity was able to identify that the market was failing its beneficiaries in several areas – for example, through not providing affordable home or travel insurance to individuals over 70. In response, Age Concern started a business to increase access to quality products and services for its beneficiaries, in turn generating a surplus of income for its charitable work.

While initial revenue-generating activities focused on offering financial products and services – such as lifetime mortgages and estate planning – Age UK Enterprises has rapidly grown its product portfolio in recent years to offer energy services, mobility aids, mobile phones and alarm systems. A large part of the enterprise's success has grown from the fact that the charity already possessed specialist knowledge into the needs of older people, enabling it to conduct focused market research and product development. It also had access to a large, potential customer base who already trusted the Age UK brand.

This expertise has been capitalised upon to create competitive products and services. Age UK Enterprises' trading activity, which is distinct from Age UK's charity shops, has proven highly popular with the charity's beneficiaries. Managing Director Gordon Morris states, 'We've been able to develop a customer base who have stayed with us for years. Our customers are huge advocates, they like being both a supporter and a customer of Age UK. We have incredibly high customer loyalty.'[v]

Salvation Army E+ Electrical Safety Testing

The Salvation Army is a UK-headquartered international charity well-known for its work to relieve poverty, advance education and broadly improve society. While the organisation's charitable activities have long been supported by an entrepreneurial approach to fundraising – which, in addition to charity shops, includes running its own bank and an insurance company in the UK – in recent years the charity has begun to explore social enterprise opportunities as a way to assist beneficiaries simultaneously with generating income.

Out of recognition that a key aspect of introducing stability and self-reliance into a homeless individual's life is through access to training, working in groups and paid employment, in 2009 The Salvation Army created the Employment Plus (E+) Electrical Safety Testing service to directly provide skills-training to individuals from its shelters. In scoping potential commercial opportunities to develop the business, the charity first looked at its internal market – a network of over 700 churches as well as numerous hostels, a housing association and other properties in the UK, all of which were regularly purchasing electrical safety testing services for appliances and wiring from external providers. The charity further recognised that Portable Appliance Testing (PAT-testing) was a marketable skill which its homeless beneficiaries could acquire relatively easily.

The Salvation Army took its business idea to the Spark social enterprise competition and won a £47,500 grant to invest in hiring experienced electricians to run the business and get their training accredited. The service launched in 2009 and has grown to a point where it is breaking even, selling to both internal and external clients and already considering expanding into new testing services. 76 homeless or long-term unemployed individuals have been trained in PAT-Testing to date, 28 of whom have now successfully moved into employment with 4 directly working in PAT-Testing.

Rather than viewing the venture as a marginally successful business, Steve Coles, Social Enterprise Development Manager at The Salvation Army, describes it as a 'high-performing charity' – 'It is self-generating the revenue it needs to achieve its aims and is injecting additional social impact into other areas of the charity' aimed at helping the homeless and long-term unemployed.[vi]

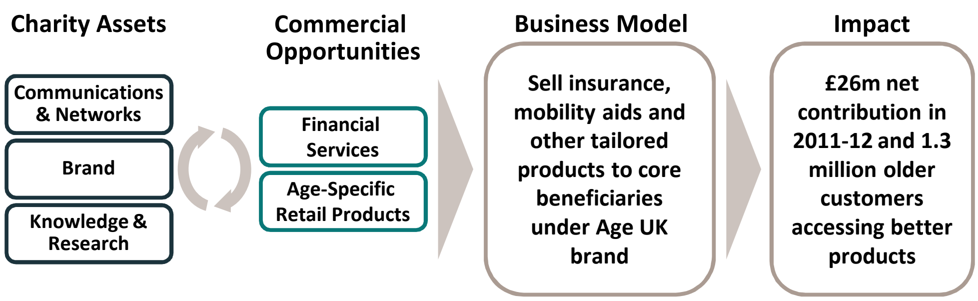
Royal Courts of Justice Advice Bureau

The Royal Courts of Justice (RCJ) Advice Bureau in London offers support and advice to those who are unable to access the legal system through other means. In response to a 40% increase in demand for its services in 2011 and the threat of cuts to its core public funding, the Bureau appointed TSIC to help it explore potential new revenue generation opportunities to augment its income.

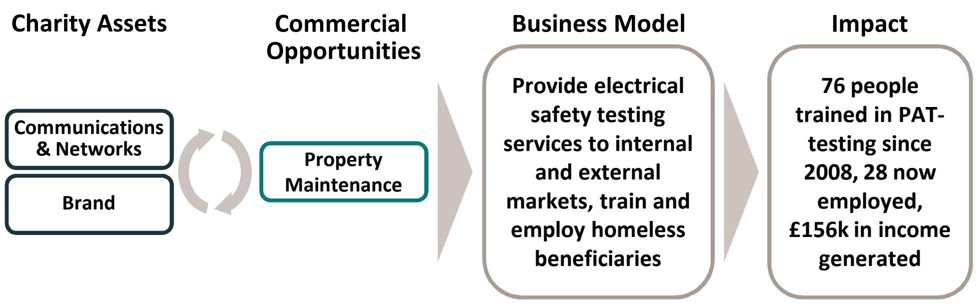
An audit of the Bureau's assets revealed it possessed a strong brand with a reputation for offering high quality and impartial advice. Furthermore, it had already developed several high-quality, 'how-to' documents explaining how to

Figure 5: Innovative Examples

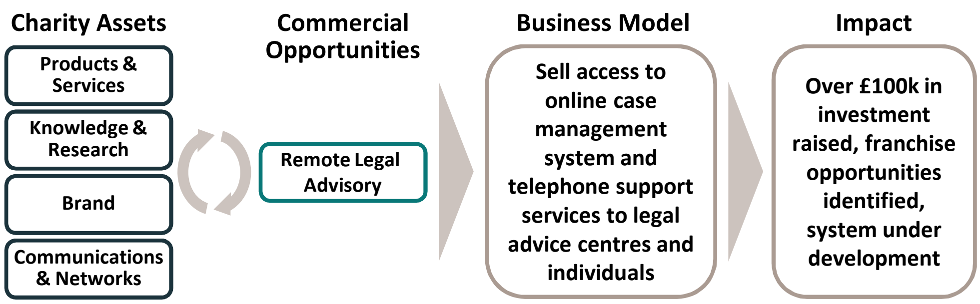
Age UK Enterprises is drawing upon its expertise in understanding the needs of older people to develop quality products for over-50s, such as travel insurance and mobility aids. While exploiting gaps in the market to generate revenue to support Age UK's work, the enterprise is providing beneficiaries with greater market choice and fairer products.



The Salvation Army E+ Electrical Safety Testing service is selling electrical safety testing services to its internal network of over 1,000 Salvation Army-owned properties as well as to external clients. The service provides accredited training and employment opportunities to help homeless individuals back into work, directly achieving the charity's objectives while covering its costs.



The Royal Courts of Justice Advice Bureau is developing an online case management system for court procedures, leveraging its staff expertise and reputation for offering quality, impartial advice to extend its knowledge to beneficiaries beyond London and improve its ability to continue providing free legal advice.



navigate the court system and complete a variety of legal processes. The Bureau also possessed a network of highly experienced paid and volunteer staff, many of whom were qualified lawyers capable of advising on a variety of issues.

Assessing these organisational assets alongside potential commercial opportunities, a gap in the market was identified to develop an online portal which could serve as a central, 'go-to' source of information for other legal advice centres to refer their clients to for advice on how to navigate key legal processes. Market research showed that if other institutions and individuals intending to pursue litigation could pay a modest fee to access the service, the annual turnover could grow to in excess of £1 million.

As a result, the Bureau is developing CourtNav – an online case management system for court procedures which will collect together the latest forms with a review service and fee-based telephone support. The platform has attracted strong interest from law centres and over £100,000 in investment from many of the Bureau's existing supporters. CEO Alison Lamb explains, 'Funders like innovation and ours were happy to support it because they saw it as something interesting which could amplify their donation – several did want to know how much the amount they contributed would eventually allow us to raise'.[vii]

The system is currently in development and, when it is launched, will enable the RCJ Advice Bureau to extend its expertise to beneficiaries beyond its London offices, while also hopefully improving its financial sustainability during a highly difficult time for legal advice charities.

Challenges & Risks

Pursuing revenue-generating activity can carry important implications and risks which charities need to consider carefully.

The examples in the previous pages provide real excitement over the opportunity for charity businesses to compete successfully with the commercial sector, while offering meaningful products and services that add real value to the lives of consumers and beneficiaries. However, pursuing revenue-generating activity and, in particular, trading activity is an area that also raises alarm bells for many charity leaders and trustees for legitimate reasons.

Several of the charity executives TSIC spoke with who both had and did not have experience in revenue-generating activities expressed concerns over issues ranging from reputational risk to exposing the charity to unacceptable financial risk. Some charities who had pursued non-asset or impact-driven trading ideas before expressed the experience had been highly unsatisfying to staff.

> **"We tried to sell t-shirts for a while but to be honest it was a bit of a nightmare – no one could agree on the design or wanted to put time into marketing. It's not our area of expertise, we're good at suing governments."**
>
> *Clare Algar, Executive Director, Reprieve*

While undertaking a detailed assessment and planning process similar to TSIC Unlock helps charities develop unique business models and avoid the pitfall of entering into financially high-risk and/or low-return ventures, it does not assume such activities will be the best way for every charity to augment its income.

Indeed, voluntary income can still provide a rich and rewarding source of support for charities. If a charity can find a grant maker willing to fund a programme for five years, for example, such an offer provides a very robust and resource-efficient cashflow. Charities may decide to instead spend precious time and resources on improving the quality of their monitoring and evaluation processes, enhancing their fundraising or focusing on core delivery as a way of adding greater 'security' to sources of voluntary income.

Pursuing revenue-generating activities may also carry several challenges for the charity, which could include:

- **Organisational buy-in**: For example, from staff and trustees who may be new to enterprise and require time to ensure proposed activities do not compromise the charity's work.
- **Resource competition:** Including ensuring existing staff are not overburdened with having to run a business in addition to their normal roles, and that proposed activities will not divert resources critical to charitable programmes.
- **Staff preparedness:** Ensuring the organisation possesses employees with the skills, experience and motivation to run a successful business, which may require the recruitment of new staff with appropriate commercial backgrounds.
- **Mission drift:** Making sure the charity does not become so defined by its revenue-generating activities that staff or beneficiaries lose sight of its core mission; and also that the introduction of new staff does not lead to a clash of cultures or challenges over issues such as wage structuring.
- **Cash flow:** New enterprises often require significant seed investment and may require several years of support before they become profitable. It is critical the charity ensures it has both the cash reserves and patience to effectively finance a start-up business.
- **Financial risk:** Even with the right model, markets and consumer demands may shift, altering financial projections and the size of a market opportunity. Charity-businesses are not immune to challenges in the market as a whole.

The TSIC Unlock process works with charities to identify potential organisational as well as commercial risks, and to develop effective mitigation strategies – for example, through developing business cases appropriate to take to trustees or social investors, or setting realistic sales targets and performance management for staff. However, it is an area that charities will and should continue to approach carefully.

The Opportunity

For charities with an entrepreneurial mind-set and the right advice, getting into business can be an effective way to deliver more for society.

There is no reason to think that charity revenue generation should be easy – particularly at a time when mainstream commercial businesses are suffering in an economic downturn. However, these ventures can be highly exciting opportunities for charities with an interest in trialling enterprise models to support their core mission.

Gordon Morris, Managing Director of Age UK Enterprises, believes that with the right planning, people and patience in place, revenue-generating activities can present a highly lucrative opportunity for charities. He offers the following advice for charities considering such a path:

> **"I would tell charities that to get it right, they need to think correctly and commercially. They need the right people planning it, to get the right advice. You need people who have a background in planning these types of activities, which can be quite different from the background you find in the third sector. But if you get the planning right it can be a huge opportunity. By doing it properly, we've been able to develop a customer base who have stayed with us for years – we are building a renewable income base for our organisation."**
>
> *Gordon Morris, Managing Director, Age UK Enterprises*[x]

Previous TSIC research demonstrates that donors are likely to be interested in supporting charities in making their activities more sustainable. In a TSIC-YouGov Stone poll of 476 high net worth individuals in the UK, more than 40% stated they would be more likely to make a gift to a charity to help it launch and/or scale revenue-generating activities. Approximately 11% stated they would be 'much more likely' to make a gift for this purpose.[xi] High net-worth individuals want to fund this sort of activity by charities and charities that pioneer new models will be able to access more capital, not compromise existing donations. When combined with the rapid development of the social investment marketplace in the UK, charities in this country are better placed than anywhere in the world to access financing for the right commercial projects.

At TSIC, we are excited about working with charities to help them recognise their unique opportunities to trial social enterprise models, and to get the planning right in order to help them deliver more for society.

Research Methodology:

Between December 2012 and February 2013, TSIC conducted 5-minute, structured telephone interviews with 50 executives from UK-registered charities who volunteered to take part in the study. Compared with the sector as a whole, respondents disproportionally represented larger charities with 69% reporting an annual income of >£1 million. The spread of causes represented was reasonably consistent with the diversity of the UK charity sector as a whole.

References:

i. Jenny Clark, David Kane, Karl Wilding and Peter Bass, "The UK Civil Society Almanac 2012", National Council of Voluntary Organisations (NCVO), 2012, pgs. 39, 52, 79-80, 87.

ii. These sectors all receive nearly half of their overall income from statutory sources. The employment and training sub-sector tops the list receiving three-quarters (75%) of its total income from statutory sources, social service organisations receive 56%, law and advocacy 58%, and community development 48% from statutory sources. Ibid, pg. 25.

iii. Ibid, pg. 43.

iv. Daniel Lombard, 'Half of charity leaders plan to cut spending in 2013, NCVO quarterly survey finds', Third Sector Online, 25 January 2013.

v. NCVO and Charities Aid Foundation, 'UK Giving 2012: Summary of Findings', November 2012, pg. 2.

vi. Age UK, Annual Review, 'Report of Trustees and Annual Accounts, 2011-2012', pg. 60,.

vii. TSIC interview with Gordon Morris, Managing Director, Age UK Enterprises, 14 September 2012.

viii. TSIC interview with Steve Coles, Social Enterprise Development Manager, The Salvation Army, 19 September 2012.

ix. TSIC interview with Alison Lamb, CEO, Royal Courts of Justice Advice Bureau, 19 September 2012.

x. TSIC interview with Gordon Morris.

xi. TSIC Briefing, "Financing Revenue Generation in the Third Sector," March 2010.

The Social Investment Consultancy

www.tsiconsultancy.com
info@tsiconsultancy.com
Twitter: @tsiclondon

London Office
338 City Road
London EC1V 2PY
United Kingdom
+44 (0) 207 239 8935
tsic-uk@tsiconsultancy.com

Dubai Office
Boulevard Plaza Tower One
Level 14
Emaar Boulevard
Downtown Dubai
P.O. Box 334155
Dubai
United Arab Emirates
+971 (0) 506 251 290
tsic-uae@tsiconsultancy.com

New York Office
220 East 42nd Street
7th Floor
New York, NY 10017
United States
+1 212 499 0866
tsic-us@tsiconsultancy.com

Download report