2017 Q1 Research

Charities Unlocked: Progress and Potential for Charity Revenue Generation

Spring 2017

Prepared by

The Social Investment Consultancy

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 November 2016.

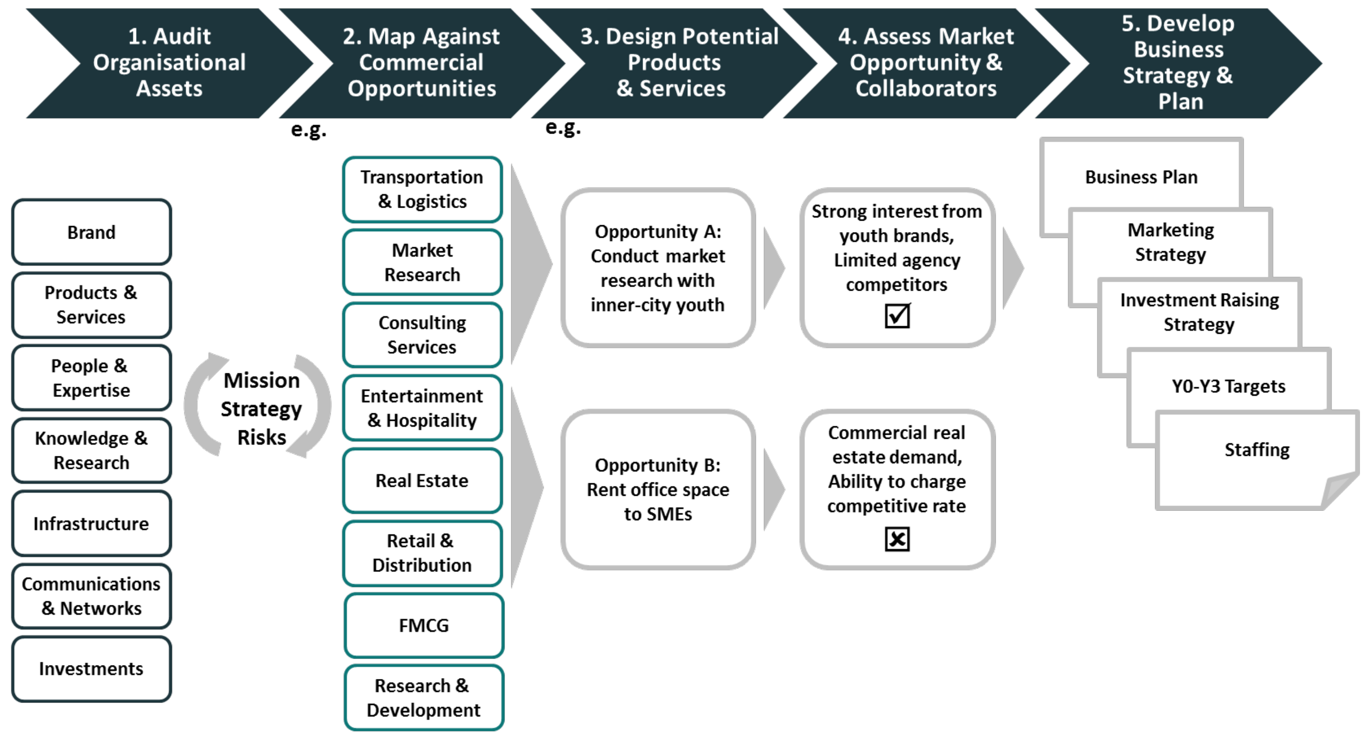
Introduction: Setting the Stage

The last three years since the original Charities Unlocked report was released saw difficult changes in the social sector. In our original report we gathered thoughts from over 50 charity executives with combined revenue of £0.5bn – 9 out of 10 were already involved in generating their own income and on average they wanted to double the amount earned from trading activity.

When we noticed this significant shift in the sector in 2012, we developed a new tool: 'TSIC Unlocked', which combines original research into sector trends and our own experience in launching social enterprises. We think that this tool is still relevant to charities today - indeed, it is ever more relevant as charities are increasingly interested in diversifying income over the next 12 months.[1] They may, however, be deterred from pursuing trading activity because of the increased competition they expect to face from other charities.

TSIC Unlocked is an open-source methodology that allows a charity to conclude definitively what opportunities might be available to them and whether they are prepared to pursue them successfully. This report investigates the relevance of this methodology in the charity sector currently given the challenges faced by charities, reviews the progress in charity revenue generation, and finally makes recommendations to organisations interested in pursuing revenue generation.

Figure 1. 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

Challenges Faced by Charities

In a competitive business environment, maintaining position for three years can feel like a great amount of time; in the charity sector this duration may feel even longer. In particular, this year the sector faces a new set of challenges including, 'maintaining public trust and confidence', 'reputational issues' and 'changes to the regulation of fundraising'[2], compounded by the uncertainties surrounding Brexit.

Technology

At a faster pace in recent years, technology has transformed charity's business strategy including their access to capital and engagement with donors. For example, the mainstream introduction of contactless payments facilities on phones e.g. Apple Pay, Android Pay saw charities such as the inventive animal charity, Blue Cross, tap into this technology as they introduced dogs that wear coats enabled to handle contactless donations.[3]

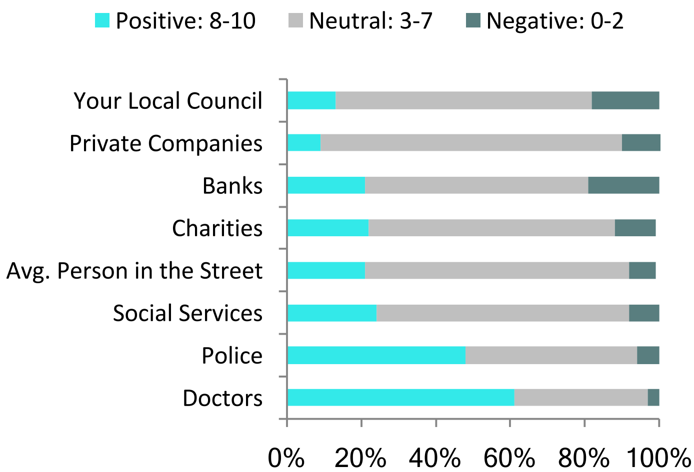
Social media campaigning has increased charities brand equity and allowed them to secure new loyal donors whilst also improving the retention of existing donors. Hugely successful grassroots campaigns by charities such as the ALS 'ice bucket challenge' or Cancer Research UK's #nomakeupselfie campaign, illustrate the opportunities that the digital transformation can provide. ALS raised $98.2m between 29th July and 28th August in 2014, compared to $2.7m during a similar period in 2013; average daily website visits were also up from 17,500 to around 1 million.

Charities looking to navigate through these financially challenging times will make technology, in some way, an integral component of their business model.

Declining Trust

The rapid declining trust within the charity sector has been another powerful trend in the last few years; the Charities Aid Foundation's annual reports demonstrated the public's trust dropped by 14% - from 71% in 2014 to 57% in 2015. This drop can be attributed to many factors including: fundraising malpractices, negligent governance, well publicised Charity Commission investigations, prosecutions of fraud, and the pay levels of charities' executives.

High profile cases have likely been a bellwether for trust in the charity sector . Age UK's commercial partnerships with E.ON, an energy company, were investigated in 2016 after it emerged that they were not recommending pensioners the cheapest deals available[4]. Kids Company, which had received £42m in taxpayer funding over its operational life has perhaps had a more significant consequence. It closed its doors in 2015 and liquidated as a result of failures in management and governance, a public police investigation and alleged breaches of their grant terms.[5] There is a silver lining: recent polls show charities are still trusted more than banks, local councils, and private companies.[6]



Charities looking to avoid being sucked in to the trend of growing untrustworthiness must confront some of the public's main concerns: improve transparency around how donations are spent and respond appropriately to perceptions of aggressive fundraising tactics. Leadership and strong governance is needed and the Board of Trustees should develop an understanding of the charity's risk and policies towards specific issues such as senior staff pay or corporate partnerships so that they can report in a more open, clear and compelling way.

Challenges Faced by Charities

The Social Investment Consultancy

Fundraising Regulation

Powerful stories such as these helped to propel further public scrutiny in the sector; the government sought to address these shortcomings by increasing regulation. One prominent intervention is 'The Etherington Review', which resulted in the Fundraising Regulator being launched less than a year later; this quick implementation emphasises the importance placed on rebuilding public trust in the sector. The annual survey run by PWC confirms this as a pressing issue; 83% of respondents viewed press and public scrutiny into fundraising practice and charities in general as the greatest challenge facing the charity sector. This emergent trend of increased regulation puts a strain on resources in the short term, but, regulation like this is a necessity if it will help facilitate fundraising practice changes and improve public's trust in the sector.

Small Charities

Trend data from NCVO show the increases in 2013/14 government funding was disproportionately beneficial to large providers who were best placed to secure large-scale contracts, whilst small and medium sized charities were at a disadvantage with the increasing scale of contracts and movement to payment-by-results mechanisms. This research suggests larger charities are bouncing back quicker than smaller charities who continue to struggle following the recession and austerity measures.[7]

Charities, especially small charities which make up 85% of the number of charities, are being squeezed – they face reduced statutory funding and tougher fundraising markets all the while two-thirds are experiencing an increase in demand.[8]

Progress on Revenue Generation

The Social Investment Consultancy

Responding to the challenges, there has been a great amount of activities as detailed in this section. Charities are considering and testing new sources of income more than previously.[9] In a survey report published by PWC and the Institute of Fundraising, 64% of respondents stated their highest concern is growing raised funds year-on-year and 79% are exploring fundraising options. Charities are turning to different forms of fundraising to help them. Notably, more charities are considering social investment, even though a significant majority recognize they do not yet have the adequate skills or capacity to access social investment.[10]

For most charities, the challenge of fundraising is not new. In today's environment, the most successful charities are those that can demonstrate a well-addressed "theory of change". These charities are increasingly taking steps to improve their efficiency and effectiveness by looking at their business strategy and operating model, but, they are also concerned with not having enough funds to take on any opportunities identified. The current outlook for fundraising leaves many charities with a trade-off: whether to use a limited pot of capital to curate future impact or focus on delivering on their core activities presently. Interestingly, nearly half of all charities are currently struggling to measure their impact sufficiently for their organisation.[11]

Fundraisers looking to navigate through these challenging times are turning to trading activity as a source of income growth. Shifting focus towards trading activity has been highlighted as an important strategy that enables charities diversify away from uncertain public funding, more flexibility in their operations and greater investment in services to beneficiaries.

In the past year, the pursuit of trading activities has increased given the increasing popularity of social investment - the highest perceived opportunity for charities to raise their income and meet longer-term financial needs. Around three out of ten charities see social investment as vital to achieve their strategic goals and over 50% of charities have or are working on their investment readiness. Though, as previously mentioned, 85% of charities do not feel they know enough or are ready to fundraise through social investment.[12]

A structured approach to launching trading activities, such as is offered with 'TSIC Unlocked', provides charities with an objective method of narrowing down on a market competitive product or service that they have or could develop the ability to deliver successfully. Without a structured methodology to recognising market opportunities and steering a way through the many options and approaches it can be difficult and often results in more copying taking place rather than genuine innovation. Integral to the TSIC Unlocked approach is a need to understand their strengths – those charities which have robust impact measurement systems in place will be able to do this more effectively, giving them a strong basis to sustainably develop their trading revenue streams.

Is the Activity: Mission-Aligned or Mission-Disconnected?

Trading opportunities for charities can be considered as either mission-aligned, where the trading activities directly contributes to the charity's mission; or as mission-disconnected – where there is no direct contribution to the charity's objectives but it does not involve significant risk to the resources of the charity, nor will it compromise the mission of the charity. For example, we spoke to the CEO of a charity that has entrepreneurial roots and a turnover of around £30m – it often went for mission-disconnected ventures as they presented lower overall risk. Charities going down this same path must remember that being opportunistic can divert from an asset based approach, which means they are unlikely to be most effective at those pursued activities. On the other side, charities pursuing mission-aligned activities should consider that their brand power is likely to be overestimated, particularly when making products tailored for consumers.

Progress on Revenue Generation

The Social Investment Consultancy

When developing trading activities questions will be brought up: what is the service or product, who is it for, who pays for the service, and how is it linked to the charity's mission.

Charities should identify which area their ideas fall into, and what ideas they are prepared to pursue. Age UK provides the example of a charity which uses mission-connected trading activities to generate revenue. For instance, they reported earnings of £9.3 million from funeral plans, £8.7m from selling alarms and £6.3m selling energy packages with E.ON, all for the benefit of older people.

Other organisations may use trading income as one element in a range of income-generating activities to cover all their costs; these types of activities might be unrelated to their charitable activities, for example, charity shops.

Trading activity can lead to reputational risk around, for example, quality of product or service, price competitiveness, executive pay, or misalignment with core mission. The risk is greater with on mission because those paying for services are more likely to be beneficiaries of the charity resulting in more scrutiny. Charities wishing to avoid pitfalls should firstly identify external, regulatory and compliance, operational, financial and governance risks; analyse them and determine whether they are justifiable, or to reduce and control the risks.

The best examples of charities generating significant revenue are mirror images of successful businesses - they are those that play to their strengths. Yet, charities may not currently possess the entrepreneurial aptitude that can help support new enterprising business models and make them work; they may also lack the resources, for example, unrestricted capital that could finance their new business strategy.

Charities, then, would benefit from working on their investment readiness, which includes for example, improving their impact measurement tools, developing a well thought out “theory of change”, and working on a robust business plan/marketing strategy. These activities may increase their chances of accessing social investment and the commissioning market whilst also increasing trust amongst donors, building their brand, and attracting talented and entrepreneurial employees.

Key to Successful Revenue Generation

The Social Investment Consultancy

Based on our experiences helping clients navigate revenue generation in the past three years, we have identified the following key lessons.

1. Communications with stakeholders

Without adequate communication with relevant stakeholders and governance from trustees, charities risk alienating themselves, particularly from donors and customers, adversely affecting the sustainability of trading activity as a source of revenue. Early buy-in from internal stakeholders is especially important, and this can be best achieved with transparency. It is highly productive to share ideas with the relevant stakeholders early-on; even though it may be time-consuming initially it is worth getting these parties on board. Charities should approach them with an explanation of what the proposition means, the projected budget, the risks involved.

2. A structured approach to determining viable ventures

The best examples of charities generating significant revenue are mirror images of successful businesses - they are those that play to their strengths. This is encapsulated by the TSIC Unlocked Tool, where charities map their assets to market opportunities and determine the most viable venture; as a result, success will have an increased probability. As resources become increasingly scarce in charities, this is especially important. According to one of our clients, the TSIC Unlocked Tool helped to bring together ‘random’ revenue generation ideas from across the charity, with a logical process to prioritise those that have the highest potentials.

3. Creativity in designing business models

Charities should also consider the alternative business models – the B2B (“Business-to-Business”) or B2C (“Business-to-Consumer”) models – there is a tendency for charities to focus on B2C trading activities. This inclination often coincides with an overestimation of brand power, more specifically, that consumers will seek a charity-branded product over a similar commercially branded good – which may feed in to a distorted perception of the project’s viability. The charity should also consider that B2C trading models are generally more risky than B2B particularly for financial or insurance products in this current regulatory environment.

4. Having an internal champion – ‘intrapreneur’

Many charities trying to develop revenue generation strategies face cultural resistance in doing so. There needs to be a certain capacity for failure so that charities can be quick to respond to emerging opportunities. The coined term, ‘intrapreneur’ captures the spirit of a person within a charity who takes direct responsibility for turning an idea into a sustainable, impactful venture through risk-taking and innovation. To attract entrepreneurial people who have the skills, resources and resilience to generate this type of activity, cultural change is usually required and financial stability can bring it.

People within charities looking to be change-agents can do so by thinking and acting entrepreneurially, however, this does not alone guarantee any success with revenue generating activities. Change requires focus, a structured approach and persistence. Here are some steps you can take as someone who is not the top decision maker in a charity:

1) Identify the assets of the charities, including the brand, the skills of their people, organisational expertise, the products and services delivered etc.

2) Consider how the assets could be used to pursue potential commercial opportunities; rank the resulting opportunities by assessing their feasibility, potential profitability, and investment costs.

3) Sketch out business plans for a selection of the identified opportunities; it should summarise briefly the idea; explain who the target customers are including whether using a Business-to-Business or Business-to-Consumer operating model; whether it is mission aligning or disconnected; the anticipated investment costs and how quickly costs could be recovered i.e. return on investment projections.

If any ideas survive this process you will be left with a set of defendable business plans for potential revenue-generating activities; at this point you should involve the relevant parties. By using this transparent approach, the deciding stakeholder is able to remain objective about the idea and see its benefits and risks coherently, and if they judge the former outweighs the latter, then the process you began will give them incentives to pursue this business opportunity further.

Your effort will not always be rewarded, but over time it will increase the charity’s entrepreneurial endeavours, increase the potential to create new sources of income, and reduce the risks from any venture.

Opportunities from a Legal Perspective

The Social Investment Consultancy

Stakeholders

	Trustees	CEO	General Counsel	Project Team / Employees	Funders / Donators	Customers	External Partners
Contribution	**High**: Knowledge on business and for future involvement	**High**: Ability to pull in resources, increase credibility of proposal	**High**: Provide necessary risk assessment; need buy-in from start	**Medium**: Important to keep relevant teams informed	**Low**: Provide some capital for activities but most is from own capital	**High**: Important to involve customers throughout development phase	**High**: Can provide necessary objectivity and expertise
Influence	**High**: Outspoken stakeholder; they have direct control over project's approval	**High**: High influence over projects success particularly in early stages	**Medium**: Their role can alter the perception of the project's chances of success	**Medium**: The core group of employees will affect the outcome of activities	**Low**: Not very influential in revenue generating activities	**High**: Customers tend to have high influence on the strategy and success of activities	**Medium**: They can occasionally play an important role in supporting successful ventures
Necessity of Involvement	**High**: Majority refusal to engage will likely delegitimise project	**High**: Not having CEO on board will make difficult to take project any further	**Medium**: Legal team can identify areas of high risk and offer solutions to reduce them	**Medium**: Non-involvement can induce delays increasing risk of excessive costs	**Low**: Not necessary for high involvement of funders unless they are financing	**High**: Lack of customer engagement will derail project	**Low**: Not essential to utilise external provider services / expertise
How to involve stakeholder	1. Get trustees on board early on 2. Be clear and transparent 3. Share with them the proposition, the budget, risks etc.	1. Identify the top concerns of the CEO 2. Work on getting early support 3. Be transparent with key issues	1. Take account of legal aspects and risks to get buy-in from the start 2. Involve legal counsel in crucial stages	1. Projects take time; keep relevant teams informed however far down the line 2. Communicate milestones, progress etc.	1. Know your supporters – particularly individual donors	1. Utilise data to understand your customers' needs and the market better 2. Test out product directly with customers	1. Choose partner carefully; bring on expertise when cost effective and / or necessary

"In a corporate environment, an asset based approach rationalises ideas – this helps uptake by trustees"

- Anonymous trustee and lawyer

"If charities want to really be change agents in society, they need to be entrepreneuring"

- Pamela Hartigan, Director of the Skoll Centre for Social Entrepreneurship

Conclusion

Charities have faced a turbulent three years; with the uncertainty of Brexit, continuance of the dampened trust as well as the number of looming changes to the charity sector, the path ahead looks similar in ways to the one behind. The advantage is hindsight and there are many lessons to be learnt and opportunities to seize going forward.

To be successful in the future, charities must be proactive in diversifying their income streams, engage with technology, and develop their communication and reporting policies with stakeholders. This is especially the case for smaller charities that have been hit the hardest in recent years. There is support available for charities to take up this pursuit, like the Big Potential Fund, and charities should not be afraid to seek a better understanding of different financing models.

For organisations wishing to pursue trading activity, we encourage them to adopt these four key lessons:

1. **Communications with stakeholders**
2. **A structured approach to determining viable ventures**
3. **Creativity in designing business models**
4. **Having an internal champion – 'intrapreneur'**

At TSIC we are excited about helping organisations capitalise on identified opportunities and drive innovation across the sector. We are especially keen to undertake a baseline study of trading income of charities, particularly small charities, in the UK, and exploring its relationship with unrestricted income. We look forward to working with partners – charities, intermediaries, funders – in this space interested to take this conversation further.

References

1. PWC, 'Managing in the new normal', 2016, from http://pdf.pwc.co.uk/managing-charities-in-the-normal.pdf
2. Ibid.
3. Bluecross.org.uk Article, 'World's first canine fundraisers collect Blue Cross', May 2016
4. Age UK , Response to the Charity Commission & Ofgem Reports (19 April 2016)
5. House of Commons Publications, 'The collapse of Kids Company', 1st February 2016
6. Populus on behalf of Charity Commission, Public trust and confidence in charities, 2016
7. NCVO, The UK Civil Society Almanac, 2016
8. Ibid. 1
9. The Charity Sector in 2016, Howard Lake; Charity People, Charity Leaders & Career Volunteer, 2016
10. Ibid. 7
11. Ibid. 7
12. Ibid. 1

About Us

The Social Investment Consultancy (TSIC) operates at the intersection of the for- and non-profit worlds, dedicated to helping charities and businesses maximise their social impact. The latest models of social enterprise, revenue generation and social investment, and the integration of skills and expertise from across the public, private and third sector form the basis for our work.

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 work across the whole spectrum in social change.

Our services to charities & social enterprises include:

- Exploring revenue-generating opportunities and incubating new business ideas
- Preparing for successful investment and fund-raising through strategy and communications planning
- Evaluating and communicating the impact of charitable programmes

Our services to businesses include:

- Building flagship corporate community engagement programmes through the TSIC Fuse process
- Identifying high-impact cause areas and partners, performing due diligence
- Developing external marketing campaigns and reporting on impact
- Engaging employees and internal stakeholders

We also work with **philanthropists & foundations** through our partner brand, Ten Years Time.

Our current and past clients include: