

Reverse-Engineering a Social Enterprise Model for Nonprofits

BRENDA SWARTZ / 24 APRIL 2017

Summary

By reverse-engineering a typical for-profit social enterprise, Concordia Place launched a proactive solution to the “long-term-work-with-short-term-funding” paradigm that plagues many nonprofits. Each year, nonprofits host fundraising events, prepare grant proposals, send appeal letters, conduct campaigns, and leverage public funding sources to try to fund the day-to-day, year-over-year operations. Finding a market to monetize a core competency empowers nonprofits to financially stabilize their current mission work. And, hopefully, from a position of financial strength, nonprofits can delve into more strategic, long lasting solutions to key social issues.

The Context

Illinois is in its second year without a budget. The most vulnerable citizens in Illinois are in a situation of extreme uncertainty as social service organizations cut jobs, close programs, and even shut their doors. And most nonprofits cannot fundraise enough to cover the funding gap. Even Illinois’ largest social service provider, Lutheran Social Services of Illinois, had to cut 43 percent of its work force (750 people) in January 2016 due to Illinois not paying more than six million dollars for services delivered which resulted in 4,700 people without critical services (1).

The consequences of underfunded child care assistance to low-income families and their children are severe, long lasting, and far reaching. By developing children’s foundational skills early and allowing parents to pursue careers, early childhood programs benefit children, families, and society as a whole (2). Yet in 2008, 2011, 2015, and again in 2016, child care has repeatedly

been a pawn in Illinois' political battles.

Concordia Place, a social service nonprofit that provides education, care, and opportunity in Chicago, is a story of a daring approach to this funding uncertainty.

In 2013, it was clear that unstable public funding threatened our mission, but we had already maximized cost-cutting strategies. Even with a healthy funding mix (16 percent private contributions, 52 percent earned income from child care tuition, and 32 percent public funding), Concordia Place needed a new source of revenue to help sustain the mission impact for the 800 young children, teens, and families who we serve each year.

Reverse-Engineering a Social-Enterprise Solution

A typical social enterprise model is a for-profit corporation with a social mission. As a social service nonprofit, Concordia Place reverse-engineered this model by creating a revenue-generating mission partner, Concordia Day early learning centers.

Concordia Day leverages several Concordia Place core competencies to address the high demand for early learning for children under three years old. Concordia Day generates unrestricted revenue each year with a market-rate, private-pay model. Our plan is to open three Concordia Day centers by 2020.

Operating as a social enterprise, Concordia Day's net proceeds support the long-term financial stability of the Concordia Place mission. And with reliable annual funding, Concordia Place can adopt a longer-term view and strategically plan for the future.



Why a Social Enterprise Model?

One might ask why the added layer of the social enterprise model? Concordia Place has economically integrated programs to serve people of all economic levels. We debated simply opening more Concordia Place centers with a higher mix of private-pay families, but the reasons we chose a social enterprise model include:

- **Avoiding the cost of public funds:** While public funding helps low-income families afford quality early learning, it comes with increased expenses and dictates some operations for Concordia Place that are not always tied to quality or in the best interest of our families. The complications that Concordia Place must maneuver to provide families needing part-time instead of full-time child care is an example of this. In addition, unfunded mandates can arise at any time without recourse. By confining public funding to Concordia Place centers, Concordia Day can offer the same quality care with lower expenses, and the larger margin supports the Concordia Place mission.
- **Establishing a unique brand:** Concordia Place provides growth and opportunity to young children, teens, adults, and seniors. Concordia Day is focused on early learning with a social mission. With different tuition models, policies, and range of programs, a distinct brand for Concordia Day minimizes confusion with our other programs.
- **Inspiring social responsibility:** Concordia Place expects that the Concordia Day vision will resonate with Chicago families and inspire additional philanthropic giving. Already we have seen Concordia Day families participating in fundraising events that benefit the Concordia Place mission.

SUCCESS and CHALLENGES - SO FAR

Although the results are not in yet, our strategy is well underway. The first Concordia Day opened in August 2016. The project involved renovating 6,000 square feet; furniture, fixtures, and equipment for four classrooms, an indoor play area, and kitchen; and obtaining city and state licensing.

Our results indicate that we have successfully interpreted market data for our community. Enrollment inquiries for infants are 10 times more than our available spots. With a planned ramp-up over the next 15 months, Concordia Day is already achieving enrollment targets and revenue is meeting expenses after only six months of opening our doors.

Yet, there are risks and challenges.

To address funding, Concordia Place used debt financing, a tenant build-out allowance, and the early results from our capital campaign for the first center. Individual donors have responded generously to the dual nature of the project: expanding our brand to serve more children through Concordia Day and stabilizing the Concordia Place mission. Foundation and corporate support has been more difficult, even when we relate funding outcomes to the education and care of 48 low-income children at Concordia Place each year or the life skills that drive academic, career, and personal performance for 225 at-risk teens at Concordia Place. With so many competing requests, foundations seem reluctant to support an initiative where the benefit to low-income populations is indirect.

Another challenge is time. Time works against a strategy: data gets stale, competition moves in, costs increase, and more challenges arise. For us, time also means a lost opportunity. Concordia Place's financial need is now. The time it took to find the right site, research the demographics and competition, renovate the space, hire, train, license, market, and finally enroll students, delayed the financial support to our mission.

During the Concordia Day rollout, the public funding situation in Illinois further deteriorated. Undertaking an initiative, the size of Concordia Day has energized our leadership, and board meetings have included healthy debate about our plans: Can we afford to proceed with our strategy? How can we serve our mission long-term if we don't? Can we go faster?

Helpful Steps

No matter which business success/failure statistic you reference, launching a new business is hard. In an effort to be helpful to other organizations, we offer our perspectives below:

1. Inventory Your Assets and Strengths.

The goal is to identify what you already do that might have an earned revenue possibility. Be creative. Maybe you have a strong back-office team or stellar recruiting and training. Perhaps you have deep relationships with a market that needs additional services. What you don't need is an idea where you would have to start at ground zero, without experience or assets.

Assess your reputation and brand as well. For example, if your current mission work is so closely associated with a specific segment, your brand could work against you. As people are making choices in the market, they might automatically rule you out. We realized that a benefit to Concordia Place's economically inclusive model is that we have experience serving families of all economic levels. One third of the Concordia Place families pay market rate tuition; they can afford options but they choose Concordia Place for our record of excellence.

2. Analyze the Market.

If you don't have the skills in-house, get expert help to research the markets, translate the data into context, and analyze questions, such as:

- a. What is the need for your service/product?
- b. Is the target market able and willing to pay for your services/products?
- c. Who/What is the competition? Sometimes the competition isn't obvious. For example, market competition for child care is broader than just other child care centers. Some families may have a stay-at-home parent, a grandparent, or a nanny as options.
- d. What do you bring to the market that isn't already there?

One enterprise idea Concordia Place considered was consulting services to help other early childhood centers through the local and state licensing process. Over the years, Concordia Place has had success with several program and licensing changes and expansions. While we did not find competing services, we questioned how much child care providers would value the services and the market seemed limited in relation to the substantial revenues we need.

3. Crunch the numbers.

Your market analysis should provide insight on possible gross revenue, but it is just as important to understand your costs for ongoing operations, including a startup phase, and launch.

- a. What is your break-even point?
- b. What kind of investment do you need to start up the business?
- c. What is a realistic ramp up time for the business?
- d. What financing will you need? Remember to include principle and interest payments in your projections.

By leveraging a core competency, we knew the operational costs. Our prior experience launching a new center in 2006 and new programs was helpful in estimating furniture and equipment start up. Taking the time to build a financial model encouraged us to run multiple scenarios to define parameters for key variables. This step was a great opportunity to engage the expertise of board members.

4. Build Capacity.

Growth is exciting, but it can be disastrous if your internal functions, processes, and infrastructure

are not prepared. Review your back-office areas, such as accounts receivable and technology. By 2020, Concordia Place will serve 60 percent more children under five years of age. It was obvious our personnel would need to grow as well, but less obvious is that our current technology will not be sufficient for larger operations.

5. Create transparency.

TOMS Shoes publicly reports its measurable social impact. To help monitor and measure the Concordia Day impact as a social enterprise, we created the Growth and Opportunity Fund (GO Fund). Each year, the Concordia Day net revenue will go into the GO Fund. The Concordia Board of Directors will monitor the social enterprise strategy against its objectives and direct the GO Fund to align with the overall vision.

Conclusion

Perhaps some would say that launching a social enterprise when the environment is so intensely unclear is foolish. Or perhaps others may say that we need to go faster. At Concordia Place, what we do know is that the status quo was not an option. We could not sustain long-term mission work with short-term funding.

Concordia Place wants a bright future for all Chicago children and families, so we are daring into unfamiliar territory, challenging our traditional approaches, and re-inventing ourselves.

While not all nonprofits have a core competency that can be monetized, we encourage other nonprofits to be innovative as well. To reference Plato, "Out of necessity comes invention."

References

- 1.) Crain's January 22, 2016. "The budget impasse 'has severely challenged LSSI's ability to provide services to those in need,' Mark Stutrud, the organization's president and CEO, said in a statement. 'Over the past months, LSSI has relied on a bank line of credit and available resources from our foundation to compensate for the state's inability to pay its bills. Currently, we are owed more than \$6 million by the state for services delivered. After seven months, we can no longer provide services for which we aren't being paid.'"
- 2.) December 10, 2014 "The Economics of Early Childhood Investment." The Executive Office of the President of the United States.