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Point of View

Social Enterprise 2.0
Moving toward a sustainable model

By Jim Schorr

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518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, **www.ssireview.com**

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Social Enterprise 2.0

Moving toward a sustainable model

IN 1994, JUMA VENTURES OPENED A BEN & JERRY'S ice cream store in San Francisco that was designed not only to make money, but also to provide jobs and training to disadvantaged youth. This social purpose venture was among the first in a field that has since grown dramatically. Today, many nonprofits across the country operate similar social enterprises and related earned-income initiatives. A recent Bridgespan Group survey of nonprofit executives found that half of these practitioners expected that earned income would play an important role in their organizations' future.

When we look back on the experiences of the last 12 years, the vast majority of which are exceedingly positive, one inescapable conclusion remains. The first generation of social enterprise has failed to realize its vision of using business models to create both social and financial value. A number of factors explain this, and all relate to one central reality: The business models that have been developed during the first generation of social enterprise are not capable of generating positive social and financial outcomes. The overwhelming majority of social enterprise ventures are small retail businesses – ice cream shops, thrift stores, restaurants, cafes, and the like – that have not succeeded and never will succeed on a double bottom line basis.

The primary problem is that the vast majority of these businesses are inherently small, often generating as little as $200,000 in annual revenue. Because they are small, they cannot create a meaningful number of job opportunities and cover the incremental training, management, and other costs associated with employing an unskilled and disadvantaged workforce. With little ability to grow business revenues, these social ventures cannot reach a level of scale that provides sufficient revenue to cover these additional "social costs." Our experience at Juma Ventures suggests that a social enterprise's revenue needs to approach $1 million annually to create a significant number of jobs and to operate in a financially sustainable manner. Very few retail businesses will ever approach this level of sales.

JIM SCHORR *is the executive director of San Francisco-based Juma Ventures, one of the leading nonprofit social enterprises in the United States. In 1993, while an MBA student at Northwestern University's Kellogg School of Management, Schorr co-founded Net Impact, an organization comprising more than 10,000 students at 115 business schools worldwide that is dedicated to using the power of business to improve the world.*

Most social enterprise pioneers chose to develop small retail businesses because they were relatively simple to operate. They rightly expected that the introduction of a social mission into a traditional business would produce ample complexity on its own. But like virtually all businesses that involve minimal complexity, small retail businesses produce very low profit margins. Operated on a purely for-profit basis, these businesses would do well to generate 5 to 10 percent net profits. This margin is insufficient to cover the additional costs of the social mission activities, as the incremental costs of employing unskilled workers overwhelm these businesses' natural ability to generate income.

Walking the Double Bottom Line

Fortunately, the lack of success in social enterprises' finances has been accompanied by remarkable success in their social mission objectives. The workplace has proven to be a highly effective environment for delivering social interventions – simply put, income-producing jobs in real businesses prepare people for participating in mainstream society in ways that no curriculum-based job training program possibly can.

The Roberts Enterprise Development Fund (REDF) commissioned a study starting in 1998 that, to date, includes nearly 1,000 client participants in five nonprofit organizations with a combined 19 social enterprises. The study has found that 75 percent of participants retain their jobs over a two-year period, with many transitioning into mainstream employment. In addition, their monthly income triples, educational levels improve, housing stabilizes, and criminal recidivism rates decline dramatically.

With these positive social mission results, one might reasonably ask: "So what's the problem? Isn't the social mission more important than the financial mission, anyway?" I agree that the social mission of these organizations is primary, but that sentiment alone won't keep the doors open at all of the struggling social enterprises that continue to survive today. The problem is that the vast majority of these ventures, as they exist today, are not sustainable. Unless these organizations develop new models that enable social enterprises to deliver double bottom line results, or find permanent funding subsidies for their activities, their chances of long-term survival are not good.

Most social purpose businesses lose money and require ongoing funding subsidies to support their operations. Unfortunately, these subsidies are not readily available. Although foundations and individuals may support these organizations in their early stages of development, practitioners cannot expect to receive this support in perpetuity, because the appeal of social enterprises to many of these donors is rooted in their

The author poses with Juma Ventures youth participants at the San Francisco Giants' opening game. The participants sell concessions in one of Juma's social enterprises.

PHOTOGRAPH COURTESY OF JIM SCHORR

potential to become self-sustaining.

To attract the funding for overhead and other indirect expenses that social enterprises don't begin to cover, as well as to enhance client services and outcomes, social enterprise practitioners have developed support services that supplement their employment programs and enable these organizations to attract grants and donations. In the best cases, these services complement the employment programs and are tightly integrated with them. In most others, this approach becomes a formula for a schizophrenic program design that lacks the focus needed to serve the target population effectively.

By setting a clear objective for financial sustainability from the outset, the players in this field created the expectation among funders that ongoing subsidies would not be required to support these ventures. Most social enterprises today continue publicly to proclaim the double bottom line as their goal and use terms such as "earned income" that misrepresent the financial performance of these enterprises. Meanwhile, virtually all of these enterprises lose money and have little hope of changing that trend. This dynamic perpetuates the expectation among funders that supporting these enterprises is unnecessary.

New Models for Sustainability

Today, the social enterprise field is at a crossroads. We can't expect to operate our current enterprises as-is over the long term, so we must find new solutions to sustainability or face eventual extinction. There are two distinct options for moving in a direction that has the potential for long-term sustainability. The first is to develop new social enterprise business models that can scale to a size where they generate sufficient revenue to cover both direct and indirect business costs, as well as the incremental costs that are a function of the social mission. It's a business truism that it takes revenue growth to mask operating cost inefficiencies, and the social enterprise approach will always have inherent inefficiencies.

The second option is to acknowledge that the vast majority of existing social enterprises will never generate sufficient net income on their own, and to develop stable, ongoing funding sources to subsidize the shortfall. When social enterprises are repositioned in this way, the argument can be legitimately made that they are perhaps the world's most effective employment programs for people who lack access to mainstream employment opportunities. And when one considers that social enterprises often fund 80 to 90 percent of their total costs with revenue that the businesses generate, a compelling case can be made that these ventures are among the most efficient as well. For example, Juma Ventures was recently evaluated as "one of the most efficient programs in the city that have a strong, positive impact on its youth participants" by San Francisco's Department of Children, Youth & Their Families.

I believe that a compelling case could be made for providing ongoing funding subsidies to sustain social enterprises. The challenge with this approach is in the communication and education process, because foundations, government agencies, and individual donors are not conditioned to support continual losses at social purpose businesses. This strategy would require a field-level effort to mobilize social enterprise practitioners to band together and build a case for permanent funding subsidies. A group such as the Social Enterprise Alliance and its large and growing membership base could lead this initiative.

Although both approaches are valid, Juma Ventures has decided to focus on creating new and more sustainable social enterprise business models. We have chosen this path because it maximizes our potential impact – both with youth participants, where we seek to serve thousands, and with practitioners, where we intend to create a model for scaling a social enterprise that informs the work of others in our field. In the past year, we sold our Ben & Jerry's ice cream shops and elected to focus on the concession business we operate at Monster and AT&T parks in San Francisco (which host the San Francisco 49ers and San Francisco Giants). In 2006, we are expanding this social enterprise to Oakland, as the initial phase of a growth initiative that has the potential for national replication.

Although it is certainly true that I am an optimist by nature, I believe there is good reason to be enthusiastic about the future of social enterprise. This field is still in its very early stages of development – barely a teenager at this point – and I expect that the coming years will bring continued innovation and increasingly positive social and financial outcomes. □