



# Start Up Lancashire Social Enterprise Toolkit

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EUROPEAN UNION  
Investing in Your Future  
European Regional  
Development Fund 2007-13

Regenerate  
Pennine Lancashire

**Selnet**  
Social Enterprise Lancashire Network

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To complement this Guide are a number of standalone workbooks that provide in-depth information on further topics:

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This guide has been written to run in conjunction with business adviser support and developed for the **2013/14 Start Up Lancashire programme** part funded through the European Regional Development Fund (ERDF).

Start-up Lancashire (**Social Enterprise**) is one of three lots within the Start-up Lancashire programme managed by Regenerate Pennine Lancashire and delivered by Selnet. The Social Enterprise programme gives a holistic approach to business development, incorporating three elements of support tailored to the needs of the individual. This includes one to one business advice, seminar programme and a tool-kit to support aspiring social entrepreneurs with key information and resources to utilise as their business develops.

The tool kit has been developed to support an individual, group or business to:

- **Find out more about social enterprise**
- **Set up a new social enterprise**
- **Develop an existing business, voluntary organisation or community group into a social enterprise**

## How to Use the SUL Tool Kits

We have designed the SUL Toolkits for ease of use, by breaking out key elements of the business planning and development process. This will enable both you and your adviser to determine which section is most relevant to you and making it unnecessary to read all workbooks cover to cover. Follow the index links to read the sections that are of interest to you and your organisation.

We hope the details here will help you in formulating your ideas and understanding the processes involved in setting up a social enterprise.

Social enterprises are often referred to as the third sector and not-for-profit organisations. Throughout this guide we are choosing to refer to them as businesses and use business terminology, e.g. profit instead of surplus. They are businesses and just like any business, they have to make a profit.

In the current economic climate with more commissioning opportunities from the public sector, third sector organisations have to take more commercial approaches in order to survive and sustain.

Some topics in the guide may not be applicable to you whereas others may require further in-depth professional advice on what they mean for you and your enterprise.

## Disclaimer

*Any information pertaining to the law, legislation and regulation is provided in good faith. You are advised to seek professional advice or consult with the relevant body to discuss the legal position as it relates to you and your enterprise before deciding upon your final course of action. Such bodies will include: Companies House, Charity Commission, HMRC.*

*The information supplied was checked in December 2012 and may be subject to change, especially legislative and monetary values, so you are advised to check for updates.*

E&OE

**Selnet (Social Enterprise Lancashire Network) is the lead body in Lancashire for social enterprise and through its membership is able to bring together a wide range of businesses working for the social good to network, form consortia and inter-trade.**

We provide activities, events and meetings across Lancashire to engage with social enterprises on the ground and produce regular newsletters and e-bulletins to keep the sector up-to-speed.

Since 2007 Selnet has facilitated and delivered business development support, advice and products specifically designed to enhance sustainable growth for social enterprises in Lancashire.



As the recognised leader for social enterprise in Lancashire Selnet is a conduit that gives Lancashire Social Enterprises a strategic voice and representation. Selnet plays a key role in representing the needs of the sector on a regional, national and increasingly European-wide basis.

For more information, advice and/or support; social enterprises, and the wider third sector in Lancashire should visit our website [www.selnet-uk.com](http://www.selnet-uk.com) or contact the office 01772 200690.

Selnet is a social enterprise operating as an independent Company Limited by Guarantee. Selnet's Core Objectives are to:

- Raise the profile of social enterprise in the community and promote them as a business option.
- Represent the interests of the social enterprise sector in general and members in particular.
- Provide and facilitate mutual support amongst social enterprises.
- Provide business development and support to start-up and established social enterprises.



[www.selnet-uk.com](http://www.selnet-uk.com)

Social enterprise is a way of doing business.

The aims of a social enterprise are, at their core, either social or environmental.

They are profit-making businesses set up to address social problems, meet local community needs, or bring about social change, rather than solely for personal profit.

Large and well-known businesses such as Café Direct, the Eden Project, The Co-op and the John Lewis Partnership are all social enterprises. Many small community run cafes or shops, recycling schemes and micro-enterprises offering goods, services and supported employment are also social enterprises.

## So what do they have in common?

The UK government defines social enterprises as “businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.”

They aspire to combine entrepreneurial leadership and innovation - characteristic of the best of private business - with social aims. They tackle a wide range of social and environmental issues and operate in all parts of the economy.

Even though we say they are not-for-profit, social enterprises like all businesses have to make a profit or as some prefer to call it, a surplus. It is what they do with the profit that makes them different. It is not paid as a dividend to shareholders/directors as in the private sector; instead it is reinvested to support its social purpose.

Many commercial businesses in the private sector would consider themselves to have social objectives, but social enterprises are distinctive because their social or environmental purpose is central to what they do. A private company can meet its social objectives through its Corporate Social Responsibility activities.

Social enterprises have a key role in regeneration and economic development and in the promotion of social inclusion. They provide jobs and services sometimes where the private sector has not entered or has withdrawn, sometimes on behalf of the public sector and sometimes through a joint venture.

The Government believes that social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy.

Social Enterprises are said to deliver the ‘double bottom line’ in that they aim to have an economic, social and in some cases ‘triple bottom line’ with an environmental impact on their area of benefit.

## Social enterprises can often provide solutions:

- To people and businesses who are unable to access finance from mainstream sources.
- For people looking to save and/or create jobs/services in their area.
- To people interested in taking over a community asset and running it on behalf of the community.

- To allow public authorities and communities interested in developing 'people focussed' responsive services like social care, childcare and leisure.
- To benefit people with a range of special needs.
- For businesses wishing to exert more influence in the marketplace or wishing to achieve economies of scale (buying/selling).
- In developing and strengthening the social and economic fabric of an area resulting in social cohesion.

Because social enterprise is more about a philosophical approach and with no single social enterprise business model, the sector can sometimes appear 'woolly'.

Problems that affect the sector are the labels and the different definitions of social enterprise that abound. Social enterprises include local community enterprises, social firms, mutual organisations such as co-operatives, and large-scale organisations operating nationally or internationally. They include; community interest companies, companies limited by guarantee, Industrial and Provident societies, and companies limited by shares; some organisations are unincorporated and others are registered charities.

While the nature of some charities' work makes it very difficult to become self-sustaining through earned income, many deliver contracts for services and are reducing reliance on grants by taking social enterprise approaches.

Understanding social enterprise is therefore about identifying key characteristics common to such businesses rather than defining specific organisational legal structures/forms.

Social enterprises may be found on a continuum, with organisations willing to do things which benefit other people, even if it results in disadvantage to themselves (Altruism) relying primarily on grants at one end and 100% self-financing socially driven businesses at the other.

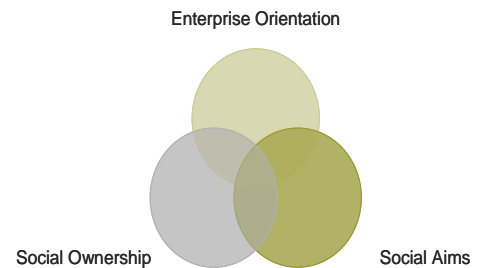


### A social enterprise has three key defining characteristics:

**Social Aims** - The organisation has explicit social aims such as job creation, training or the provision of local services.

They have ethical values. Their profits are principally reinvested to achieve their social aims.

*Increasingly social enterprises measure their social impact.*



**Enterprise Orientation** - The organisation is directly involved in business activity, supplying goods or services to a market and earning income as a result.

**Social Ownership** - Many social enterprises are also characterised by their social ownership. They are autonomous organisations whose governance and ownership structures are normally based on participation by stakeholder groups (e.g. employees, users, clients, local community groups, social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community.

### Essentially these are the things we look for:

- A democratic accountable structure.
- A strong drive for financial autonomy – *diverse income streams and minimal dependency on grants or maybe one single contract.*
- A flexible, non-bureaucratic way of working – *able to react in a swift and positive way to change/s.*
- A willingness to take risks and adapt to changing need – *exploring new markets.*
- A close understanding of and commitment to their client groups – *their core mission and principals are of the benefit of a 'community'.*
- A commitment to staff development – *investment in the staff, volunteers and stakeholders.*
- Re-investing profits in the social aims of the business or local community – *clear and defined asset lock or dissolution clause.*
- The ability to deliver on social objectives while delivering services.

It is important to ensure that you choose an appropriate structure for your group or new business idea. As we have discussed there is no one single model. Each has benefits and drawbacks that will make them more or less suitable to a particular enterprise. Whichever structure is chosen will need to reflect and accommodate both the social aim and intended ownership of the enterprise as well as business aspects such as size, funding sources and type of activity.

Social enterprises operate under the same laws and regulatory bodies that govern other enterprises and businesses.

Careful consideration should be applied to the various options to ensure that you choose the legal structure that most suits your social enterprise in terms of management style and mission.

Key considerations when choosing the right legal structure for a social enterprise might include:

- Social ownership - ensuring that the community and stakeholder interest is reflected in the control and ownership of the enterprise.
- The income streams and activities of the enterprise - what proportion of income will be generated from donations, grants, fundraising, contracts, goods and service provision and other trading activities.
- Raising finance - how does the enterprise plan to raise capital?
- Regulations and reporting - some legal structures have a lot of regulation and may have limiting rules. Some may require a lot of annual reports to be completed that may be a problem for smaller enterprises.
- Image and identity - how the business is seen by people. The business may want to be perceived primarily as a business or ensure that it is understood as “not for profit”.

### Structures include:

Community Groups, Voluntary organisations	Unincorporated Association
Charitable Enterprise	Charitable Trust
Development Trusts	Industrial and Provident Societies ( <b>IPS</b> )
Co-operatives	Mutuals
Company Limited by Guarantee ( <b>CLG</b> )	Company Limited by Shares ( <b>CLS</b> )
Limited Liability Partnership	Community interest Company ( <b>CIC</b> )
Charitable Organisation	Charitable Incorporated Organisation ( <b>CIO</b> )
Social Firms	

It is Selnet’s opinion that you should always seek professional advice before choosing the legal structure of your business.

For a comprehensive summary of the different structures available ask Selnet for our “**Legal Structures for Social Enterprises**” Workbook



This section has been included because of the growing number of people who are considering becoming self-employed and entering the social enterprise sector with an idea for a product or service that will directly benefit people or the environment.

In Selnet's experience we are seeing more sole traders or partnerships of two people considering a social enterprise structure for their business.

**The 'acid test' for an entrepreneur(s) is what they envisage for the future of the business. In a private business the owner can look at a return on their hard work in growing and building the venture, particularly if the business is sold. A social enterprise takes as much hard work to set up and run but should it cease to trade, it either has to wind up or merge with a similar not for profit company. The directors cannot sell their successful business for personal profit. The asset lock ensures that the assets - money, equipment, building, etc. are passed over to another social enterprise or charity to continue its social purpose.**

**Therefore an entrepreneur is creating a business that they don't own. They can work and earn a living out of it and if they decide to move on in the future, they will have created a sustainable organisation that has a succession plan. Their satisfaction will be in leaving a legacy business that can continue to deliver for the public good.**

As well as a sole trader or partnership not owning their company they may struggle to get grant funding for the business.

BIG Lottery for example will only fund organisations that have at least 3 unrelated members on the board/committee, which must also be people not living at the same address. This approach aims to address the issues of openness and transparency in the control and management of taking public grants and also that the business represents the community.

This problem reflects the continuing debate in the social enterprise world on what constitutes a social enterprise. On page 4 we considered how complex it is to define a social enterprise. The consensus appears to be that a single director or a partnership of two is not generally considered to be a social enterprise.

To confuse matters further, under the Companies Act 2006 it is perfectly legal to set up a company limited by guarantee or a Community Interest Company with a single director.

This leads to a difficulty for the entrepreneur. Do they want other directors involved in their business? Can they find such people who share their aims and ambitions? Do they want to 'give' away part of their business? With each director having an equal vote there is a real risk that they could be out voted.

If you intend to look to the Lottery or similar grant funders as a part of your income mix then you will need to consider involving non-family members into the business.

*If you will not be applying for such grants and have a business model that will provide social impacts and generate income then none of the above will apply to you. Providing that you are comfortable in creating a business that you don't own then you will be operating within the broad church of social enterprise.*

## Social entrepreneurs setting up a charity

Just as we have enquiries from individuals wanting to set up a social enterprise on their own, we also have individuals approaching us who want the benefits of a charity model. This may be because of the benefits of gift aid for donations or the tax advantages or that more grants are available to a charity than a limited company.

Whilst these individuals have the best charitable intentions we are duty bound to explain the problems, which often can be far more problematic than those of a limited company.

Often the entrepreneur is seeking to earn a living out of delivering the charity's services and indeed, they may be the best person to do so for the organisation. A charity is a voluntary and altruistic model and as such is run by a board of voluntary trustees elected from stakeholders and the community.

The trustee board removes control of the charity from the founder and as trustees can't be paid it can restrict their option to earn a living from the charity.

This directly conflicts with the entrepreneurial approach, where the person with the drive and vision behind the enterprise will not have control of its management and development.

Our advice would always be that a person should not become a trustee and also work within the Charity. We are aware that there is a very limited exception to this, which would have to be discussed on an individual case basis with the Charity Commission, but it still leaves the founder with a board accountability for running the business that can override their decision making.



## Sharing the idea and vision

Most social enterprises start off as a good idea by someone in response to a particular issue in the community. Someone sees a local need or finds out that something they want is not available, or discovers that there are resources which are available that could be used by the community.

Ideas can come from anywhere i.e.

- Your day job.
- Recognizing a problem and identifying a solution.
- Seeing something that is working in another town and thinking how useful it would be to have this available for local people.
- Seeing a better way of solving a local problem.

Who do you know of a like mind or with a skill that can help you make your ideas into reality.

- Consult: check out the idea with: friends and relations; people in the community, anyone who might be affected by a project arising from the idea;
- Ask them: whether there is really a need; whether the idea will work; whether there is a better way of filling the need, and how to get started.
- Listen to, and take into account differing and opposing views.
- If you decide to go ahead with the idea, decide on the size of the group, and bring together people who:
  - think the idea is a good one;
  - are prepared to make a commitment to the project by putting in time and energy;
  - know something about getting the proposed project underway;
  - could contribute in a useful way to the project;
  - might be affected in some way by the project; and
  - are willing to be part of a planning group

Consult some more and further clarify the need for the project with likely participants, likely helpers, people with the right knowledge and skills, and people who may be affected by it.

## A Concept document

In the pre start-up phase as the idea is taking shape and you are testing the market it can be useful to have a short summary of the enterprise idea that you can share with anyone and everyone as you 'sell' your idea.

It's not a novel, no more than 2 sides of an A4 sheet. You can use it to gain the support of clients, customers, users, beneficiaries, partners, funding bodies, stakeholders, and colleagues or to recruit other directors. The feedback from

these people allows you to decide if it is worth progressing straight to the feasibility stage or whether you need to do more research, revise the concept or scrap the project.

When complete the Concept will be clear to all and show:

- Who you are – just you or a group of people.
- What you aim to do.
- Why you are doing it.
- What evidence you have of need or demand.
- Who will benefit.
- What will they gain.
- Why you have selected this client group.
- When you will do it.
- Where you will do it.
- How you will do it.
- How much it will cost.
- Where the funds will come from.
- How you will manage.
- What next.

Quite a list but it need not be difficult.

Use bullet points and brief statements and keep it simple.

## **Feasibility research and consultation**

### **Testing your idea**

Entrepreneur(s) exploring the potential of a new venture must answer the following question, 'Can the venture/idea make money? It's easy to become so excited about an idea for a new product or service that you can lose sight of whether it can ever be viable in the long term.

Some basic business planning can go a long way toward checking if there's a market, and if the market will contribute to the costs of the service in the future. If you need funding to start your new for-profit or non-profit business, investors or funders are much more likely to provide money to you if they see that you've done some business planning.

A feasibility study should answer five questions:

1. Will it work or not?
2. Is it profitable or not?
3. What will it basically cost to fund or start.

4. Is it worth doing?
5. Is it worth commissioning a business plan?

## Feasibility studies versus business plans

A lot of time, resources and money can be saved in knowing what to do and the order in which to do it. It is a good idea to do the feasibility study before you start on your business plan. This will let you judge the merits of the project before you commit further investments of time and money if it is going to be a non-starter.

A feasibility study is a relatively inexpensive way to safeguard any wastage of further investment.

Will the investment made in the feasibility study itself then be wasted? No.

Because the research and information uncovered in the study will be of good use in the business planning stage and will also reduce the research time and therefore the cost of the business plan.

***People never plan to fail, people only fail to plan!***

Who should write your plan? It should be written by you and your group; it is no use asking someone outside the organisation to write the plans or they will never be fully owned by the group. Testing the idea, being realistic about the market and understanding the true costs of the service can mean the difference between success and failure.

Loving an idea doesn't mean it's going to be a success.

## How to write a feasibility study

For a feasibility study, basic data is obtained through a series of queries, questions and meetings, where the research and other data and facts need to be gained from a variety of sources.

The study will normally be completed quickly and in a very general format compared to that of a business plan.

What to include in the feasibility study:

- **Concept**

Describe the product or service. What is it? How and where will it be manufactured or produced? By whom? How will it be delivered to customers? In what way is it unique?

- **Consultation**

**Consult:** check out the idea with: friends and relations; people in the community, anyone who might be affected by a venture arising from the idea.

**Ask them:** whether there is really a need; whether the idea will work; whether there is a better way of meeting the need and how to get started.

**Listen to:** and take into account, differing and opposing views.

- **The Owners and Management**

Consider who are the members of your management team and identify what are their strengths in this particular venture. How will those strengths benefit the business concept? What necessary skills and strengths are missing from your present team? How will you compensate for those skills? Will you hire? Contract out? Take training courses? Something else?

- **Market Research**

A serious miscalculation many social entrepreneurs make is to assume that because their idea appeals to them that other consumers will also like their product/service and therefore purchase it.

Who is your market? Is the market strong? Is it growing? What challenges are facing the market? How will you reach the market?

Define the target population - those in need / those at risk / those who will use and benefit from the project. Estimate the need or scale of the project (the geographic area of need can be shown on a map).

Has something been done like this before (could information/advice be obtained from those who were involved?) or is this a "first"?

**Note:** On pages 23-25 we detail various ways of conducting this market research

- **The Competition**

Who is the competition? How does your product compare to theirs? What is your unique selling point? Can your competitors readily duplicate your product or service? How are they likely to react when you enter the market?

- **Budget**

What will it cost you to start your business? What will it cost to run it?

Where will the money come from?

Consider how you will run the enterprise.

- **Financial management**

How you will monitor and record your income and outgoing. Do you know how to prepare and manage a budget? Cash flow statement? Balance sheet?

What system will you use for bookkeeping and accounting?

Do you have a banker? Financial adviser? Tax adviser? Solicitor?

## Your group

Once you have established the main people involved, who have the responsibility to drive the business, you are ready to set up a social enterprise. The next section considers the steps to setting up either an unincorporated organisation or incorporating a company.

## Governance

When an organisation is formed, it has to have direction and be well managed. This is usually a group of people who meet on a regular basis and consider issues such as:

- How the group is going to be organised.
- How it is going to do things which enable it to fulfil its purpose.
- How it is going to get enough money to carry out its activities.
- Consider staff and/or volunteer requirements.
- Where it will be based.
- Whether it should be carrying out different activities.
- What are the potential development barriers and how to address them.

Depending upon the structure chosen this group of people are called the Board, Management Committee or the Council of Management.

It is important for everyone to understand that the Board or Management Committee is responsible for the smooth running of the organisation and that they have control of what is going on. No individual should act in a way which has not been approved by the Board or Management Committee.

It is important for the Board or Management Committee to understand that the only reason it exists is to enable the organisation to fulfil its stated purposes and to benefit the group of people the organisation was originally set up to help. If they try to use the organisation for any other purposes, they are abusing their position.

## The Rules

Every organisation needs a set of rules which enable the organisation to function well. For an unincorporated organisation it will usually be a Constitution and for an incorporated company Articles of Association.

## Constitution

Whatever the nature of the constitution, it is important that it has enough information in it to enable the organisation to run smoothly and effectively. It should provide you with a reference for the overall organisation of the group.

The constitution you adopt will depend on the legal structure you have chosen. There will be different clauses to be inserted in the different constitutions. However, in order to prepare a constitution of any sort you will have to think about the following:

- What is the purpose of the organisation?
- Who is it for?

- What activities will happen in the context of the project?
- Who will be running the organisation?
- Who will be running the activities?
- How will it be funded?
- Will you need to employ staff?
- Where will you be based?
- Will the organisation have members?
- What are the rights of the members?
- How does someone stop being a member?
- How do people get onto the Management Committee?
- Can they be removed from the Management Committee?
- If so, how?
- How will meetings of the Management Committee be organised?
- How will meetings of the members be organised?
- How is the Chair chosen?
- Does the Chair have a casting vote?
- How will the finances be organised?
- Will you need an auditor?
- Will you have an Annual General Meeting?

When you/your group have answered/agreed the questions set out above, you will be able to draft a constitution. However, you might find that in answering these questions, you need to ask some more!

#### Key points to remember:

Take time and care over the development of the organisation and match the activity with the appropriate legal structure.

Include all participants in the decision making process and allow all to contribute and state their level of commitment.

Seek Advice in the formation of your plans, and match the advice with your objectives. Work at a pace which allows all members of the organisation to feel confident with, and grow into their responsibilities.

### **Incorporating a new company**

In registering a company with Companies House you will need to comply with the requirements in English company law. You and fellow directors need to fully understand the roles and responsibilities and initially complete a number of forms. The IN01, Articles of Association, Memorandum and for a Community Interest Company the CIC 36.

All these forms are available from [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) and [www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)

**For more detailed information, register and complete the paperwork contained in:**

**Workbook 2 “Legal Structures for Social Enterprises”**



A business plan is a formal statement of a set of business goals, the reasons they are believed achievable, and the plan for reaching those goals. It may also contain background information about the organisation or team attempting to reach those goals.

There are many versions and formats that can be used but the key is to ensure that the contents of the plan are best suited to the business you are about to develop.

Your Start-up Lancashire business adviser will support you through this process however we have included below information and topic's to include that may help.

## Vision and Mission statement

The **Vision** Statement describes your future; where you are going or where you want to go.

The **Mission** Statement describes “today”; why you exist and what you aim to achieve overall.

## Values

We suggest when defining your mission statement you list 4-6 core values that you want to define your business in doing this consider values of customers, shareholders, employees and the community.

## Aims and Objectives

Defining aims and objectives is extremely important for social enterprises because they are trying to create added value through social and environmental impact, as well as profit.

**Aims** are ‘why you do it’

**Objectives** are ‘how you do it’

*Some social enterprises will feel that their mission and overall aims are the same – this is not a problem and there is no need to write two different statements if one can do the job.*

**Your aims** should be a short but general statement of intent about *why* your social enterprise exists and what it is set up to achieve in the long term. Organisations tend to have one **overall aim** but some social enterprises also have a set of more specific aims which help to explain the general statement in more detail (see the diagram below).

**Your objectives** are very specific statements that define the practical steps you will take to achieve your aim(s). Objectives are about *what* your social enterprise is intending *to do* in the short to medium term and *how* it is going to create change.

## Objectives must be SMART:

Specific - You know exactly what it is you have to do to achieve your aim

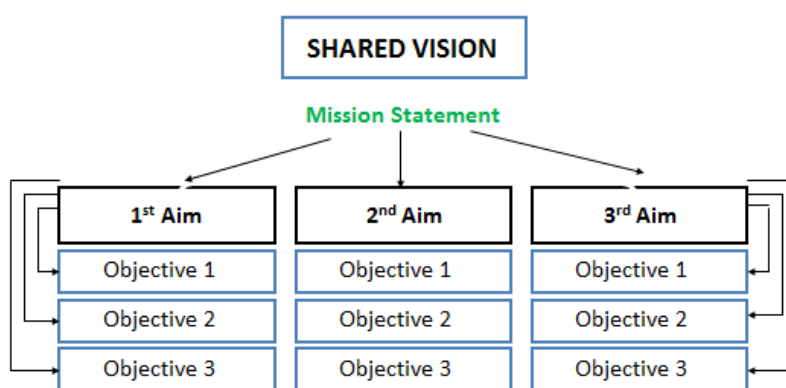
Measurable - You'll know when you've done it

Achievable - It is possible to do them in the time and with the resources available

Realistic - It is possible to do them (and they're not based on fantasy)

Time bound - You set a time limit in them (otherwise you might never get round to it)

Your **Aims & Objectives** should link to your **Vision and Mission Statement**



**For example:** For a social enterprise providing training and advice to refugees.

The **Mission** is to improve the lives of refugees living in the local area'

### Specific Aims:

- To reduce isolation.
- To improve the educational achievement of refugee children.
- To increase access to local services.
- To increase access to benefits.

### Objectives:

- To run activities for young people.
- To organise social and cultural events.
- To offer language classes.
- To offer workshops to local service providers.
- To provide one-to-one advice sessions.

## Mission statement/Aim of Divine Chocolate Ltd



To improve the livelihood of smallholder cocoa producers in West Africa by establishing their own dynamic branded proposition in the UK chocolate market, thus putting them higher up the value chain.

### Objectives:

- To take a quality and affordable range of Fairtrade chocolate into the UK mainstream market.
- To pay a Fairtrade price for all the cocoa used in the chocolate sold.
- To raise awareness of fair trade issues among UK retailers and consumers of all age groups.
- To be highly visible and vocal in the chocolate sector and thereby act as a catalyst for change.
- To be the leading Fairtrade chocolate company.

Source: [www.divinechocolate.com](http://www.divinechocolate.com)

### Unique Selling Point (USP)

Whilst you are working as a team on these key points that define your business you may also consider your Unique Selling Point or USP.

USP definition: The factor or consideration presented by a seller as the reason that one product or service is different from and better than that of the competition

So you need to consider what makes you more unique, more valuable, and more visible to your customers/service users/partners? You may use this to show commissioners and grant funders why you are different, unique and how you are a special niche business they should choose to invest in.

Having a USP will dramatically improve the positioning and marketability of your business and services/products by accomplishing 3 things for you:

1. **Unique** It clearly sets you apart from your competition, positioning you as the more logical choice.
2. **Selling** It persuades another to exchange money for a product or service.
3. **Proposition** It is a proposal or offer suggested for acceptance.

Defining the Mission, Vision, Aims and Objectives helps to realise the foundations of the business and form the basis of your Business Plan.

**For more detailed information on writing a plan see:**

**Workbook 1: "How to Write a Business Plan"**

**For more detailed information on legal matters see: [Workbook 3: Keeping It Legal \(Regulation and Legislation\)](#)**

Before you start up your business, you need to research all the legal issues your business needs to comply with. In general we have detailed the areas that we consider to be most applicable.

### **Choosing your company name**

Before coming up with your final choice of company name there are a number of things you need to consider. It's worth spending time on this to ensure the name is compliant and avoids later complications if the name you have chosen is challenged at a later date. Changing a company name can be very expensive and disruptive, both to you and your customers.

There are certain legal restrictions on company names that you need to be aware of.

### **Choosing a business name for an unincorporated enterprise**

You don't need to register your name.

However, it's important to make sure you're not going to use a name that is similar to an existing business. If you do, you could be accused of 'passing off' as them and be forced to change your business name. This could be expensive if you need to change stationery, office signage, contracts or other legal documents, bank accounts and so on.

If you choose a business name that does not include your own name you need to include your own name on all business correspondence. Your bank account will be set up using your own name 'trading as' your business name, for example 'A. Smith trading as RecyclingIT'.

### **Choosing a business name for a limited company**

A limited company can trade under its registered company name or choose a different business name.

### **Things to consider when choosing a business name**

First impressions count and the business name you choose is initially the only thing customers and suppliers know about you. Your business name projects a certain brand image and should reflect the personality of the organisation in a way that appeals to the target market.

For example:

- Do you want the name of your business to reflect what it does – training, recycling, or community support services? Or would something more abstract be suitable?
- If you choose a descriptive business name try to pick a name that won't limit your potential for future diversification.
- If you choose to include a geographic location, i.e. Lancashire, will this restrict you in the future?
- Make it easy to remember, easy to say and easy to spell.

## How to make sure the company name you want is available

The following checks will provide a good basis if you want to do the checks yourself:

### Finding out if a domain name is available

You can find out if a domain name is available by doing a domain name search with a web hosting provider.

If the domain name you want is available you should register it as yours immediately and then you can adopt this as your business name. For under £10 you should be able to register the domain name for at least 2 years. This makes good sense, even if you're not planning to have a website yet, as it protects you from anyone else registering it and therefore using the same business name as you.

It will also enable you to have a proper business email address e.g. [a.smith@recyclingIT.co.uk](mailto:a.smith@recyclingIT.co.uk) creates a far more professional image than [asmith561@freemail.co.uk](mailto:asmith561@freemail.co.uk).

### Check Companies House for the availability of a company name

It's worth checking the Companies House company name register even if you're not considering setting up a limited company as it will show you if there is an existing company using the same or a similar business name. Use the free 'webcheck' service on the Companies House website.

### Check the Intellectual Property Office

The fact that a business name is not currently in use does not necessarily mean you will be able to use it. Check for names which are already registered as trade marks at the patent office. The patent office provides a search and advisory service for trademarks and patents, as well as a free online basic search facility at [www.ipo.gov.uk](http://www.ipo.gov.uk).

#### Look in directories

You can get help in choosing your business name by using on-line directories such as [www.thephonebook.bt.com](http://www.thephonebook.bt.com), [www.192.com](http://www.192.com) and [www.yell.com](http://www.yell.com). You can search on business name or business type and choose to limit the search to a specific geographic area or look UK wide. Also look in your local telephone directories such as Thomson, Yellow Pages or the BT Phonebook which will all have separate business sections listed in business name order.

## Setting up a Bank Account

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It is important to shop around before deciding on your small business bank, and choose the best business bank account (and business account manager) to suit your needs. The bank you choose for your business banking does not necessarily need to be the same as the one you choose for your private banking.

It's important to remember that banks are not a charity they are a business, and like all businesses they will choose how to balance their risk so they make the highest profit or least loss.

### Choosing who to bank with

Free business banking or interest on the balance in your business bank account aside, here are some of the factors you may use as a basis for your choice of small business banking provider:

- The charges you will incur and under what circumstances.

- Recommendations or warnings from friends or business acquaintances.
- The business banking services on offer.
- The additional services support or information the bank provides to small businesses.
- Whether you will have a dedicated small business banking manager.
- You may also consider the bank's ethical standing and investment policies.

## **Banking services you might need**

Some banks will have different small business tariffs according to which services you're going to be using. Therefore you need to consider exactly what you need the business bank account for i.e.

- Are you going to make use of the banks counter services or will you rarely visit a branch because most of your payments (in and out) will be done electronically
- Will you be depositing large sums of cash or will most of the payments into your account be by cheque or BACS
- Will you be making or receiving payments in a currency other than sterling
- Will you be making lots of transactions on a daily basis or just a few high value ones once or twice per month
- Will you be setting up direct debits or standing orders, into or out of your account

If the bank you prefer does not provide all the services you need, or if you can get better deals for specific products, such as a loan, from another bank, it is perfectly possible to use different banks for different services. However, remember to look at this in detail as a bank will often offer better terms if you commit all your business banking requirements to it. If you're spreading your business banking between two or more banks you will be less valuable to each one as a customer and so you may well find you're put into a higher charge band.

## **What type of business bank accounts you might need**

- A business current account for day-to-day transactions, payments and receipts.
- An instant access business deposit account for any surplus you don't need day-to-day.
- A longer-term business deposit account, which pays a higher rate of interest for funds you don't need immediately or at least you won't need at short notice.

You may also need:

- A foreign currency business bank account if you're going to be trading overseas or in foreign currency.
- A business loan account for any business loans you may take out.

Remember that as your business develops and grows your business banking requirements will change so be sure to regularly review your business turnover, how you're using your business bank account and what bank charges your business is incurring.

## Accepting credit card payments

If you want to accept payment by credit or debit card, you'll need to set up a merchant payment account. Most of these accounts accept Visa, MasterCard, Diners Club and Maestro cards; most do not necessarily accept American Express cards so do check and compare several different offers.

You will probably be charged a set-up fee, and then a fixed monthly fee plus a per transaction fee. The transaction fee will usually be set according to the number of transactions and the average value of each transaction.

If you're taking payments from customers face to face you'll need to rent or buy a terminal from your service provider.

If you're taking payments over the phone or via your website go for a provider who offers web or PC based software for you to validate your sales (this option is likely to be cheaper than renting a terminal).

You do not usually need to have your merchant services provided by the same bank that provides your business current account so do shop around for the best quote.

**Note:** If you intend to use merchant services in your business ask Selnet about our ethical merchant service partner.

## Company Policy Documents

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When setting up a new social enterprise business you need to build the operating systems from the outset. This gives you chance to adopt the working practices from the start, build them into your staff/volunteer recruitment practices and to prove that you are 'Tender Ready' from the beginning, i.e. have the right quality systems that commissioners look for.

To help, your adviser can direct you to generic policies that can be adapted to meet your organisation's needs. You can tailor them with your organisations name and logo and any specific working practices and terms of employment etc.

Only include those that you are going to enforce, then enforce them across the board. You cannot make exceptions; policies must be fair and apply equally to everyone, including the management, whether paid or voluntary.

A big part of management is creating and enforcing policies and procedures to meet the legal requirements of running a business.

## Monitoring and Evaluation

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Monitoring involves setting up regular routines in the plans that are made so you know where you are going with such things as income and spending, client numbers, and time spent in each part of the organisations' work. It can also include measures by which you determine how well you are meeting your objectives. Monitoring uses information already at hand or easily obtainable. It takes a minimal amount of time, helps you learn from experience and tells you where the 'fine-tuning' should be (e.g. objectives might have to be modified or resources spread slightly differently).

You should also evaluate your operation. Evaluation looks at who has done what; to, for or with whom; with what result, and at what cost. It examines the goals and the objectives of the organisation, and offers a comprehensive assessment of its performance. Evaluation can be carried out internally - or by an external evaluator.

## Making a start

In the early days of the business it is worth putting the effort in collecting some evidence to measure progress. These can be through project action plans or target monitoring.

Start to capture some of the **'Hard'** outcomes – numbers, starters and completers, sessions, workshops, events etc.

Some of the **'Soft'** outcomes – the differences, improvements, change in behaviour, feelings, health and finances etc.

Capturing the soft outcomes of the services provided could include asking the individual and/or their family how the service affected them. This type of information is increasingly useful in applying for grants/contracts.

## Action Plans and Targets (goals)

These will be used on a daily/weekly basis to track progress and be directly linked to your day-to-day activities.

E.g. Confidence Building Workshops

- Did you deliver the number you planned?
- Did the number of people attend as projected?

Capturing their views on whether they benefited, learnt more, gained new skills, felt better etc. will feed into your evaluation systems.

As you encounter challenges, e.g. difficulty in getting people to attend the workshop, finding the workshop content isn't suitable for the audience etc. you will revisit your plans and revise your activities and use the learning to improve the business.

# Market Research

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This section focuses on the early steps in researching your marketing.

**Note:** we are using the term customers as though they are buying from us but for many social enterprises they are delivering services to people, which are their target market. So equally, these social enterprises must understand their client group; their wants and needs and how they prefer to be treated. The same marketing techniques need to be used to ensure that you tailor your activities to exactly meet what your market want and hey presto – *success!*

## Market Research

As we discussed for the Feasibility study on Page 12/13 you will need to do initial research to help you identify:

- Whether there is a market for your business idea.
- The value and volume of demand for your products.



- Trends currently affecting your market sector, and likely future developments e.g. proposed legislation or technology changes that may affect your ability to trade.
- Specific information about your target customers: who they are, where they live, how old they are, how much they earn, their gender, employment status and job title.
- Who you will be competing against, and their strengths and weaknesses.
- Whether there are potential business partners you could collaborate with.

Whatever your social purpose, thorough market research will help you confirm or refine your initial assumptions about your market and business proposition.

### Sources of market information for your market sector, customers and competitors:

The Internet is now the major research tool and you can carry out your own research using search engines and online directories.

Useful websites include: **Government statistics** for England and Wales [www.statistics.gov.uk](http://www.statistics.gov.uk) and **Communities** [www.neighbourhood.statistics.gov.uk](http://www.neighbourhood.statistics.gov.uk)

You can find out a range of statistical information by Town, Ward and postcode at the Office for National Statistics. Information includes details about key demographics, the labour market, economic changes, statistical digests, social trends and regional profiles.

Online information publishers [www.upmystreet.com](http://www.upmystreet.com) and [www.checkmyfile.com](http://www.checkmyfile.com) provide analysis of an area defined by its postcode, outlining education facilities, the property market, consumer classification types and public transport provision. This can be useful when building up a picture of the economic health and consumer wealth/poverty of a particular area.

### Businesses

The public library may have market reports, company information, statistics and trade magazines. Also research business information databases and directories of trade publications as these can help you to find information about potential competitors. Useful databases include: FAME (Financial Analysis Made Easy), Dun & Bradstreet Key British Enterprises (KBE) or Experian.

Your local council can provide information on businesses operating in your area.

Business support organisations and advice services, such as your local Chamber of Commerce see [www.chamberonline.co.uk](http://www.chamberonline.co.uk) or enterprise agency will also have information on businesses in your area [www.nfea.com](http://www.nfea.com)

Basic information about businesses, such as the name, addresses and contact details, can be found at: Yellow Pages Online: [www.yell.com](http://www.yell.com) and Thomson Business Directory: [www.thomweb.co.uk](http://www.thomweb.co.uk).

You should use as many sources as possible to build an accurate picture of what your competitors are up to, how much they charge, how well they are doing and where they are based.

Directories listing contact details and sometimes, financial information about firms are widely available in libraries.

These include:

- Kompass Register [www.kompass.co.uk](http://www.kompass.co.uk) - this comes in four volumes including ones covering company profiles and financial information. It is also useful for sourcing suppliers.
- Who Owns Whom - this covers corporate structures in all industries, and includes details on subsidiaries and parent companies. It is published by Dun & Bradstreet. You can check their website for registration details [www.dbai.dnb.com](http://www.dbai.dnb.com)
- Kelly's Business Directory [www.kellysearch.com](http://www.kellysearch.com) - this is a quick guide for buyers, providing a list of suppliers and their contact details.

## Doing your own 'primary' research

Another way of collecting focused market data that is relevant to your specific business is to carry out what is called 'primary research' and collect your own data and information about your target market. This can include Market research questionnaires carried out face-to-face, over the phone, by post or via e-mail.

## Questionnaire techniques

There are three questionnaire techniques commonly in use. The choice of technique will depend on the type of group targeted and the information required. Each has its own benefits and drawbacks. The techniques, and their advantages and disadvantages, are compared in the table below.

Techniques	Advantages	Disadvantages
<b>Personal Survey</b>	Greater flexibility and control - opportunity to clarify misunderstandings Able to ask supplementary questions High response rate Can watch body language as a verbal response	Time consuming Expensive Respondents have little time to think
<b>Telephone</b>	More flexibility and often a higher response rate than postal Reach people who won't give personal interview Fast and very effective	Interviews must be fairly short Respondents may have little time to think May give inaccurate responses
<b>Postal/E-mail</b>	Cheap Respondents have time to think Objective - there is no interview interface Useful when respondent is difficult to contact	Possible low response rate No flexibility to clarify answers Limited information obtained

## Social Accounting and Audits

The purpose of a social audit is to consider the impact a business has on the surrounding community, environment and economy, as well as upon individual people. Businesses of all types and sizes introduce social audits into their annual reporting for various reasons.

Social Accounting and Audit can revolutionise the way social businesses work. It is a process to create a flexible framework which enables an organisation to account fully for its social, environmental and economic impact to report on its performance and to provide the information essential for planning future action and improving performance.

Through this process the organisation will understand the impact it has on the surrounding community, on the beneficiaries and at the same time it will be able to build in accountability by engaging with key stakeholders. The main benefit to any organisation is the ability to *prove* the value of the organisation and *improve* its performance!

### Measuring success

Social enterprises were originally seen as a way of meeting social needs for local communities that had been let down by both the market and the state. Many now play a greater role in a competitive market both within the private sector and within the markets for public services.

Demonstrating the benefits from different and innovative approaches, both the impact and the added value is becoming increasingly important in the competitive market for public sector contracts and opportunities.

The sector is increasingly looking at ways to measure its success. Because of the variety, shape and size of social enterprises there is no one single 'Tool' that fits all. There are different impact assessment models around. The cost in both money and time has to be factored in when choosing to adopt such systems.

Taking on any systems to measure impact can put an additional burden on the business in the form of management time, resources and cost. The Social Return on Investment (SROI) model has been supported by some Government departments as a method of calculating the value of their investment into community based projects.

Whether systems to measure your impact need to be put in from the start or whether you should wait until the business is more mature and on a financial footing has to be your decision. However, it is safe to say that if your income is going to come through commissioning you will need to start measuring 'something' to begin to qualify and quantify the benefits to your clients and the differences that you are making.

### Evaluation models

To start to measure your organisational impact first map out who and what you affect. There are four broad areas to consider: Individuals and their wellbeing, the community and its social capital, the environment and the economy.

You as an organisation have an effect on people as individuals - employees, volunteers, beneficiaries and others who come into contact with the organisation.

## **The community and its social capital**

Social capital is about relationships, neighbourliness, social networks, support and civic engagement. You can measure how people feel about their particular local area, but you can also examine statistics linked to the numbers of community organisations in that area and the partnerships between them.

## **The environment**

All organisations can look at its use of resources and the environmental impact of its day-to-day operations. Many social enterprises are trying to bring about positive environmental change through raising awareness, changing behaviour and improvements to the local environment.

## **The economy**

There are many different ways in which an organisation can affect the economy.

By employing people – they have a direct economic impact on those individuals and their families.

Providing affordable services designed for people on low income.

By providing a product which would otherwise be missing from the local economy.

Information from social accounts can be used in a number of different ways e.g. in the annual report, funding applications and publicity documentation. However, it is the process undertaken in producing the accounts that is far more important than the glossy report.

Once an organisation undertakes the social accounting process, strategic planning and/or organisational review - they blend together as one continuous exercise. This allows the organisation to manage itself better, monitor performance & impact and report fully to all its stakeholders.

Social enterprises already have a great track record of delivering public services. They deliver for Local Authorities, NHS, Prison Service, DWP to name but a few, and in ways that have impacted across virtually every sector of the community.

The Government is promoting the role of the sector in public service delivery because of the added value it brings and its ability to serve hard-to-reach groups.

Social Enterprises can offer:

- specialist knowledge or experience
- involvement of users
- independence of government
- ability to reach hard to reach groups
- innovative approaches to service delivery

Some organisations might also be able and willing to provide more than the public body has asked for. This can be achieved through different methods i.e. involving volunteers or using voluntary income. This provides a wealth of added value, the USP of social enterprises and develops the 'social capital'.

# Commissioning and Procurement

**Commissioning** is where the relevant public body decides what service it wants to see delivered. This can involve assessing the needs of people in an area, designing services to meet those needs and then selecting an appropriate service to meet those needs. An 'intelligent' commissioning process will consider a range of options for delivering and funding public services.

**Procurement** is one part of the commissioning process. It refers to a specific method of purchasing services which can involve:

- A **grant** - a gift or donation type of relationship that may have a 'service level agreement' attached which will dictate what the money is to be spent on.
- A **grant-in-aid** - a gift or donation type of relationship for the general purposes of the organisation, less service specific than simply a grant (becoming increasingly rarer)
- A **contract** - a legally enforceable agreement (becoming increasingly more common)

An important point to remember is that if both parties to a funding arrangement intend the arrangement to be legally binding, then it is a contract, even if it has been called a grant or a service level agreement.

## The growing role of social enterprise in local government

Councils contracting out services to private or third-sector providers are nothing new, but the current scale and scope certainly is.

Social Enterprise UK says that 15% of all social enterprises started up in the past two years and almost 40% existing ones work primarily with the public sector. Social care, transport, leisure services, housing, grounds maintenance, catering – if you can think of a service, chances are there is a social enterprise somewhere in the UK now doing it.

Another beacon of hope is the Public Services (Social Value) Act 2012. The law demands all public service commissioning take social value into account. It will require people to think differently and will stop people from thinking, 'I'll just go for the cheapest.' They will have to take into account greater economic and social value.

*Source: Tim Smedley, 9 November 2012 Guardian newspaper*

## The Public Services Social value bill

The Public Services Social value bill was introduced in 2012. It is hoped that this bill will make it easier for charities and social enterprises to win public contracts and requires public bodies to give consideration to improving "economic, social or environmental wellbeing", whenever they procure a service.

The Social Value Act seeks to ensure that there is a level playing field for Charities and Social Enterprise in terms of bidding alongside traditional private sector providers. The Act dictates that the additional social, environmental and economic benefits, which social enterprises create is taken into account when public service contracts are designed.

This is one of the biggest opportunities that social enterprises have been given in decades as the act has the potential to open up billions of pounds in public sector service contracts - which could provide social enterprises with the chance to deliver important local services and to scale up their businesses.

*Source: Chris White - 7 November 2012 Guardian newspaper*

**Note:** EU procurement rules mean the new Social Value legislation will apply to central government and NHS contracts worth more than £113,057 and local authority contracts worth more than £173,934

Whilst new legislation offers opportunities there are potential risks and constraints and Public service delivery is not for every social enterprise.

If you do decide to deliver public services, you need to understand commissioning and procurement protocols, be able to negotiate and manage legally binding contracts.

Possible risks with public service delivery

- loss of independence - it is the public body that ultimately decides on the service to be provided
- danger of mission drift - delivering services that don't fit with your mission, simply to generate income
- financial risks - cash flow and payment on results
- contractual risks - possibly agreeing to excessively onerous terms within the contract
- reputational risks - being perceived as too closely associated with the public body

All these risks can be managed, but where your funding agreement is in the form of a legally binding contract, you need to ensure you have explored the risks involved thoroughly and have decided how best to mitigate them.

You should also seek legal advice before signing the contract.

## Localism Act & Community Right to.....

Through the **Localism Act 2011** which came into effect in June 2012 the Department for Communities and Local Government (DCLG) has given local communities new rights. These rights give community, voluntary and charity groups the opportunity to take the initiative when it comes to how local public services are run and planning decisions are made.

### Community Right to Challenge

The **Community Right to Challenge** allows voluntary and community groups, charities, parish councils and local authority staff to bid to run a local authority service where they believe they can do so differently and better. This may be the whole service or part of a service.

Groups need to submit a written expression of interest. Local authorities must consider and respond to expressions of interest which, if accepted, will trigger a procurement exercise for that service. The interested group will then take part in the procurement exercise, alongside others.

Authorities must also take into account [statutory guidance](#) about the right.

There is more information about the Community Right to Challenge on the [My Community Rights website](#). This includes examples of how local authorities are implementing the right and supporting groups to deliver local services.

## Community Right to Bid

The [Community Right to Bid](#) gave community groups the right to prepare and bid to buy community buildings and facilities that are important to them.

This could include their:

- village shop
- pub
- community centre
- parks
- allotment
- library
- football ground

These might currently be owned by your local authority or another public body, but they could also be owned by a private company or an individual.

Local authorities are required to keep a list of all of these ‘assets of community value’. If an owner of a listed asset wants to sell it they have to notify the local authority. The local authority then, in turn, has to notify any interested parties.

If local groups are interested in buying the asset they have 6 months to prepare a bid to buy it before the asset can be sold. **Note:** that this isn’t a right to buy. In the private market the value of the asset could still be far in excess of what the community can raise.

There is more information about the Community Right to Bid on the [My Community Rights website](#), run by Locality.