

## **Famous Last Words of Failed Social Entrepreneurs**

### ***Jed Letterman's Top Ten List***

#### **10. "After the Sizzler folks moved out, we thought it was the perfect opportunity to start a community restaurant..."**

If a site is "churning," don't start the same businesses as others who have failed, betting that since you're a nonprofit you can do it for "less." They couldn't and you won't. There are reasons that businesses in your neighborhood have gone belly-up. Usually it's location, location, location -- or the fact that it was the wrong business! If you are dead set on a particular site, consider ventures which move product out of the neighborhood in exchange for capital that is brought into the neighborhood.

#### **9. "\$5,000 seemed like plenty of money for a planning process.."**

Some businesses were conceived on the backs of envelopes, and some were started with a few hundred dollars. Yours will not be one of them! Transforming a nonprofit social service organization into a social entrepreneur organization takes time, which means money. You can do a great deal with volunteers and program participants, but you'll need at least one staff person for whom this project has top priority. Give yourself enough time to establish a venture committee, design a common time frame, agree on measurable goals, and make an organizational commitment to the process. Once you open for business, it's too late to revert to a planning mode. The greatest luxury you have is the period before you launch your venture, when you can analyze your organizational readiness, prepare the board/staff/clients, decide on the right enterprise, raise as much money as you think you will need -- and then add more time and money for planning.

#### **8. "But there was such a NEED for an organic produce grocery..."**

Nonprofits are used to responding to social need, not market demand. Be sure you understand the difference. The fact that a neighborhood may need quality organic produce is one thing; whether or not community residents can afford to pay for organic produce is another. Conduct adequate market and

pricing research, so that you know who your customers are and what their ability to pay is. Build from there to assess your idea's viability.

**7. "Our goals were clear: Create meaningful employment; provide wages of \$10-an-hour; generate \$500,000 a year for our agency; engage in environmentally friendly commerce; offer personal growth opportunities to our employees; be a place for the neighborhood kids to go after school..."**

You are not going to end poverty in America, you are not going to create a cash cow, and you probably won't be able to create a utopian work environment. If you are very lucky, and the business gods smile upon you, you will manage to remain afloat, provide decent transitional work opportunities for folks you care about, and take no more than three years of subsidy from your parent organization. Stay focused: Your first goal must be to identify a demand in the marketplace and provide the highest quality service or product at the most competitive price you can. PERIOD. The rest is icing on the cake.

**6. "We have such a great cause, how could they NOT buy from us?"**

In our evaluations of consumer satisfaction, the fact that ventures were operated by a nonprofit that employs formerly homeless people came in fourth, fifth or sixth as an issue of concern to consumers. They were primarily interested in quality and price. Often, the fact that you are a nonprofit and "doing good" will count against you. Moreover, your clients probably won't appreciate being used as marketing vehicles. Don't use the crutch of being a nonprofit to try winning a foot race.

**5. "The Board president always wanted us to open a T-shirt shop... now's our chance!"**

Business ventures shouldn't be an excuse for pursuing personal agendas or "pet" ideas. If the numbers in your assessment won't support the degree of risk, don't do it, regardless of the political clout or the emotional investment of board, staff, or participants.

#### **4. "We're losing our federal grant...we'd better start a business!"**

Impending cutbacks may spur you to reassess your organization's role in the community, but creating a business will almost always create more problems than it solves. First revisit your mission, examine your values, and then decide whether or not a venture is consistent with who you are as an entity. **DO IT FOR THE RIGHT REASONS! NOT BECAUSE YOU'RE LOSING GRANT MONEY!** Necessity may be the mother of invention, but successful enterprises are rarely born of desperation.

#### **3. "If only we had more money, we would have done a better job..."**

Mainstream businesses fail for two reasons: lack of management skill and lack of capital. Social entrepreneurs fail for one reason: lack of management skill. The Homeless Economic Development Fund came in under budget each of its first three years because the director could not find enough organizations with the capacity to successfully execute enterprise development. Too many nonprofits have a poor grasp of financial accounting, don't understand the markets they are entering, misread their consumers, haven't anticipated staff/board opposition to the idea of creating a business, and on and on. Develop your capacity first, create the business idea second -- and the money will follow.

#### **2. "But they SAID they would pay us by the end of month!"**

It's a jungle out there. Businesses compete brutally, and they play to win. Your customers are feeling the pinch in trying to find the highest value at the lowest price. Your suppliers are feeling the pinch in trying to move inventory and balance cash-flow. Caught between these two forces, you'll feel the squeeze, too. Plan accordingly. Make allowances for bad debt, missed projections, equipment breakdowns, and anything else you can think of that could affect your bottom line. Anticipate the problems you're bound to have. You'll have to deal with them eventually -- plus a hundred other problems you didn't think of.

#### **1. "But we're a NONPROFIT! We're not supposed to make money!"**

If you have the mind-set that sees money as evil, grow up! Money is valueless. It's what people do with money that counts. Your job is to get as

much of it as you can so that you can stay in business, hire people in need, pay a decent wage, contribute funds to your programs, and stabilize your community. Greed may be evil, but money isn't. If you aren't comfortable with that idea, don't get involved in a business venture. Or you might just wake up to discover your own "last words" on a list like this.

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*Jed Emerson (a.k.a. "Jed Letterman") is director of the Roberts Foundation's Homeless Economic Development Fund. This list is reprinted with permission from New Social Entrepreneurs: The Success, Challenge, and Learnings of Nonprofit Enterprise, which the foundation will be publishing in July. Copyright © 1996. The book contains case studies of organizations that have created business enterprises as grantees of the Homeless Economic Development Fund, and covers issues related to "true cost" accounting, nonprofit capital markets, and the process of becoming a "social entrepreneur." For more information, contact The Roberts Foundation Homeless Economic Development Fund, Presidio Bldg. # 1016, Suite 300, P.O. Box 29906, San Francisco, CA 94129-0906.*

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