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BLAZING A TRAIL TO SUSTAINABILITY THROUGH SOCIAL ENTERPRISE: A CASE EXAMPLE

Introduction

Microenterprise program managers, boards and donors continue to wrestle with the challenge of sustainability. As MicroTest data¹ has demonstrated, the road to self-sufficiency – covering total program costs with earned revenues – has proved arduous. At the end of 2006, credit-led programs on average covered 30 percent of their total costs, while those programs that are training-led or technical assistance-led covered only seven percent.² While self-sufficiency has improved for many over the years – with leaders in the field reaching 33 percent or higher – most practitioners have acknowledged that their focus needs to be on a broader vision of sustainability that implies combining earned revenues and subsidies with the goal of meeting current needs without jeopardizing the ability to provide future services. Securing their institution's future sustainability will depend on adopting an entrepreneurial spirit, and devising innovative approaches that blend earned income strategies, social enterprise opportunities and creative fund-raising or capitalization techniques.

This *forum* and two future editions will explore some promising strategies that microenterprise organizations are using to increase the sustainability of program services. Each edition will focus on one strategy, profiling an organization, examining progress to date, and identifying critical decisions and success factors. Both credit-led and training and technical assistance-led programs will be profiled.

¹ MicroTest is a national data collection system managed by FIELD, the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination.

² This data is based on submission by 56 microenterprise programs documenting their program performance activities in Fiscal Year 2006.

³ For more on current assessments of the capacity of social enterprises to deliver financial benefits, see *Pursuing Sustainability in the Microenterprise Field: Findings from a Literature Review* by FIELD, <http://fieldus.org/Projects/direction7.html>.

Access to Markets Trail Map

This *forum* explores the potential of a social enterprise strategy to develop sustainable client services, in this case, access to market services for craft producers. While recent experience has documented how infrequently social enterprises have fulfilled all the hopes of their implementers,³ this case – focused on Mountain BizWorks – documents an application that offers a win-win for clients and organization alike.

Mountain BizWorks, formerly Mountain Microenterprise Fund, provides financing, business instruction and on-going support to entrepreneurs in western North Carolina with the goals of increasing their income, improving their quality of life, and building a more vibrant local economy. Since 2002, BizWorks has operated Mountain Made, a for-profit retail crafts store as a wholly-owned subsidiary.

Why a Store, Why Now?

Upon becoming executive director in 1998, Greg Walker-Wilson placed priority attention on increasing the sustainability of Mountain BizWorks. At the time, 90 percent of the organization's funding was composed of grants – both philanthropic and government – making it clear that the organization needed to diversify its sources of support and, in particular, create earned

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The Grove Arcade originally opened in 1929 as a central shopping spot for Asheville; local shops and services were housed on the ground floor of the art deco landmark, with offices on the upper floors. The federal government took over the building in 1942 as part of the war effort, and until 1992 it remained government-owned and occupied. In 1995 a new federal building was completed in Asheville and in 1997 the city of Asheville acquired title to the Grove Arcade. It then provided a 198-year lease to the Grove Arcade Public Market Foundation, which had been working on plans to redevelop the arcade as a public mixed-use facility for several years.

revenue streams. As a training-led institution, the opportunities for revenue generation were limited in the past, but the organization had some experience offering access to markets services for its clients, many of whom were crafts producers, and practices in the field suggested that this could be a way to both increase value for clients, and generate a financial return. With support from the Charles Stewart Mott Foundation, Walker-Wilson was able to explore the feasibility of developing a social enterprise in Asheville, and from this research a vision emerged for a for-profit store that would produce financial benefits for clients and, once profitable, feed unrestricted funds back to BizWorks. In addition, a retail crafts store could help raise the visibility of local artisans, as well as the services BizWorks provided to this market.

These interests dovetailed with a unique opportunity in Asheville – the redevelopment of the Grove Arcade, and the desire to ensure a microenterprise presence on this large-scale development project.

Asheville is the largest city in western North Carolina, with a population of almost 69,000 counted in the 2000 census. The city is a lively, growing one where the relatively small population supports a diverse and extensive cultural arts scene. The well-known Biltmore Estate, as well as a cluster of downtown arts and crafts galleries and restaurants, outdoor music and arts festivals, and nearby access to the scenic Blue Ridge Parkway, make Asheville a popular tourist and retirement destination.

Tourism and a culture of local craftspeople converge to provide both an extensive supply of and demand for craft products. Historically, 20 percent of the people Mountain BizWorks has served work in the arts or arts-related sectors.

As BizWorks staff planned Mountain Made, they hoped to accomplish several specific goals:

- *Develop the store as a for-profit.* For-profit status would signal to BizWorks' clients as well as the Asheville retail sector that Mountain Made intended to be a serious retail crafts store, operating on an even playing field with other retail shops.
- *Generate revenue for BizWorks.* Mountain Made was clearly intended to create new revenues for BizWorks clients as well as the parent organization. To accomplish this, the funding from BizWorks would be structured as an investment.
- *Achieve profitability in the third year of operation.* Initial projections anticipated a loss of \$45,000 in the first two years with profits of \$30,000 in the third year, and returns to the parent organization starting after that.

1999	2000	2001	2002
Receive \$175,000 in grant funding to lend/invest in store.	Researching, planning, budget and projections; incorporate Mountain Made.	Hire store manager; store opening planned.	Grand Opening in October.



As the project unfolded, however, the organization found that this timeline was too aggressive. Mountain Made's path to profitability would take longer than anticipated, and returns to BizWorks would be delayed. Nevertheless, sound planning, opportune decision-making and patience succeeded in getting the project close to these goals by 2006.

Hiking Mountain Made's Trail

There were a few key decisions and events that contributed significantly to reaching these goals.

Locating in the Grove Arcade was integral to the conception of the store, as it offered opportunities that a stand-alone retail operation did not. Leveraging the arcade's marketing campaign and capitalizing on customers drawn to the arcade allowed the store to focus its money and energies on inventory and operations. Based on market scan results, Mountain Made's market segment was middle-level retail crafts products. The middle-level market segment, high-quality but not gallery-level pieces and pricing, was underserved in Asheville.

Structure of the investment. One of the most critical decisions the board made was structuring the financing for Mountain Made. Mountain Made was incorporated as a for-profit, wholly-owned subsidiary of Mountain BizWorks. Initial investments in Mountain Made consisted of \$25,000 in equity and \$150,000 in loans drawn from grant funds raised specifically for the enterprise. The terms of the loan were set at an initial interest rate of prime plus one percent.⁴ The loan was interest-

only for three years, after which it was expected the store would be profitable and would begin to repay loan principal in addition to interest. The interest rate and terms were consistent with the IRS' Applicable Federal Rate for loans between a parent company and its subsidiary.

For-profit store with an independent structure, board and store manager. In 2001, the board, which was composed of individuals with extensive retail and craft experience, first worked to revise the original marketing and business plans based on its members' experience and the realities under which the store would be operating.

Store manager roles and responsibilities. Two of the most important actions the board took were outlining the roles and responsibilities for the store manager position, and then hiring Melinda Knies as the embodiment of the description. Knies had the experience and skills to act as the primary owner-operator of the retail crafts gallery, even though the start-up funding was provided by BizWorks. Her manner and reputation quickly established her as a gifted technical assistance provider to the artists that came to the store. As one client said: "Melinda encouraged me, she was my resource in learning how to price. She is very approachable, personable, of course, knowledgeable, and experienced. I had a fantastic experience with her. Melinda told me photography was a hard sell." Yet she still was able to help the client refine her product line to better meet customer demand.

Beyond providing assistance and advice on pricing, packaging and product quality, store sales and growth targets are written into Knies'

⁴Prime plus one percent ranged from 5.25 percent to 9.25 percent from mid 2002 to August 2006. In response to the rising prime rate, the interest rate was adjusted to 4.96 percent in August 2006.

2003	2004	2005	2006	2007
Had first break-even month in late fall	Mountain Made in red ; low foot traffic in arcade	Change in arcade management; achieve full occupancy	Brought expenses in line with revenue; broke even; store expansion	Mountain Made in black ; will start repaying loan

contract. She reports directly to the Mountain Made board, which retains hiring and firing authority for her position. Although Mountain BizWorks' board has oversight of the Mountain Made board (while members are appointed for a one-year term subject to renewal, in fact, most board members have served for many years), Mountain Made board and staff are responsible for the operation and success of the enterprise.

Continued investment and patience. Although locating in the Grove Arcade was crucial to Mountain Made's business plan, a nine-month construction delay, as well as initial low-occupancy and customer traffic, negatively impacted the timeline and projections for profitability. Between 2003 and 2005, Mountain Made needed an infusion of approximately \$20,000-\$30,000 each year to remain in business. Although there were frank discussions with the board about closing the store for failing to achieve its scheduled business goals, Walker-Wilson put the \$30,000 annual subsidy in perspective by pointing out that other large-scale BizWorks programs could cost \$200,000 annually. The store already was benefiting 160 clients and had the potential to benefit even more. The board decided in December 2005 to continue supporting the store, approved additional investments from BizWorks' unreserved funds, and signed a three-year lease.

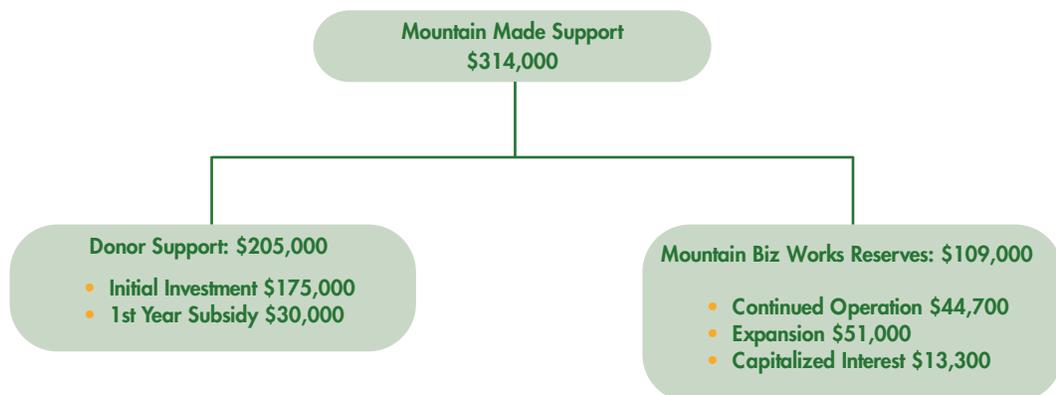
Expansion. In 2006, shortly after the difficult decision to keep Mountain Made open, and before the store's profit potential was proven, the adjacent store closed and Mountain Made

had the option of taking over the space. While staff and board weighed the decision, Knies learned from a retail crafts expert that it was very difficult for a middle-level market crafts store, such as Mountain Made, to be profitable with less than 1,200-1,500 square feet. Mountain Made's original space was 940 square feet. The additional space would almost double its size to approximately 1,800 square feet. And, the new space offered advantages beyond just additional square footage. It was in a prime corner location, ideal for enticing customers into the shop. Additionally, the space configurations and lighting favored the display of high-end jewelry pieces that carried a higher profit margin. These advantages and solid store fundamentals convinced the board to expand.

Where the Boot Hits the Gravel ...

When the store was lodged firmly in the red for 18 months in 2004 and 2005, \$13,300 in loan interest was capitalized and added to the loan principal. Additionally, a total investment of \$74,700 was made in the store during 2003, 2004 and 2005 to keep the store operating. Of this, \$30,000 was a grant from the Z. Smith Reynolds Foundation, to be used specifically for a first year operating subsidy. In 2006, BizWorks invested an additional \$51,000 from its own reserves to cover store expansion costs.

Although these additional investments were not anticipated, they were crucial to Mountain Made's continued operation. In October 2006 the enterprise reached the break-even point and has remained in the black since. Mountain





	2004	2005	2006	2007
Net Income	-\$37,000	-\$27,000	\$3,000	\$11,000
Gross Profit	49.0%	48.7%	52.7%	55.1%

Made is expected to make its first principal pay-down in the second quarter of 2008, in the amount of \$10,000-\$15,000. The loan will remain interest-only, with principal repayments periodically scheduled according to the store's business cycle.

Over the course of seven years, BizWorks has invested \$314,000 dollars in Mountain Made in both loans and equity. During the slightly more than five years that the store has been open, it has paid 337 individual artists a total of nearly \$500,000. Projections for 2008-2012 anticipate an additional \$750,000 being paid to artisans for inventory.

In addition to providing both monetary and technical assistance to local artisans, BizWorks anticipates the return of its capital. Because BizWorks found responsive funders interested in social enterprise, the organization was able to convert grant funds into investment funds that have capitalized an ongoing service for artisans, and will generate valuable, unrestricted funds for the organization, upon repayment of the loan.

Toeholds to the Peak

Although the climb hasn't been as quick as initially projected, BizWorks board and staff now feel that the enterprise has reached a turning point where benefits will only grow. Reaching that point is due to more than one factor:

- **Strong commitment and leadership.** Without Walker-Wilson's leadership and creativity, the store simply would not have opened. Being entrepreneurial, he identified new funders that the institution hadn't tapped before (including "bricks and mortar" funders that traditionally would not have been a fit for BizWorks), and devised an approach to financing the store that will produce some unrestricted income for the parent organization while not demanding more

from the store than it can deliver. He sustained interest and support for the store through delays and slow development, gained agreement to additional investments, and endorsed the store's expansion when its financial position was just starting to improve.

- **Supportive and capable board.** The involvement and oversight of BizWorks and Mountain Made's boards, especially by those skeptical of the store's chances, strengthened the plan and operation of the store. In particular, the Mountain Made board, composed of individuals with extensive and specific retail and crafts experience, was critical in ensuring that the store worked.
- **Responsive funders** provided an opportunity for a social enterprise and allowed BizWorks staff and board to structure the relationship and investment in Mountain Made in an innovative way.
- **For-profit mentality.** It was always clear that the for-profit store would be separate from the nonprofit BizWorks. Although Mountain Made provides technical assistance and retail experience to BizWorks clients, the store manager is not constrained in her selection of products or artisans. The store has adhered to rules of the retail game while keeping an eye on the social-purpose business double bottom line. Being willing to compete on a level playing field has allowed Mountain Made to draw upon other crafts stores for advice at crucial decision points.
- **Capitalizing on opportunities.** Although BizWorks staff and board were interested in social enterprise, moving from the idea stage to implementation was hastened by development opportunities of the Grove Arcade. The possibility of the store expansion

coincided with a tumultuous time in the store's survival, but in opening and expanding the store, BizWorks and Mountain Made's board were willing to accept the risks inherent in these opportunities.

Future Vistas

Now that Mountain Made has reached profitability and projections show sales and net income growing, staff and board have started discussing future directions.

The first priority is to develop a robust succession plan. Walker-Wilson and Knies have strongly filled their roles as executive director and store manager respectively, but a board member commented that “in retail, companies purposefully build their model so that if the three of us kicked the bucket tomorrow, it wouldn't matter.” Planning for succession will allow Mountain Made and BizWorks to grow and thrive without unexpected setbacks.

In addition to tackling business operation issues, staff and board are strategizing ways to best use unrestricted funds from expected 2008 loan payments. The initial capital will likely be plowed back into BizWorks' reserves, which were depleted in Mountain Made's first several years. Specifically, BizWorks is looking to leverage repaid loan principal to help with the acquisition of new office space, after being notified it will lose its long-term rental space in 2008.

The board is considering additional options such as expanding Mountain Made's product range, opening additional stores within Asheville or other geographic areas, or spinning off a jewelry store. Discussion at the Mountain Made strategic retreat in fall 2007 also touched on applying the Mountain Made “template” to other sectors, envisioning an approach in which BizWorks might buy or create ventures and sell them once profitable. In order to free up capital more quickly for endeavors of this type, converting some of the BizWorks loan to Mountain Made into a bank loan also is being considered. Progress on any of these depends on the business needs and opportunities of BizWorks and Mountain Made.

Key Trail Markers

The experience of BizWorks and Mountain Made provides lessons for others interested in pursuing an access to markets strategy.

Retail Store Details

- *Right product mix.* Although the business plan originally called for items such as T-shirts, jams and personal items, Knies quickly determined these products did not fit Mountain Made's niche of jewelry, decorative items, books and CDs designed to appeal to middle-market Asheville tourists and residents. Deferring to Knies' experience, rather than trying to implement the business plan word for word, was crucial in developing a store that fit its location, and the intended market.
- *Store size – risks and opportunities.* When weighing the risks of expansion, analysis revealed that ongoing cost increases were projected to be quite low with high expected returns. Although the square footage more than doubled, already established expenses associated with operating the store could be spread over greater inventory.
- *Location, location, location.* Location is critical in retail and the Grove Arcade offered opportunities and timing that were irresistible to BizWorks. Mountain Made was the first tenant that agreed to occupy the arcade and while being lead tenant in a new development presented risks as well as opportunities, the site selection ultimately did provide Mountain Made access to the marketing power of the arcade, and a steady stream of potential customers.

Mountain Made and BizWorks' Connections

- *Leveraging resources.* Mountain Made was established as a separate organization, both legally and in practice. It was important for Mountain Made to be known as a professional, for-profit store first, with a social-purpose double bottom line second. Now that all parties have become

comfortable with the store's identity, BizWorks is looking to leverage existing capacity by providing financial management services to Mountain Made. Mountain Made needs financial management and rather than hire an outside provider, will pay BizWorks an hourly fee for services provided.

- **Integrating technical assistance.** The technical assistance that Knies provides is recognized by artists, staff and board as highly valuable and exceptional, as compared to other retail-crafts establishments. It was not, however, originally integrated formally into BizWorks' technical assistance program. Additionally, the business experience BizWorks gained by operating Mountain Made was not incorporated systematically into BizWorks' training material. Addressing both of these points is a current focus for BizWorks. Including the opportunity to receive pricing, packaging and product feedback from Mountain Made as an integrated aspect of BizWorks' client services, as well as referring Mountain Made artists to specific BizWorks products and services will increase cross-referral opportunities and better integrate the services each provides to area artists.
- **Cross marketing.** From the beginning, there have been pictures of BizWorks clients on the store walls, as well as BizWorks' marketing material at the register. Largely however, the store has pursued an "if the customer asks, then we tell" approach to informing customers about the parent organization and its services. Again, it is important for customers to view the enterprise like others in the market. While efforts are moving ahead to develop additional, appropriate marketing materials that can be more prominently displayed in the store, increased BizWorks marketing at Mountain Made has to be balanced with customer interest.

Social Enterprise as a Sustainability Strategy

- **Sustainable provision of service.** Rather than focusing solely on the social enterprise's ability to generate revenue for the parent organization, Biz Works prioritized Mountain Made's role as a mechanism for cost-effective service delivery. The first goal has been to develop access to markets services more sustainably than others it has offered.
- **Return of investment.** However, because of the investment structure, a substantial part of investment in the social enterprise can be returned to the institution for other uses, such as increasing its reserves or for investing in other innovative initiatives.
- **Improved institutional reputation.** Beyond funding and service delivery, a successful social enterprise can provide other spill-over benefits. Mountain Made has strengthened BizWorks' reputation among clients for providing solid entrepreneurial assistance that is actually based on its own experience. Starting and running a social enterprise has sharpened the institution's business development understanding, which feeds back into improved training content.
- **Diversified funding.** As part of a strategy to become sustainable, a social enterprise can provide one additional stream of funding into an organization. It also can help an institution attract new funders interested in this strategy, and allow the institution to build a reputation for innovation and results.

A Final Word

Social enterprise has been touted as the strategy to convert anti-poverty initiatives into sustainable services, and it has been derided as a pipe dream leading institutions to invest resources and energy in efforts that drain both with little prospect for self-sufficiency, much less return to the parent organization. Mountain BizWorks has demonstrated that in the right

circumstances, and with reasonable ambitions, a social enterprise can both help clients and an organization chart a path to greater gain for each. While Mountain Made is only reaching the point where it can “pay back” its founding entity, it already has reaped benefits for more than 300 artisans, with prospects of greater benefit as the

years go on. With a dose of entrepreneurial talent, married to realism and hard work, social enterprises may offer some microenterprise programs a pathway to greater sustainability. But if they are to do so, the lessons from Mountain BizWorks must be considered and learned.

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For More on Sustainability in the Microenterprise Field:

Readers interested in learning more about the issue of sustainability are invited to visit FIELD's Web site (www.fieldus.org), for additional resources developed and/or identified by FIELD. Some of these include:

Pursuing Sustainability in the Microenterprise Field: Findings from a Literature Review by FIELD. FIELD compiled a literature review in March 2007, exploring current research and writing on sustainability. The review covers a set of financial factors facing microenterprise programs on the path to sustainability: increasing earned income, achieving efficiency, building an appropriate capital structure and fund-raising effectively. See <http://fieldus.org/Projects/pdf/sustainability.pdf>.

Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies. This volume was developed by the Yale School of Management-Goldman Sachs Foundation Partnership on Nonprofit Ventures and is designed to comprehensively present best practices for generating a reliable income stream that doesn't depend on traditional sources of funding. The book presents a fair and reasoned exploration of the important challenges that must be met by a social enterprise, and emphasizes that the creation of social value (and achievement of an organization's social mission) should be the key reason for embarking on this type of initiative. See <http://fieldus.org/Projects/direction7.html>.

The Social Enterprise Alliance is a membership organization for practitioners and funders engaged in the social enterprise movement that provides training and resources for nonprofits interested in pursuing earned-income businesses or strategies to generate revenue in support of their charitable mission. Its Web site offers a resource section that includes links to organizations, consultants, funders, publications and software useful to nonprofits. One especially valuable link for a microenterprise development organization planning a social business is to Business Plan-Pro, “wizard-driven” software that helps an organization produce a social enterprise plan, including market analysis, strategy and implementation description, Social Return on Investment, sales forecast, personnel plan and financial statements. See <http://www.se-alliance.org/index.cfm>.