

When are business ideas good ideas?

How can a non-profit organization or social enterprise judge whether a business opportunity or venture is worth pursuing?

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Introduction

In the past month, I've had several conversations with non-profit organizations and social enterprises about when a business opportunity is a good opportunity.

This got me thinking more explicitly about this topic. I also debated it with my colleagues.

This short presentation is the result.

Please let me know if you have any thoughts on this issue.

Non-profits want to earn revenue

Revenue is income earned through the sale of goods and services. This is central to the business model of social enterprises.

Non-profit organizations have realized that there is a limited pool of donors and grant funding, and that competition for these funds is fiercer by the day.

Earning revenue is appealing because it:

- Reduces dependence on grants / donations
- Allows for building of financial reserves
- Expands their impact
- Pays for current or planned expenses
- Allows exploration of strategic opportunities.

I've spent over 20 years encouraging this trend.

However, I'm mindful that certain organizations are not in a position to earn revenue and may never be.

But, there are other opportunities (outlined later) that such organizations should consider to bolster their financial sustainability.

Don't run blindly towards a business

- Running blindly towards a business opportunity is short-sighted.
- It can easily be more damaging to an organization than simply doing nothing at all.
- Not all business opportunities are good opportunities, or the right ones for your organization to pursue.



What is meant by a “business opportunity?”

I'm not referring to a new client, donor, deal, etc.

I'm referring to an opportunity for a non-profit organization to start, expand, or invest in a business venture that is different from its core activity.

I recently dealt with two non-profits that were considering setting up farms and/or food processing facilities when these organizations had little experience in these areas.

And in the last month I've had several discussions with non-profits around charity and coffee shops, carpentry workshops, conference centers, car washes, selling training services and billing medical aids.

Does it make money?

Here are four things we consider:

- 1 Net profit after tax (and dividends if the business is housed in a separate entity).
- 2 Ability to absorb overheads of the non-profit organization.
- 3 Ability to create inputs for the non-profit that are difficult or too costly to procure.
- 4 Ability to achieve a social impact that is aligned with the non-profit's mission.

As a rough **rule of thumb**, item 1 and 2 must be greater than 5% of the organization's turnover within a 2-3 year period to make it worthwhile to pursue.

However, depending on the extent of item 3 and 4, I'm inclined to relax this rule and just require the business opportunity to break even within 1-2 years for it to be worth considering.

What is the opportunity cost?

Pursuing any business opportunity will come with **opportunity costs**: the alternative uses of the organization's time, money, expertise and effort. In terms of financial sustainability, here are some options to consider:

- Design a new project that will be more impactful and appealing to donors.
- Improve how you cost projects and apply different costing methods.
- Use public relations to build your organization's brand, attract opportunities, and increase your bargaining power with donors and customers.
- Explore other business opportunities.
- Save your funds in your bank and investments.
- Engage in impact investing (i.e. invest in a business that aligns with your mission).
- Improve the efficiency, workflow and production process in your organization.
- Improve your cost structure (i.e. reduce fixed overhead).
- Fundraise more effectively.
- Measure and demonstrate the impact of your organization.

Variables to consider when assessing a business opportunity

I've encountered too many non-profit organizations that want to embark on a business venture before they've properly interrogated the idea, and its risk and implications. Consider the following:

- Timeframe for ROI (e.g. before positive cash flows start to be generated).
- Level of alignment with mission.
- Risks to S18A and S30 status with SARS.
- Potential for distraction and dilution of focus.
- Level of change to the organization's culture that will be required.
- Customers, competitors, shifts in market conditions.
- Access to required staff and support.
- Likelihood of success.
- Legal arrangements, forms, risks, and costs.
- Differentiation from competitors' offers.
- Obligations to be honoured if the business fails (e.g. staff pay-outs, current orders, property rental).
- Financing (e.g. loans, equity, grants, own funds).
- Ability to take internal ownership and manage the business venture.

A process for evaluating business opportunities

- 1 Identify options.
- 2 Explore all aspects of the idea to make it more real. Build a storyboard.
- 3 Interrogate each of these aspects. Play devil's advocate.
- 4 Build rough financial models to test the assumptions.
- 5 Write a concept note.
- 6 Conduct initial market testing.
- 7 Do some scenario planning (e.g. supply disruption, market shifts, cash flow issues).
- 8 Develop a business plan.

You can always start again with another business idea. Take your time and be thorough than rush and be foolish. As an example, we identified 9 options in Phase 1 for a client, but only one of them made it through to the business planning in Phase 8.

The time for “Necessary Endings”

I recently wrote an article on [Necessary Endings](#), and this concept also applies here.

Non-profit organizations should be prepared to shut down business ventures that undermine them and no longer support them, or that need someone else to take it to the next level, or that had fulfilled their objectives.

There is nothing shameful about shutting down a business that no longer works for you. I know of organizations that have shut down or given away carpentry workshops, restaurants, car washes, shared workspaces, sewing projects, charity shops and many more.

A good ending always creates space for new opportunities to be explored.

Who am I?

I have conversations with people and organizations who want to **change the world**. These conversations cultivate **strategic clarity and encouragement**.

I have worked under the brands of:

- Imani Development
- Social Enterprise Academy
- Bertha Centre for Social Innovation & Entrepreneurship
- Business Sculptors
- Citizen Surveys

I have served over 130 formal clients since 1996.



Thanks

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