



Developing a diversified funding strategy



What is a funding strategy and why is it important?

A funding strategy is a plan showing how your social enterprise will fund or finance its future work. Thinking clearly about what level of money you need and where it will come from is key to the survival of any organisation. Formulating this into a funding strategy can be a very helpful tool, and will help you develop a plan of action of what funding, and when, will suit your organisation.

Writing your business plan will help you identify what financial resources you need, particularly through your financial forecasts. A funding strategy is essentially a plan outlining how you intend to raise or generate the money to fund those requirements. It is not just about getting funding from external sources – it can also include your own financial investment and money generated by your company itself.

Ideally, your funding strategy should be diversified to minimise risk, i.e. it should include a number of different sources of funding or finance. This means that you are not adversely affected if any one of the funding or finance sources ceases.

How does a diversified funding strategy work?

Your funding strategy should be developed alongside your business plan and is likely to affect how you go about doing your business. It will help you understand how much money you will need and which sources you could draw from at each stage of your development. This will help ensure not only that you can start-up and run your social enterprise, but also that you are doing so in a way that is financially viable in the long term.

Some social enterprises become over-reliant on grant funding, or on a single customer, for example, and this is a risky strategy. A diversified funding strategy will help you address such challenges by providing options if the grant or customer falls through. It will give you a better understanding of how to develop and grow your business over time. It may also help you access other sources of finance where needed and help you recognise when your social enterprise should look into them.

Types of funding

Once you are clear about what you need the funding for and what your expected costs will be, you can then start considering and researching the different types of funding that your social enterprise could access. This is an important consideration in the early stages of a social enterprise's development as reliance on any one source may be a high-risk strategy.

Your considerations should cover:

- Investment
- Contracts
- Trading/sales
- Loans
- Grants
- Donations
- Membership fees

Legal structures

Keep in mind that your legal structure will play a key role in determining which of the above you have access to. Remember that not all legal structures can access all the options above. This is why it is best to first consider your funding strategy, both short and long-term, before making a final decision on your social enterprise's legal structure.

For example, your ability to access grants will depend on you having a non-profit legal structure of some sort, and donations will only be possible if your organisation's structure is also charitable.

Conversely, investment income will only be possible if your social enterprise is a company limited by shares, a commercial CIC, or a co-operative (investment will come from your members).

Therefore in practice you may find that even though there are a number of funding/finance options available to you, you will probably need to focus on a few of the options above. This is also true due to other issues such as the time and resources required to source new kinds of finance.

Funding life cycle

The key to having a diversified funding strategy is to carry out extensive research into potential sources of funding and to realistically take into account what funds you can and cannot access at different points in time.

The stage of your enterprise's development will need to be factored into the funding strategy, because what is appropriate or accessible when you start may not be so later on and vice-versa.

For many social entrepreneurs an early source of funding might be a small grant from UnLtd, the Foundation for Social Entrepreneurs (www.unltd.org.uk), a small loan, their personal savings or financial support from family members and friends. This type of funding, albeit limited, can allow you to run a pilot of your service or project, and assist you in demonstrating the viability of your enterprise to get you to the next funding options.

As you establish your social enterprise and start to grow you will need to consider other sources and larger amounts. This may come from grants, loans, selling services, contracting with statutory authorities, starting membership schemes and so on. Your strategy should be to prepare your social enterprise to move from your start-up funding source to future sources and to ensure that you are able to attract the appropriate funders when you need them.

Even successful and profitable social enterprises sometimes need access to finance to start a new project or to address cash flow problems. It is better to think about the options before you face difficulties.

Top tips

- You need to plan for the resources (time, skills and money) that you will need to be able to attract the different funding.
- Applying for grants is quite a different skill from negotiating loans. Similarly, starting a trading activity and being entrepreneurial requires a different skills set and resources. However, this does not mean that you should end up only chasing the sort of finance and funding you are best skilled for because there may be more attractive or cost effective options.
- Many organisations believe that the risk and resource requirements of trading (i.e. generating your own income to finance your operations) are too high compared to grant funding, mainly because trading is unfamiliar to them. It is important however that you objectively assess the resources required to access each type of finance. For example, grant funding can come with restrictions that may affect the way you want to run your projects; in this case, trading can appear to be a better option.
- There are also numerous sources of support that you can access for each type of activity, as well as training. You could consider buying in the skills by using freelancers or consultants as the skills requirement may only be required for a short period. Your strategy should take into consideration all of these factors as you will need the funds to create or buy these skills and resources.
- Some of the support available is free or subsidised and you should aim to make the most of what is available. Business Link in London is able to guide you to other support and resources.
- Another crucial point is to stay focused on your business even while raising funds. Many entrepreneurs can get so involved by the search for venture capital or investors for example that this can have a negative impact on their enterprise's ability to generate funds from sales or contracts

because so much time is spent elsewhere. The business still needs someone to drive it forward, so getting support from your team or partners can make a big difference.

Further information

Read about fundraising training on the Directory of Social Change:
www.dsc.org.uk

Find out about procurement training with Social Enterprise London:
www.sel.org.uk

Find training and support for statutory contracts on the Supply London website:
www.supplylondon.com

Support to become investment ready from the UnLtd Advantage programme:
www.unltd.org.uk

Read our guides on legal structures:
www.blondon.com/SocialEnterprise/Legalstructures/SELegalStructures.aspx

Read our guide to financial forecasting:
www.blondon.com/SocialEnterprise/Fundingandfinance/Financialplanning/Financialforecasts.aspx
x

Read our guide to funding and finance for a social enterprise:
www.blondon.com/SocialEnterprise/Fundingandfinance/SEFundingandFinance.aspx

Read our guide on charity trading:
www.blondon.com/SocialEnterprise/Legalstructures/CharityTrading.aspx