



Growing your enterprise



What is 'growing your enterprise' about?

Enterprises usually want to get bigger over time, and social enterprises are no different. When working on your business plan or thinking about your long-term strategy, you will probably have already outlined some plans for growth. Growing or scaling up can take a variety of forms, such as recruiting more staff, increasing revenues or profits, getting more sales, etc.

Most start-ups look to scale up so that they can reach a size that enables them to generate income and deliver their products and services effectively. But what happens after this? Is growth still important? You need to consider when it is time to think about growth, and when you should focus on consolidating your business.

As you move beyond the start-up stage, identifying the right opportunities for growth becomes an important strategic decision. Growth should be considered carefully and should be part of a sound and sustainable long-term strategy. It involves potential financial and organisational risks that must be assessed.

You can choose different routes to growth – the most common is organic growth, where an organisation gets bigger naturally through trading. There are also other options that may be appropriate, such as franchising or mergers and acquisitions. This will depend on why you want to grow, what you want to achieve and how much control you want to retain over your enterprise.

How does 'growing your enterprise' work?

Before exploring your options for growth, it is worth asking yourself, your team and your board (if you have one) WHY you want to grow the organisation in the first place. Many organisations want to grow for the sake of growing – but growth should not be an end in itself. There has to be an initial aim behind the desire for growth.

Think about what you want your social enterprise to achieve and what is required in order for that to happen. This will help inform whether growth or scaling up is appropriate and in what way.

Here are a few examples of why your social enterprise may want to grow – all are interrelated but it is helpful to think about specific outcomes.

My enterprise should grow:

- to increase social or environmental impact, such as helping more people in the community or recycling more items
- to deliver in other regions or to other groups of beneficiaries
- to generate more sales and increase revenue
- to employ more people and increase capacity
- to meet customer/beneficiary demand or needs
- to ensure you remain financially sustainable in the long-term

As a social entrepreneur, you may also want to spread out/scale up an innovation or a solution to a problem as widely as possible - because of its potential for social or environmental impact, rather than for the benefits of the organisation.

It may be that you want to do all of the above but that you need to set your priorities: what must be done now, and what should happen in the near future? Sometimes the immediate focus should be on consolidating what you have already built and delivering your existing contracts. Many enterprises spread

their resources too thinly and this can involve risks, such as cash flow issues and your ability to deliver on time and on budget.

Other times, there are opportunities to grow and expand your services quickly and you must be equipped to handle them. For example, there may be a surge in demand for the type of service that you provide and you are struggling to meet demand, or you may have won a large contract for which you will need extra capacity and resources. Alternatively, you may feel that you need to grow in order to meet an urgent social need. Once you have decided that growth is right for your enterprise, there are a number of ways to achieve this.

Organic growth

Organic growth means getting bigger through natural trading, by responding to the increase in demand for your products and services. This can lead to growth in terms of increasing market share or diversifying into new markets or products. This may also mean that you are able to increase your profitability because you are selling more volume, or increasing the efficiency with which you use your resources and therefore decreasing the costs of delivering your products and services.

Organic growth occurs naturally through the life of your social enterprise. It should be part of your strategic plan and be the driver for many of your activities. This is a low-risk way to grow because it is based on responding to existing demand.

Franchising

If you have a successful social enterprise, franchising can be an effective way of growing. This is about becoming a franchiser and creating a franchise of your business for other people to use. This means that instead of setting up new offices and projects, you find franchisees (independent entrepreneurs) that use your business as a model to operate their own social enterprise. It is a good way to rapidly expand the business and its social impact geographically. Your franchisee owns the franchise and is responsible for managing and financing it.

You should provide the new franchise with an operations manual that states how to set up and manage the social enterprise franchise. You should also agree a contract with your franchisee setting out what rights and obligations both parties have. Most franchisers will then provide training and support to the franchisee through their start-up period. You may or may not charge fees for the franchise but you may want to charge for your help setting up the franchise. One of the first social franchises in the UK was Hidden Art (www.hiddenartlondon.co.uk), which opened in Cornwall after successfully establishing itself in London.

If you are thinking about franchising your enterprise:

- you may choose to charge them fees for the right to use your model or;
- you may let them operate without fees as long as they deliver on your social impact; or
- you can also choose to forego fees but charge for consultancy, training and other support from your franchisees.

Mergers

Mergers take place when two or more enterprises join together to become a single organisation. The purpose of a merger is usually to create a new enlarged organisation that will have a greater social impact, be more sustainable in the long term or be able to deliver products or services more effectively or efficiently.

Social enterprises may merge with charities and voluntary sector organisations, private business and other social enterprises. Usually this is done because they have a common aim or social impact objectives. Mergers are a more formal and riskier step than partnerships and collaborations but in some cases can be very beneficial. In other cases, mergers are the last option for cash strapped organisations that want to avoid shutting down.

As an example, P3, a social enterprise tackling social exclusion and homelessness, recently successfully merged with two other organisations, the Kilburn Youth Centre and Unique, which is another social enterprise. The merger was seen as a way to increase their scale and put them in a stronger position to provide more services for the local community. It was also a way to help them reassure local commissioners about their ability and capacity to deliver on larger contracts and therefore put them in a better position to compete.

Mergers can also help to avoid duplications or confusions between service providers in a local area and help organisations to become stronger together rather than competing.

Mergers can be quite difficult to implement because they can occur problems such as shared management, different organisational cultures and communication issues, amongst other barriers. Mergers can also be costly in terms of legal and other professional support.

Acquisitions

Acquisitions are about buying or taking over another enterprise to get access to their staff/skills, equipment, customers or contracts. The benefits are often similar to those outlined for mergers and some of the barriers will still exist around managing change and people. If you're thinking about running your own business, buying a company that's already established may be quicker and easier than starting from scratch. Or it may be that you think you can manage the organisation better and that acquisition is the best vehicle to meet your aims and objectives.

However, acquiring another organisation also incurs a lot of risks - financially, operationally and with regards to your reputation. It also requires time and effort to find a business that's right for you. Also, the costs (legal etc) involved in buying an existing business can be substantial and should not be underestimated.

Things to look out for with 'growing your enterprise'

There are many risks involved with growing and not growing an organisation. It is often difficult to know when the most opportune moment to grow or scale up your organisation is. However, not all organisations can afford to stay stagnant while waiting for the right time.

So if you do decide to take action to help your organisation grow, here are a few questions to consider:

- What are your short-term and long-term aims for growth?
- How much will it cost and where do you get funds/cash flow to finance this growth?
- Have you assessed the risks involved and developed plans to address them?

Finally, any enterprise considering mergers or acquisition should carry out all the necessary due diligence and get professional legal, financial and commercial advice before and during the process.

Further information

Visit the Ideas bank for social franchising ideas:

www.social-franchising.net

Visit the Social Firms UK website:

<http://resources.socialfirms.co.uk/index.php?q=node/356>

Read about Social Franchising on the Business Link website:

<http://www.businesslink.gov.uk/bdotg/action/layer?site=210&topicid=5000814533>

Visit the Companies House website:

www.companieshouse.gov.uk

Visit the Charities Commission website for guidance on mergers and acquisitions

<http://www.charity-commission.gov.uk/enhancingcharities/mergetoolkit.asp>

Read our guide on Funding and finance:

www.blondon.com/SocialEnterprise/Fundingandfinance/Sourcingfinance/Fundingandfinance.aspx

Read our guide on Managing Risk:

www.blondon.com/SocialEnterprise/Operations/Planning/Managingrisks.aspx

Read our guide on Partnerships and collaborations:

www.blondon.com/SocialEnterprise/Operations/Planning/Collaborationsandpartnerships.aspx

Read our guide on Delivering on time and on budget:

www.blondon.com/SocialEnterprise/Operations/Planning/Deliveringontimeandonbudget.aspx

Read our guide on setting aims and objectives:

www.blondon.com/SocialEnterprise/SettingUp/Settingobjectives/Settingaimsandobjectives.aspx