



## **Introductory Pack on Funding and Finance**

Guide to Trading



## **Introductory Pack on Funding and Finance** Guide to Trading

Baker Brown  
*associates*

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## About this guide

This guide provides a starting point for voluntary and community organisations that want to generate income through trading activities. It focuses on three key issues: getting started, developing competitive advantage, and trading practicalities.

The guide explains how to develop a competitive advantage, whilst at the same time retaining a strong focus on the social purpose, values and ethos of the voluntary and community sector. It describes how to get started, choosing trading activities that complement the social purpose of the organisation. It also explores a range of practical issues for all organisations to consider before they launch new trading activities. At the end of the guide there is further information about useful publications, websites and sources of support.

This is the fourth guide in the series that make up the Finance Hub *Introductory Pack on Funding and Finance*. Details of other guides are given below.

## About the Introductory Pack on Funding and Finance

The *Introductory Pack on Funding and Finance* was commissioned by the Finance Hub, one of the centres of expertise created as part of ChangeUp<sup>1</sup>. The guides provide voluntary and community organisations and social enterprises with practical information, support and guidance on funding and finance options, and the skills needed to access these options.

The guides have been designed with new and small to medium-sized organisations in mind. They aim to be accessible, clearly written and to explain any specialist terms used. They provide case studies highlighting real life experiences that offer good practice tips and the lessons learned by organisations that have 'been there and done that', including the first steps of some smaller organisations. The guides also contain tools and signposts to resources to assist organisations in their search for long-term financial sustainability.

The guides that make up the *Introductory Pack* are:

- 1** Sustainable Funding
- 2** Financial Management
- 3** Fundraising
- 4** Trading
- 5** Procurement and Contracting
- 6** Loans and Other Forms of Finance

Copies of the guides are available from NCVO and the Finance Hub. They can be downloaded from the Finance Hub website at [www.financehub.org.uk](http://www.financehub.org.uk) or NCVO's website at [www.ncvo-vol.org.uk/sfp](http://www.ncvo-vol.org.uk/sfp). Further details and information about the work of the Finance Hub and the support it provides is included in the Resources section at the end of this guide.

<sup>1</sup>ChangeUp is a programme of capacity building for the infrastructure of the voluntary and community sector.

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For more information see:  
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## Introductory Pack authors, contributors and advisory group

The *Introductory Pack* has been developed by experts in voluntary and community sector funding and finance with input on design and presentation from practitioners including an advisory group of front-line funding advisors.

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# Guide to symbols and abbreviations

Each section uses the symbols shown below. These are designed to help readers navigate through the text and to highlight key points and signposts.



**Good practice tip/key points to remember**



**Tool (e.g. template or checklist)**



**Signposts to further support and information**

CVS = council for voluntary service  
VCO = voluntary and community organisation  
VCS = voluntary and community sector



## Introduction – Why think about trading?

Earned income is an important source of funding for the UK voluntary and community sector (VCS). Earning from trading on the open market or delivering services under contract now accounts for nearly half of the total income of the sector, outstripping all income from grants, gifts and donations. This represents a major change in how the sector is funded.

The public sector is an important source of earned income for voluntary and community organisations (VCOs), but it is by no means the only source. In 2003/04 VCOs earned almost £7.5 billion from trading with private individuals, business and other VCOs.<sup>2</sup>

Earning income from trading goods and services on the open market (often referred to as ‘social enterprise’) is increasingly being pursued by VCOs. Such income can be a valuable source of unrestricted, independent income and a real contribution to supporting organisational independence and growth. However, all organisations contemplating trading need to ensure that all the key issues likely to be encountered (e.g. legal, marketing, resources) are considered and planned for in a manageable way.

For VCOs that are new to trading, it can be hard to know where and how to start. Should they spend money on feasibility studies and business plans? Is it better to test ideas on a small scale before a full launch? What types of products and/or services should be developed? Identifying suitable trading opportunities is only the first step. Making a success of trading means addressing practical issues such as assessing the viability of ideas, planning development, recruiting suitably skilled staff, and deciding whether to keep activities in-house or create a separate trading subsidiary.

There are similar issues to consider whether contemplating earning from trading or contracting. The key difference with contracting, particularly if with a public sector agency, is engaging with a formal procurement process. Such processes and other issues associated with delivering services under contract are discussed in the *Introductory Pack Guide to Procurement and Contracting*. This guide focuses specifically on earning income from trading.

This guide explains why the key to successful trading for VCOs is to focus on their social purpose. Trading for a social purpose is not only possible, and practical, but can greatly improve the independence and sustainability of VCOs, and help them achieve their social mission.

Of course, earning is not necessarily for everyone but, where viable, it can help organisations avoid reliance on time-limited funds such as grants. Over the last 20 years many tens of thousands of VCOs have learned how to generate income from trading. The aim of this guide is to communicate these lessons to organisations that are new to trading, and those that want to develop new trading activities.

<sup>2</sup> *UK Voluntary Sector Almanac* (2006). London. NCVO.



# 1 Voluntary and community organisations and trading

Starting to trade in the VCS is not about turning charities into businesses. It is about organisations adopting new ways of generating income to support the work they do. Grants are great, but trading is an additional tool which can allow organisations to move away from complete reliance on time-limited, ring-fenced grants and unreliable charitable donations.

## What is social enterprise?

Trading activity, when undertaken by VCOs, is often referred to as 'social enterprise'. This term has come into increased use over the past few years. It simply means trading for a social purpose – pursuing a double (or in the case of environmental organisations, triple) 'bottom-line' of social as well as financial benefit.

When an organisation engages in some form of social enterprise activity, be this a charity engaged in small-scale trading in addition to other work, or the primary output of an organisation calling itself a 'social enterprise', the resulting Product (what is sold), Process (the way in which they produce or sell it) or Profit (what happens to the income generated), is 'social'. In other words, there is a double bottom line. Social enterprise isn't just about making money, it's also about ensuring there is some wider social benefit which results from the trading activity.

**Examples of social products** include neighbourhood nurseries, credit unions or fresh food co-operatives.

**Examples of social process** include creating employment and training opportunities for individuals excluded from the mainstream labour market (e.g. The Big Issue); developing employee and co-operative ownership structures; or embedding fair trade in the means of production, as in the fair trade movement developed by overseas development agencies.

**Examples of social profit** include the charity shops of organisations such as Oxfam, Cancer Research, or Sue Ryder where all profits are made over to supporting each charity's core objectives.

It is important to note that the term can refer either to an organisation or a type of activity. 'Social Enterprises' (when used as a noun) are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. VCOs, be they registered charities or small community groups, that engage in trading can be described as undertaking 'social enterprise activity'.

## How can trading be useful for VCOs?

There are many examples of VCOs engaged in social enterprise activity. Indeed, given that social enterprise combines the intention of producing a social or public benefit with the idea of making money, it is a logical step for organisations wanting to broaden their income base without distracting from their mission and core values.

Trading goods and services directly related to an organisation's primary objectives is known as 'mission-related trading'. This guide concentrates on mission-related trading. Some organisations might also consider trading activities that are unrelated to their mission, where many of the practical considerations covered by this guide still apply.

The guide aims to help organisations understand the issues they need to consider before starting to trade. It also aims to raise awareness that working through these issues can improve the capacity and creativity of organisations, leading to benefits beyond those associated with any specific trading idea.

Trading is often used by VCOs as a way of achieving financial sustainability. It should not, however, be seen as a quick fix for organisations whose grant funding is ending. Developing trading ideas can take anywhere between six months to several years, depending on the precise nature of the trading activity. Hence, any organisation considering trading needs to have sufficient resources in place, or be planning how to access these as part of any development phase.



### ***Summary – Voluntary and community organisations and trading***

- Trading can be used to broaden the income base of VCOs by providing additional income streams.
- Trading by VCOs is often referred to as 'social enterprise'.
- Developing skills required for trading can be more widely beneficial, building capacity and creativity throughout an organisation.
- Trading should not be seen as a quick fix to funding problems – it may take six months to several years before trading activities become profitable.

## 2 Preparing to trade – Organisational culture

There is a distinct relationship between organisational culture and the ability to put trading ideas into practice.

In order to develop a successful trading activity, an organisation has to both want to do it, and be able to do it. For some VCOs trading may represent a real challenge to the accepted way of funding their work. For others trading may be a natural progression. Either way, part of the planning process for trading is considering to what extent trading will require a change of hearts and minds in addition to adopting new working processes. This section explores these issues (often referred to as ‘organisational culture’).

### Being entrepreneurial

In thinking about developing any new trading idea, VCOs need to examine, and perhaps change, their attitudes to income and profit.

Developing successful trading activities requires a certain amount of creativity or ‘entrepreneurship’. There are lots of debates about what characterises entrepreneurs and they are often described in ways that can seem out of keeping with the ethos of the VCS. Fundamentally, being entrepreneurial is about being open to new ideas, being open to new ways of doing things, and being able to live with a certain amount of risk. In other words, developing a trading idea almost certainly requires initiating and managing a certain amount of organisational change.

Organisations wanting to develop and pursue entrepreneurial trading ideas need everyone on board. This means ensuring everyone is comfortable with the idea of trading. This may mean inspiring all the stakeholders, including board members, staff, volunteers, and beneficiaries, to embrace a competitive and innovative approach to the delivery of products and services.

However, within an organisation there may be a set of assumptions about charity and profit. These need to be explored, and possibly resolved, before moving towards trading. The following Tool is designed to help VCOs explore what is involved in developing a more entrepreneurial culture, and could be a useful starting point for developing a new trading activity.



### Tool – Developing an entrepreneurial culture<sup>3</sup>

Consider the following list of characteristics of an entrepreneurial culture –

Self-confident	Ethical	Dynamic
Self-starting	Competitive	Resourceful
Achievement orientated	Innovative	Versatile
Seeks opportunity	Likes autonomy	Persuades others
Copes with and enjoys uncertainty	Actively seeks to achieve goals	Responds flexibly to challenges
Takes risks in uncertain environments	Commits to make things happen	Solves conflicts and problems creatively
Has clear and understood processes for taking decisions	Pro-active in communicating with staff and stakeholders	Clear focus on thorough planning and organising
Staff are financially aware and literate	Systematic in assessing risk	Positively disposed to problem solving

- Decide which of these characteristics the VCO already possesses, and which it needs to develop.
- Decide whether there are any other entrepreneurial characteristics, not listed above, which would be useful to have.
- Consider how these characteristics can be developed (e.g. training, being open to different approaches, recruiting new people).

Examining these issues will lay the basis for an action plan of first steps an organisation may need to take before developing a trading idea.

## Implications for mission and core values

Before embarking upon developing trading ideas a VCO also needs to think about the implications for its mission and core values. This includes checking that the organisation's constitution allows it to trade – if it does not, then the VCO will need to amend its constitution before going any further.



### **Summary – Preparing to trade – Organisational culture**

- In thinking about developing any new trading idea, VCOs need to examine, and perhaps change, their attitudes to income and profit.
- Organisations wanting to develop and pursue entrepreneurial trading ideas need everyone on board.
- Developing trading ideas may involve managing organisational change.
- VCOs also need to consider the implications for their mission and core values; this includes checking the VCO's constitution allows it to trade.

<sup>3</sup> Taken from *Getting Ready for Enterprise*, 2-day course developed by NCVO and Cass Business School.

### 3 Types of trading – Developing a competitive advantage

Understanding competitiveness is essential for successful trading. This means developing some form of unique selling point, or competitive advantage, to attract potential customers.

Developing a reason why potential customers should want to purchase an organisation's product or service is crucial for successful trading. This is known as developing a competitive advantage.

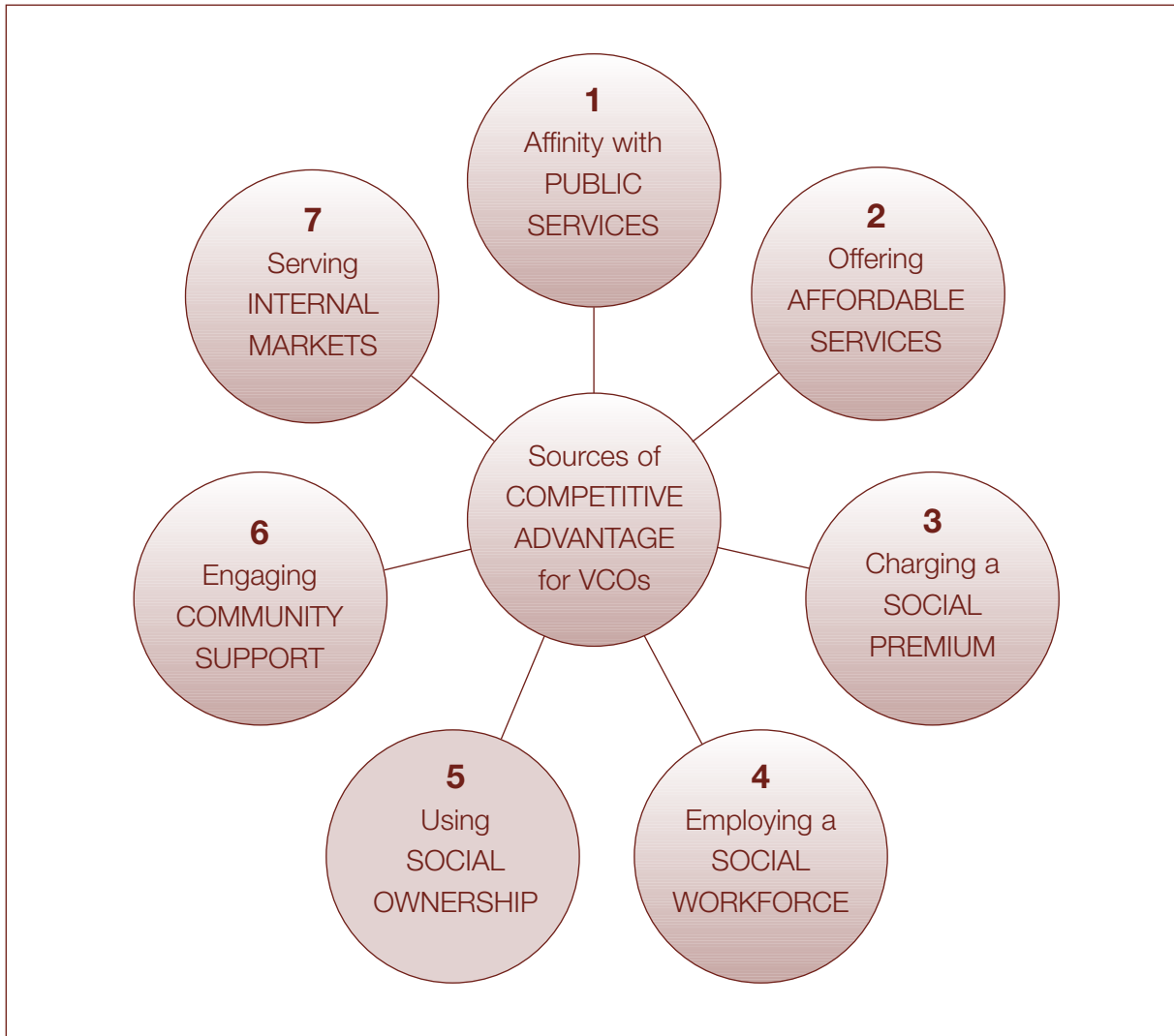
Price is certainly important to competition, but it is not the only factor, and it is not always the most important one for VCOs. Indeed, VCOs should be careful to ensure they fully cost and appropriately price any new product or service. There are other ways of competing for trade, based on offering funders, customers and users something they value. This is where VCO's social values and mission come to the fore. Instead of trying to be the cheapest in the market, VCOs can develop the social dimension of their products and services to appeal to funders, customers and users alike. This can lead to a competitive advantage for VCOs, especially when competing with the private sector.

A competitive advantage, based on social purpose, can be developed for most types of products and services. The VCS is already engaged in a hugely diverse range of activities, including health, social care, education, the environment, leisure, housing, transport, arts, sports, retail, land management, and waste management; indeed, just about every sector of economic activity.

The diagram on page 6 shows seven sources of competitive advantage for VCOs, all of which draw on their social mission, values and purpose. The nature of the VCO will determine which source or sources of competitive advantage apply. For instance, two sources of competitive advantage, offering affordable services and charging a social premium, apply to wholly different products and services, and different social objectives. On the other hand, some sources of competitive advantage may work in tandem. Some VCOs use their social ownership structures to engage community support, by encouraging the community to invest in a project.

The rest of this section explores each of these sources in turn, with case studies illustrating how successful VCOs have used these competitive advantages. At the end of the section, there is a Tool that can be used to determine the best sources of competitive advantage for a specific product or service.

Figure 1 – Sources of competitive advantage for VCOs



## 1 Affinity with public services

VCOs have a competitive advantage in public service delivery based on their social ownership and their ability to engage community support. Communities trust VCOs to deliver services for the public benefit, not private gain.

There is a strong and natural affinity between the VCS and public service provision and huge scope for increasing trade with the public sector. The government has stated its strong desire to see the VCS more heavily involved in the delivery of public services. Small increases in the voluntary sector's share of this market would have a massively beneficial effect.

The general principles for developing trading, outlined in this guide, are equally applicable to moving towards earning from contracting.



For further details on procurement processes and opportunities see the *Introductory Pack Guide to Procurement and Contracting*.

## 2 Offering affordable services

The key to developing an affordable service is to identify a willing third party who is prepared to make an input in the form of volunteer labour, donated goods and resources or, more straightforwardly, a cash subsidy that makes the products or services affordable for the end-user.

VCOs have a long tradition of developing markets based on the provision of affordable products or services, where the user pays a discounted price for the product or service, supported by a third party. The best known example of this is affordable housing, where the government, through the Housing Corporation, provides funds to registered social landlords, who in turn provide affordable housing to the public.

Not all affordable services are reliant upon government funding. The general public are often willing donors to VCOs, if they know and understand that their donations will be used for a good cause. For instance, many VCOs have developed furniture re-use initiatives, where the public donate unwanted furniture and domestic appliances, which are refurbished and then sold at a discount to low-income families. Most furniture re-use schemes use volunteers to keep costs down, and some provide training to unemployed people. The Furniture Re-use Network is the national co-ordinating body for 300 furniture and appliance re-use and recycling organisations in the UK. Its member organisations have over 2,000 employees and 12,000 volunteers, shifting over 1.5 million items of furniture and domestic appliances per year.

There are many other examples of affordable services provided by VCOs. Scrap stores successfully promote the re-use of some types of business waste as creative play materials (see the case study below). Credit unions provide low-cost loans and financial services to their members, who save with them and often provide volunteer labour. There are VCOs running energy efficiency programmes to reduce the amount spent on fuel by low-income households. Some communities have set up food co-operatives to provide good quality, healthy food at affordable prices. Often these initiatives are able to secure funding from a third party that is interested in the same issues. For instance, some food co-operatives are supported by regional development agencies, Defra (Department for Environment, Food and Rural Affairs), the Department of Health, and other agencies interested in food and health issues.

### *Case study – Affordable services trading Children's Scrapstore, Bristol*

Children's Scrapstore, founded in 1982, is a membership organisation that collects safe business waste and makes it available to member VCOs for creative activities. The charity also runs an arts and crafts shop selling discounted products to its members and the general public.

In 2004/05, almost 75% of Children's Scrapstore's total income of just under £350,000 was generated through trading. This included approximately £150,000 from shop sales, £48,000 from member subscriptions, and £45,000 from the sale of scrap materials. Membership costs between £16.50 and £49.60 a year, depending on the annual income of the organisation; and a shopping trolley of scrap materials is just £9.50.

Children's Scrapstore has experimented with many ways of developing its trading activities including exploring the scope for selling bundled packages of scrap for specific uses. Pilot versions of the packs demonstrated the importance of branding, and the need to understand the interests and requirements of the end-user. Children's Scrapstore is optimistic that, taking these lessons on board, it should be possible to raise £10,000 a year through the sale of bundled scrap packages.

## 3 Charging a social premium

The key to developing a social premium market is to ensure that the product or service is of the highest quality.

Charging customers higher prices may, initially, seem to be an odd business strategy, especially for VCOs, which are so closely associated with the alleviation of poverty and disadvantage. But social premium pricing is a long established practice amongst charities that know their customers and supporters are willing to pay a little more for their products and services. Charity Christmas cards and fair trade products are a good example of this practice.

Initially, most fairtrade products were sold by community and faith groups but as the market has grown, many mainstream retailers have started selling them too. Charities such as Oxfam have played a key role in the development of fair trade markets in the UK.

Social premium pricing is a relatively unexplored option for VCOs, even though there is plenty of evidence that some customers will pay more for products that address social issues. There are many untested opportunities for developing social premium products. For example, VCOs working in the environmental field could develop products and services that address conservation and climate change issues. And VCOs that employ social workforces (see next sub-section) could market that fact to their customers. An example of this is the Fifteen Foundation, a charity set up by celebrity chef Jamie Oliver, which is supported by a chain of upmarket restaurants called Fifteen, staffed by disadvantaged young people who are trained to be chefs.

However, most customers who are willing and able to pay more want and expect high quality products. If VCOs offer ordinary products at premium prices, they are unlikely to develop a loyal base of repeat-purchase customers. Most customers will only continue to pay a social premium price if they are satisfied with the products or services.

## 4 Employing a social workforce

A highly skilled volunteer workforce committed to the social objectives of the VCO, can prove to be a very valuable resource, which is empowering for the workforce as well as generating income for the organisation.

VCOs are highly experienced at employing social workforces. A social workforce can be composed of volunteers, unpaid trainees, or even paid employees. The social workforce may be donors, giving freely of their time, and/or beneficiaries, receiving help and support. The exact composition of a social workforce is determined by the social objectives of the VCO.

There are several ways of ensuring that a social workforce becomes a competitive advantage. Firstly, it is extremely important to develop a trading activity that fully uses the skills and attributes of the social workforce in question and which improves the skills of participants in the process. Hill Holt Wood is a small managed-woodland project in Lincolnshire which generates most of its income through its work with excluded, at risk or unemployed young people. It has proved highly successful at engaging young people in developing their confidence and skills, in ways that more conventional learning environments had failed to do. Secondly, employing a social workforce can be a source of income in its own right, as Hill Holt Wood amply demonstrates. It has contracts to work with young people, who learn and practise woodland skills.

### *Case study – Social workforce trading Forest of Dean Radio*

Forest of Dean Radio was set up in 1995 by a small group of volunteers with a passion for widening access to radio broadcasting. Initially it operated with a Restricted Service Licence, which allowed it to broadcast within a small radius for short periods of time only. In 2003 it became the first station in the UK to be awarded a five year community radio licence. 'This immediately changed the scale of the whole organisation' recalls Amanda Smith, co-ordinator of Forest of Dean Radio, 'It meant us going from about five short programmes each year to us going live full time'.

The station decided to establish trading activities which would give it a degree of financial independence. It reviewed its options and decided to concentrate on developing its training services. 'While it was an area we had been involved in since day one, some of the training had been a little ad hoc', explains Smith. They decided to formalise this aspect of its work by offering accredited training. It already received funding from the Learning and Skills Council, provided training for new volunteers, and ran projects with local schools. It now aims to secure contracts to work with the local college, providing accredited training and work experience for people who want to work in the industry. This will equip Forest of Dean Radio with the volunteer workforce they need to meet their full-time broadcast commitments.

For many VCOs, employing a social workforce can be a direct way of achieving their social purpose. It can also be a vital element of their competitive advantage.

## 5 Using social ownership

Some trading activities require substantial resources. For instance, providing residential social care requires capital investment in buildings, fittings and furniture. High capital costs can be a major obstacle to entering these markets, especially if access to capital is poor.

The private sector can raise capital from investors to enable them to enter capital-intensive markets. But it does so at a cost. Investors expect high returns, which demand higher profits and prices.

VCOs have a good track record of attracting low cost, or even free capital resources, giving them a competitive advantage. This is because VCOs practise a form of social ownership. Any money or resources invested in the organisation cannot be distributed for private gain, which makes investment an attractive proposition for public funders, grant-giving bodies and even big businesses practising corporate social responsibility, as the Betel of Britain case study illustrates.

### *Case study – Social ownership trading Betel of Britain*

Betel of Britain is the UK arm of an international group of Christian communities dedicated to improving the lives of drug addicts, alcoholics and homeless people around the world. It was established in 1996 to support the growing number of addicts wanting rehabilitation, at a time when funding for this type of work was shrinking in the UK.

The essence of the Betel approach is that residents work in the charity's shops and workshops to fund the cost of their stay in the residences, and in the process are restored to productive independent lifestyles. This is done in the atmosphere of an 'extended family' (a Betel expression) and the whole set-up is very peer-led and peer-motivated. Much supervision is undertaken by those who were once themselves Betel residents.

The first British base was opened south of Birmingham at Windmill House, a site owned by the Bournville Village Trust. For the first nine years, the Trust, as social landlords, took a peppercorn rent of just £1 a year. This has recently increased to £3,000 per month, because Betel is now judged to be capable of paying its own way.

Apart from Windmill House, all the buildings that Betel uses are leased from local landlords. One of their shops is leased from Kwiksave on a special low rent (because it was standing empty), but otherwise they pay market rates and are treated like any other shop.

Grants, gifts and donations, including peppercorn rents, are all important sources of finance, but are not limitless in supply. However, the social ownership principle can be used to raise capital directly from communities and the wider public. Community groups have used the social ownership model to raise the capital needed to take over failing village stores. In 2003, Mencap raised over £1.5 million for its housing arm, Golden Lane Housing, by launching a bond issue with the support of social bankers Triodos Bank. In addition to a healthy, annual financial return, bond holders will receive their initial investment back at the end of a ten-year period.

On an even more ambitious scale, the new Community Interest Company (CIC) legislation enables VCOs to create trading companies with investor-members. There are provisions to limit the size of dividends, and asset locks that prevent investor-members unreasonably benefiting from the break-up or sale of the company. This form of social ownership has the potential to raise large amounts of capital from communities and the broader public. CICs are further discussed in section 5.

## 6 Engaging community support

VCOs have a distinct competitive advantage in markets serving local communities, based on their ability to engage community support.

Lots of local or sector-specific businesses rely on the support and goodwill of the communities they serve, particularly in under-served areas or sectors (for example rural areas or disability sectors). A good example of how this support has been harnessed to benefit communities, while also generating income for VCOs, is provided by the growing number of community-owned village stores.

VIRSA (Village Retail Services Association), which promotes this type of community organisation, estimates that there are about 150 community-owned village stores in England, Scotland and Wales. In most cases, failing, privately-owned businesses have been replaced by community-owned stores. Community engagement may come in the form of volunteers, investment, and, most importantly, customer support. High levels of community engagement also often result in a better level of service.

Communities are more likely to support commercial activities developed by VCOs rather than private enterprise, because they know they are being run for the public benefit rather than private gain. This is true of many environmental activities. For example, when Tower Hamlets Community Recycling Consortium won a contract from the local authority to collect recyclable household waste in an area where most people live in high-rise flats, it knew it had to win the support of the community in order to make door-to-door collection feasible. It established a Friends Network, an association of resident-volunteers, that assisted with collection services in each block and floor-level.

### *Case study – Engaging community support to trade Glastonbury Community Development Trust*

Glastonbury Community Development Trust was set up in 2003 as a development project funded by the Single Regeneration Budget (SRB). From the outset, the board of directors made a commitment to involve the people of Glastonbury in planning the Trust's future activities. The Trust aspires to being financially self-sufficient. 'It has always been our intention to achieve this, through a mixed economy of income generation, and grant-funded full-cost-recovery project work', says Sara Clay, Chair of the Trust.

Glastonbury has the highest rate of unemployment in Somerset, yet there is no Job Centre in the town, the nearest one being in Wells, over six miles away. A survey conducted by the Trust found a lot of local support for some form of 'accessible listings of vacancies'.

In response, it developed an idea to create the 'Op Shop'. A capital grant of £4,200 from Comic Relief enabled the Trust to convert a former pet shop into a drop-in centre, complete with notice boards, donated computers, and a small interview room. A further £10,000 from Job Centre Plus, given for a free information and advice service, was also used as match-funding for a European Social Fund project to provide employability training.

Since its launch almost 200 local people have registered with the service, and many others have dropped in to check the notice boards for jobs. Winning the support of the local community has been vital for this project, and has given the Trust the confidence to explore ways of setting up a self-financing employment agency.

Engaging the support of the community, as customers, service users, volunteers or even investors, is a very powerful way of strengthening a trading activity. VCOs that already have active community support and membership can use this asset to develop new areas of trade serving the needs of their members.

## 7 Serving internal markets

VCOs spend large sums of money each year buying products and services from external sources. VCOs had a combined operating expenditure of £24.9 billion in 2003/04, and, based on data for previous years, it is likely that up to a third of this, or approximately £8 billion, was spent on externally sourced products and services. This represents a massive opportunity for VCOs to establish internal markets by trading with each other.

Examples of VCO-to-VCO trading activities include administrative services such as payroll management, accounting, management consultancy and IT support, property rental, staff training, and even equipment hire.

VCOs have a competitive advantage when trading with other VCOs, based on their first-hand knowledge of the sector and their empathy for the issues they face. They understand the values and culture of the sector, and are therefore more able to address the needs of other VCOs in ways which would not always be obvious to private sector contractors.

### *Case study – VCO to VCO trading The Evaluation Trust*

The Evaluation Trust was established in 1990 to assist small VCOs to monitor and evaluate the impact of their work. Originally set up as a demonstration project for four years, the Trust has managed to sustain itself since the mid-1990s on a diet of contracts with both individual VCOs and their funders.

Knowing how much to charge other VCOs for services was difficult. 'It was a bit like robbing Peter to pay Paul' says Sarah del Tufo, the Trust's principal evaluation officer. 'We earned larger amounts of money by working with national and international organisations, which we could then use to work at heavily subsidised rates or even for free with small community groups.'

The Evaluation Trust has learned about the importance of having a more sophisticated marketing strategy to reach new audiences in the voluntary and community sector. Previously it had relied on word of mouth and repeat business for new contracts. More recently, it has used full cost recovery techniques to review its pricing structure, with the result that it has increased its fee income levels by as much as 25%.



### ***Summary – Developing a competitive advantage***

- Developing a competitive advantage that will attract potential customers is crucial for successful trading.
- A VCO's mission, core values and social purpose can often be what makes them stand out from the rest of the market.



### *Tool – Developing a competitive advantage*

The following table can be used to identify and develop the competitive advantage of a specific product or service.

- Write a short description of the product or service.
- Identify which of the seven sources of competitive advantage are applicable to the product or service in question.
- Finally, consider how the applicable sources of competitive advantage can be strengthened and built upon (e.g. expanding provision, publicising strengths, working collaboratively with others).

<b>Description of product or service</b>		
<b>Sources of competitive advantage for VCOs</b>	<b>Applicable?</b>	<b>If applicable, how can this advantage be strengthened?</b>
Affinity with public services	Yes <input type="checkbox"/> No <input type="checkbox"/>	
Offering affordable services	Yes <input type="checkbox"/> No <input type="checkbox"/>	
Charging a social premium	Yes <input type="checkbox"/> No <input type="checkbox"/>	
Employing a social workforce	Yes <input type="checkbox"/> No <input type="checkbox"/>	
Using social ownership	Yes <input type="checkbox"/> No <input type="checkbox"/>	
Engaging community support	Yes <input type="checkbox"/> No <input type="checkbox"/>	
Serving internal markets	Yes <input type="checkbox"/> No <input type="checkbox"/>	

## 4 Getting started

For VCOs that are new to trading, knowing where and how to start can seem difficult. Sometimes the inspiration to develop trading activities follows hard on the heels of a funding crisis, brought about by the ending of a grant-funded project, or the withdrawal of support by a key donor. In these circumstances it is tempting to grasp at the first opportunity that presents itself, in the hope that the crisis can be averted. But unplanned strategies rarely work, and can consume large amounts of energy.

Another common mistake is to search for completely new areas of work, in the belief that the existing areas of work have already been tried, and it is only by diversifying into new areas that the organisation can secure its future. Although this can work, the best starting points are usually closer to home.

Before a VCO starts to search for new areas of trade it is a good idea to take a close look at its existing sources of income. Is it wholly reliant upon voluntary income, or is it already earning some of its income?

The chances are that the VCO is already trading, albeit on a small and unacknowledged scale. Examples might include selling magazines, offering tickets for events, or selling cups of coffee. Often a VCO can use these areas of trading as a platform for building more trade. The most successful areas are likely to be those which are closely aligned to the social purpose of the VCO and draw on its existing skills, resources and user groups. Trading activities that require new skills, resources and users are certainly possible and can work, but VCOs need to be aware that these will require greater initial investment by the organisation. The matrix below shows four approaches to developing trading activities. This is followed by an explanation of each one.

**Figure 2 – Trading strategies matrix**

		Product/services	
		<i>Existing</i>	<i>New</i>
Customers	<i>Existing</i>	Market penetration	Product/service development
	<i>New</i>	Market development	Diversification

### Market penetration

Market penetration involves least risk because it makes best use of the existing skills, resources and knowledge of the VCO.

For VCOs that are new to trade, developing a market penetration strategy provides a good starting point. In most cases it involves investigating how to provide already existing products and services but through charging rather than supplying free. This might involve instigating sliding-scale fees (determined by ability to pay) for users, or encouraging a third party (e.g. local authority) to purchase a service where previously they funded it with a grant. By developing a competitive advantage it may be possible to increase the level of trade with the same funders and/or customers.

One of the more complicated aspects of trading for VCOs is that the person or organisation paying for the service (paying customer) can be different from the person or organisation using the service (end user). This is nearly always the case with public service contracts. VCOs must address the needs of both groups, and be sensitive to how they deal with any potential conflicts of interest between them.

Before developing a strategy based on improving market penetration, it is important to conduct market research, measuring the share of the market held by the VCO and using this information to decide whether there is scope for increasing the volume of sales in this area. If there is little scope for increasing sales, it might be more productive to switch attention to market development.

## Market development

Market development uses the existing skills, resources and knowledge of the VCO to search for new customers and/or users.

Market development strategies entail looking for new markets, customers and/or users for an organisation's existing products and/or services. By sticking with its existing products and services the VCO is making best use of its existing skills, resources and knowledge.

Another way of achieving market development is to bid for more, or bigger, contracts with the same type of customer, or in other parts of a region. Before embarking on this type of market development strategy a VCO should check that its constitution allows it to trade elsewhere. It is also important to check that it will not unsettle existing funders, for instance, a local authority might prefer to fund a VCO that only operates within its local authority boundaries.

### *Case study – Increasing potential customers SpeakingUp, Cambridge*

SpeakingUp has used a market development strategy to increase its level of trading. Its core activities focus on developing self-advocacy skills amongst adults with learning difficulties. When SpeakingUp needed to earn more income it searched for new markets that would use its existing skills. It discovered there were opportunities to offer training and consultancy services to other social care providers interested in developing self-advocacy projects. SpeakingUp now earns 20% of its total income from this new market.

## Product/service development

Developing new products or services usually means acquiring new skills and resources. But, by sticking with their existing customer base, a VCO may be able to identify products and services they know their customers want.

Product/service development strategies are based on identifying new products and services that will appeal to existing customers and funders.

There are two important factors affecting the viability of product/service development strategies: whether the VCO has or can develop the skills associated with the product or service; and how much it will cost to acquire any necessary equipment and resources. These drawbacks can be offset by the advantages of knowing and understanding the needs of existing customers and by designing and developing products and services they want.

*Case study – Developing new services  
Liskerrett Community Centre, Cornwall*

Liskerrett Community Centre is home to a number of organisations including a pre-school group, a youth project and a group of artists. It decided to boost its income by establishing a café, which it thought would be attractive to existing user groups. This involved quite a large initial outlay for equipment and furnishings. However, it soon discovered that running a profitable café demanded skills they didn't have. In the end running a profitable café came down to offering a simpler menu within the capabilities of the organisation.

## Diversification

Diversification is more demanding. Entering new markets will probably require new skills, knowledge and resources.

Diversification can be the riskiest and most difficult strategy for developing trading activities. Situations where a strategy of diversification may be appropriate include those where social needs are changing or lessening, or where changes in technology, demography or environment mean that the current product or service is becoming obsolete. Occasionally, diversification might be justified because a trading opportunity has arisen which is simply too good to turn down, and is consistent with the mission and core values of the organisation.

*Case study – Exploring new initiatives in new markets  
The Arts Factory in Rhondda, South Wales*

The Arts Factory is a multi-functional community project, dedicated to creating jobs and providing community services. Since its inception in 1990, it has developed a wide range of activities, some of which have been highly successful. It is now developing a joint venture with a private sector partner to build a wind farm. Even though this represents a major diversification from its core activities, it is able to draw on its strong links with the community to move the project forward. When built, the wind farm will generate additional income, which will be used to employ local people to provide free local services.



### Tool – Deciding where to start

- Draw up a list of current or potential products and/or services.
- Decide where each of these products and/or services fits in the trading strategies matrix, making a note of it in the appropriate box below.
- Use the positions within the matrix to decide where to start, and to consider what might be involved.

Remember – market penetration carries the least risk and diversification is the highest risk strategy.

		Product/services	
		Existing	New
Customers	Existing	Market penetration	Product/service development
	New	Market development	Diversification



### Summary – Getting started

- All organisations need to thoroughly plan any new trading activity.
- A VCO can often use areas it is already working in, or even trading in, as a platform for building more trade.
- Successful areas are likely to be those which are closely aligned to the social purpose of the VCO and draw on its existing skills, resources and user groups.
- Developing new products and services or selling to new customers can be an effective strategy, but may be more risky than sticking with existing customers, products and services, because it may require more investment, skills development, and resources.

## 5 Practical considerations

This section examines some of the practical issues a VCO needs to consider before launching a trading activity. Planning is vital, and this section provides a project framework that can be used to develop new trading activities. It also recommends creating an enterprise team with responsibility for developing any new initiative. Also explored are some of the restrictions on charity trading and the scope for addressing these by setting up trading subsidiaries. Finally, issues associated with capital investment and legal formats for trading by VCOs are also considered.

### Developing an enterprise team

A useful starting point for developing a trading initiative is to set up an enterprise team (this may be made up of staff, volunteers, trustees, other stakeholders, or a mixture of all of these). This is preferable to placing the responsibility on one person since there will almost certainly need to be consultation with many people along the way. A specially appointed group can be more effective than a single individual. This team needs a clear mandate from its trustees or board of directors, giving it not only the authority to take action, but also the resources, time and money required to develop and launch new trading activities.

### Planning

It is very important for VCOs to have a planned approach to developing new trading activities. A useful starting point is to draw up a project framework and to use this as a checklist for developing new trading activities (see Tool below).

The first stage focuses on building organisation and wider stakeholder support and clarifying the aims and objectives of developing a trading idea. Building support is particularly important, ensuring that a VCO whole-heartedly embraces any new initiative. This is particularly the case amongst trustees, directors and/or management committee members.

The next three stages concentrate on innovation, feasibility studies and start-up planning. This includes generating new ideas for trading activities, sifting these ideas and researching the market. VCOs should concentrate on developing ideas which offer a strong competitive advantage, based on their mission, values and objectives.

The next three stages are to design, build and implement the project, and to move from pilot to mainstream if the pilot is successful. Finally, it is useful to plan an evaluation of the project from the outset, in order to capture lessons for any future trading activity, as well as to celebrate success.



**Details of further planning tools are included in the Resources section. For further information on the planning process see the *Introductory Pack Guide to Sustainable Funding*.**



### Tool – Trading activity development framework

Use the following checklist to plan and monitor a trading activities project

Stage	Tasks
1. Build support	<ul style="list-style-type: none"><li>• Get stakeholders on board.</li><li>• Clarify project vision and scope.</li></ul>
2. Innovation	<ul style="list-style-type: none"><li>• Idea generation.</li><li>• Sifting ideas.</li><li>• Research client needs.</li><li>• Research market.</li></ul>
3. Feasibility studies	<ul style="list-style-type: none"><li>• Check idea is worth pursuing – feasibility study.</li><li>• Cost benefit analysis – will income outweigh investment resources of time, and expenditure.</li><li>• Risk analysis.</li><li>• Look at financing.</li></ul>
4. Start-up planning	<ul style="list-style-type: none"><li>• Develop project costing.</li><li>• Determine skills and resources needed.</li><li>• Develop a project plan and budget.</li><li>• Recruit staff/volunteers if needed.</li></ul>
5. Design	<ul style="list-style-type: none"><li>• Analyse needs.</li><li>• Specify the product or service to be developed.</li></ul>
6. Build	<ul style="list-style-type: none"><li>• Develop the new product, service or idea.</li><li>• Test and pilot it.</li></ul>
7. Implement	<ul style="list-style-type: none"><li>• Determine whether the pilot suggests trading idea is objectives and meeting is sustainable, tweak if needed.</li><li>• Launch project into the mainstream.</li></ul>
8. Evaluate	<ul style="list-style-type: none"><li>• Review the performance of the project against its objectives.</li><li>• Note what can be learned for future projects.</li><li>• Celebrate success.</li></ul>

## Charities and trade

Before developing trading activities, it is important for VCOs to check if there are any restrictions that might limit their choice or scale of trading activity. The key document to read is CC35: *Charities and Trading*, produced by the Charity Commission and available on its website. Although not all VCOs are registered charities, the principles are useful for all organisations.

Charitable status enables VCOs to receive grants from other charities and grant-making bodies. They are exempt from corporation tax, and receive discretionary business rate relief. Charities also benefit from Gift Aid, a tax relief scheme to promote giving to charities. In return for these benefits, charities face three main types of restriction that affect their ability to undertake trading activities and to compete with businesses –

- There are restrictions on the types of trading activities charities can undertake. There are restrictions on the amount of non-primary purpose trade a charity can carry out for fundraising purposes before such activities should be transferred to a subsidiary trading company.
- There are restrictions on who can be a trustee or director of a charity, and the extent to which they can be paid for this service. There are also restrictions on how service users participate in the management of the organisation. These can hamper charities in trading activities where quick and complex decision-making is required.
- There are restrictions on the type of capital investment charities can access. These restrictions are explained later in this section.

If any of these restrictions are likely to hamper a charity from trading profitably, it can always consider transferring these activities to a trading subsidiary. Alternatively, it might want to change its legal format. This is examined in more detail below.



### **Key points on charity trading**

A charity can engage in trade, and not be subject to tax on its earnings, if –

- It is in pursuit of their **primary purpose**, specified by the charity's objects. Currently, there are four categories of charitable objects
  - Advancement of education
  - Relief of financial hardship
  - Advancement of religion
  - Certain other purposes of benefit to the community.
- It is **ancillary** to their primary purpose, for instance an educational charity that sells books, or a charity teaching disabled people horticultural skills which sells horticultural products produced by its students: the latter example is sometimes called **beneficiary trading**.
- It involves the sale of **donated goods**, given for that purpose.
- It is **mixed trading** involving a single trading activity which has both primary purpose and non-primary purpose elements, as long as the non-primary element is not more than £50,000 and is not more than 10% of the total trading income.
- It is **occasional trading** (for any purpose) and is only a small part of their annual total income, defined by the Charity Commission as:
  - Up to £5,000 if total income is less than £20,000
  - Up to 25% of total income between £20,00-£200,000
  - Maximum of £50,000 if total income is over £200,000.
- It qualifies as an **extra-statutory concession** which applies to fundraising events such as barbeques, auctions, festivals and concerts. The events are supposed to be one-off, but up to 15 such events at the same venue within one year can be exempt.

## When to consider setting up a trading subsidiary

A key question for organisations considering trading is what will be the scale and scope of any trading initiative? Small-scale activity may well be within the limits outlined above, and require no substantial investment or restructuring by an organisation. Larger initiatives, however, may be best managed by setting up a trading subsidiary because structuring trading activity in this way will also avoid the outlined restrictions on trading in addition to protecting the parent charity.

The profits of any trading subsidiary can be ploughed back into the charity in a tax-efficient way under the Gift Aid scheme. A trading subsidiary can be wholly owned by the parent charity or a joint venture with other charities. But before setting up a trading subsidiary the parent charity should check that it has the necessary powers. The following checklist is designed to do this.



### Tool – Trading subsidiaries checklist

Does the charity's constitution allow it to create and invest in a trading subsidiary?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Would investment in a trading subsidiary be in line with the charity's current investment policy?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Would investment in the type of trading activity proposed be considered too risky and speculative for a charity?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Will the trading subsidiary be sufficiently profitable to repay any loans or other forms of borrowing it undertakes without support from the parent charity?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Will the trading subsidiary have at least one director who is not also a trustee of the parent charity?	Yes <input type="checkbox"/>	No <input type="checkbox"/>

If the answer is YES to all of the above questions then it is permissible for the charity to consider setting up a trading subsidiary. If the answer is NO to any of the questions, then it is important to investigate the issues associated with the question in more detail, drawing on expert advice (e.g. solicitor, accountant) where appropriate.

If an organisation decides that a trading subsidiary is the most appropriate way to manage any new trading initiative then legal advice should be sought on set-up.

## Legal formats for trading

Any VCO that is new to trading should check that its constitution allows it to undertake trading activities, and that its legal format is appropriate for trading. It is important that all organisations adopt a legal structure that is fit for their purpose and objectives. A useful introductory guide is *Keeping it Legal*, details included in the Resources section. Nevertheless, professional advice should always be sought on such matters.

Any VCO that is engaged in trading activities and employs people to conduct these activities should seriously consider becoming an incorporated body to limit the liability of its trustees, committee members and/or officers. Currently, there are two main bodies of law to incorporate organisations: the Companies Acts and the Industrial and Provident Societies (IPS) Acts. There is also legislation passing through Parliament to create 'Charitable Incorporated Organisations', which will have limited liability status and be regulated by the Charity Commission. Another option is provided by the Limited Liability Partnerships Act, although this is rarely suitable for VCOs.

Each body of law offers several options. The choice between these options is largely dependent upon two factors: the type and amount of capital required by the VCO, and the form of governance the organisation wants to adopt.

The Companies Acts provide for three main types of company: a company limited by guarantee (CLG), a company limited by shares (CLS) and a public limited company (plc). The CLG format is suitable for VCOs that do not want to raise equity finance because, instead of shareholders, the CLG is underwritten by guarantors who guarantee to pay a fixed amount, usually one pound, in the event of the organisation failing.

In contrast, the CLS and plc formats have shareholder members, who normally expect a dividend on their share investment in the organisation. These formats are only appropriate for VCOs that want to raise capital from their members and supporters, although the CLS format is also used by some charities for their trading subsidiaries. It should be noted that a CLG cannot be converted into a CLS or plc.

In 2005, the government introduced Community Interest Companies (CICs) regulations, which it described as the legal format for social enterprises. These regulations can be applied to all three main types of company, and have several important features. There is an asset lock on all CICs which means that they cannot distribute residual assets to members or shareholders. All CICs are required to pass a community interest test, and must produce an annual community interest report. Charities can set up CICs as wholly-owned subsidiaries, or even convert into a CIC if they obtain the prior approval of the Charity Commission.

The IPS Acts provide for two main types of society: bone fide co-operatives, and societies for the benefit of the community, often referred to as 'bencoms'. Both types of society have limited liability status, and both have democratic membership structures where members can invest up to £20,000 as individuals, but only receive one vote, regardless of the size of their shareholding. Bencoms can also obtain charity exempt status from the Inland Revenue under certain circumstances. Charities cannot use IPS structures for trading subsidiaries, or adopt IPS formats for themselves.

As previously stressed, organisations for whom a new legal structure is appropriate must seek professional advice and will in any case need to engage a legal professional to facilitate the development of any new structure.

## Capital investment

Many VCOs launching trading activities will need capital investment for items such as equipment, premises, research and development, and to fund any cash flow requirements. The amount required will depend on the nature of the product or service being developed, and the scale of trading activity envisaged. It is important to determine not only whether the proposed trading activities will be profitable, but also what additional capital is required to finance the activity; bearing in mind that trading activities can take anywhere from six months to several years to become profitable.

There are two main types of capital: debt and equity. Debt finance usually comes in the form of loans and overdrafts. However, it should be remembered that loans represent a major liability. In addition to the interest charges on the amount borrowed, it is necessary to repay the capital element of the loan. Many VCOs operate in areas where profit margins are low, and struggle to generate sufficient cash flow to repay loans. There may also be a limit to how much a supplier will lend to a VCO. This may prevent a VCO from developing trading activities as quickly as they could if they had better access to capital.

In order to address these issues, there are a growing number of organisations that specialise in providing capital to VCOs including Futurebuilders, Charity Bank, the Adventure Capital Fund and Venturesome. The government has also developed Community Development Finance Institutions (CDFIs) to support economic and enterprise development in disadvantaged communities. There are now over 30 CDFIs in the UK and many have provided capital to VCOs.



***The Introductory Pack Guide to Loans and Other Forms of Finance provides further details.***

The other type of capital is equity finance. This type of investment usually exists in the form of shares issued to an investor in exchange for finance. In most cases, share capital cannot be withdrawn by the investor but can be transferred or sold to another investor. In return for this risk, investors receive a share of the profits. As a consequence, equity finance is rarely used by VCOs since profit distribution would be problematic. However, some types of social enterprise can issue shares, and an increasing number are doing so. This can range from small-scale co-operatives raising thousands of pounds from their members, to larger ethical and social businesses, which raise millions of pounds through public share launches. For instance, the fair trade drinks producer Cafédirect raised over £5m through an ethical public share offering.

To raise share capital, a VCO needs to have an appropriate legal structure, typically a company limited by shares or an industrial and provident society.

## Marketing new products and services

It has been described how VCOs can develop a competitive advantage by focusing on their social values and objectives when developing new areas of trading activity. This can be especially powerful when marketing new products and services, particularly when competing with private sector businesses.

A VCO's social mission or aims can often be used to engage potential customers and encourage them to purchase a product or service. Examples include environmental groups raising awareness, fair trade, and poverty relief. As with fundraising, stressing how purchasing a particular item will help support a particular need can be a powerful marketing tool.

Branding involves developing the identity of products and services with actual and potential customers and users. It means using marketing techniques to communicate information about products and services, such as quality, functionality and reliability, as well as price. Brand development need not be expensive. Simple things, such as making sure that products and services have names, and are produced to a consistent quality, will help to develop the brand identity, as will other low-cost marketing techniques.

## Pricing new products and services

Price will always be an important factor in competition. There are a number of ways a VCO can become price competitive. A reckless way is to undercharge, and not recover the full cost of developing and producing the products or services provided. In the long run this will result in failure. With any new trading idea, the aim should be to cover all development, start-up and ongoing running costs while also generating sufficient surplus to feed back into the service itself, or the parent VCO.



**Further information on financial management and full cost recovery is included in the Resources section and in the *Introductory Pack Guide to Financial Management*.**

An important point to remember is that pricing can also form part of the marketing of a particular item, encouraging customers to value the product or service. Customers may be prepared to pay a social premium for products and services closely aligned to their social values. In some cases, products and services that have been provided free of charge, can be enhanced by introducing a charge. For instance, charging for training courses not only helps finance them, but ensures people take them seriously and turn up.



### ***Summary – Practical considerations***

- Planning is vital for new trading activity; drawing up a project framework can help guide development.
- Selecting a group of people to develop a trading idea is preferable to placing the responsibility on one person. This can also encourage wider stakeholder support.
- Larger scale trading initiatives may be best managed by setting up a trading subsidiary.
- Any VCO that is new to trading should check that its constitution allows it to undertake trading activities and, if a new legal structure is required, seek professional legal advice.
- Start-up finance may be needed for equipment, premises, research and development, and to fund any cash flow requirements.
- Emphasising a VCO's core mission and purpose and how purchasing a particular item will benefit this can be an especially powerful means of marketing new products.
- New product or service prices should aim to cover all costs associated with developing and providing that product or service.

## 6 Where next?

The Tools contained within this guide are intended as a starting point to help organisations think through what might be involved in developing a trading idea. Further Tools will be available in the *Finance Hub Toolkit for Funding Advisors* due for publication early in 2007. The *Toolkit* will complement the information contained in the *Introductory Pack* guides to provide a working support pack of resources to enable VCOs and their advisors to work together in thinking through funding options.

For organisations in need of support to develop trading ideas a first point of call should be local agencies such as Councils for Voluntary Service (CVS) or local Business Link offices. CVS can be located via the NAVCA website as listed in the Resources section and Business Link offices through their website (also included in the Resources section) or a local yellow pages. Advisors can assist groups by discussing ideas, assisting with developing business plans or applying for start-up funding. Advisors should be able to make referrals to specific business development support agencies and professional specialists. They will also be aware of local issues likely to affect organisations thinking of trading in their geographic area. In addition, a number of useful resources including support agencies, publications and websites are included at the end of this guide.

Prior to meeting with an advisor, it may be useful for organisations to use some of the Tools included here and to have considered potential funding options. This will provide a starting point an advisor can build upon to ensure organisations get the most out of any advice session.

Finally, an important point to remember is that although trading may not seem feasible for some organisations, that does not mean it should be dismissed. The funding an organisation needs comes down to what it does, who its users are, and what stage it's reached in its development. It's about using the most appropriate income stream(s) to drive development at the appropriate time. So even if generating income from trading isn't right for an organisation at the present time, it is still very much worth considering because it might well be appropriate at some point in the future.

## Key words and phrases

**Competitive advantage** – unique selling point, or distinctive feature that attracts potential customers.

**Full cost analysis** – understanding and calculating the full costs of a project or service, where the full costs of a project or service equal the direct costs of the project or service plus a relevant share of overheads.

**Full cost recovery** – funding, or ‘recovering’ the full costs of a project or service.

**Market** – customers, be they individuals, agencies or businesses that a product or service is marketed and sold to.

**Social enterprise** – trading for a social purpose, pursuing a double-bottom line of social as well as financial benefit. The term ‘Social Enterprise’ is also used to describe businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community.

**Stakeholders** – all individuals, organisations etc involved or associated with the work of a given organisation, and upon whom it may impact. Stakeholders typically include: funders, staff, volunteers, trustees and, most importantly, the service users or beneficiaries.

**Sustainable Funding** – an approach to funding and income generation that develops a more stable and reliable income base. It encompasses effective planning, diversifying an organisation’s income where possible, building organisational skills and capacity to ensure the best and most effective use of resources, and pursuing the most appropriate income opportunities for the kind of work an organisation does.



## Further support and resources

### Trading specific advice and support

**Association of Charity Shops** – membership body for charities running charity shops. Produces introductory leaflets and guidance on topics from shop health and safety to house-to-house collections for donated goods. See [www.charityshops.org.uk](http://www.charityshops.org.uk)

**Business Community Connections** – dedicated to helping other charities obtain support from businesses such as free professional advice. See [www.bcconnections.org.uk](http://www.bcconnections.org.uk)

**Business Links** – practical business information and advice. Very useful ‘Practical Advice’ section on website. Local Office advisors can offer assistance to VCOs developing trading activities. See [www.businesslink.org](http://www.businesslink.org)

**Community Action Network** – the UK’s leading organisation for the development, promotion and support of social entrepreneurs. See [www.can.org.uk](http://www.can.org.uk)

**Community Interest Companies** – website with free downloadable guides to CICs, model constitutions, and a database of all CICs registered to date. See [www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)

**Co-operatives<sup>UK</sup>** – national membership organisation for co-operative enterprise, promoting co-operative and mutual approaches to enterprise and trade. See [www.cooperatives-uk.coop](http://www.cooperatives-uk.coop)

**Development Trusts Association** – membership body for development trusts. Provides support to existing trusts, advice for start-ups and advocacy for Development Trusts at a policy level. Website provides information on members, and excellent free downloadable guides. See [www.dta.org.uk](http://www.dta.org.uk)

**Nearbuyou** – national social enterprise trading network and its website includes useful information on trading. See [www.nearbuyou.co.uk](http://www.nearbuyou.co.uk)

**SETAS** – stands for Social Enterprise Training And Support. Website provides a searchable database of courses, resources, trainers and consultants specialising in social enterprise. See [www.setas.co.uk](http://www.setas.co.uk)

**Social Enterprise Coalition** – UK’s national body for social enterprise. Publishes a regular electronic newsletter and website hosts an extensive collection of case studies, publications and other resources. Good introductory guides to social enterprises and trading. See [www.sec.org.uk](http://www.sec.org.uk)

**Social Firms UK** – national membership organisation for social firms. Aims to create employment opportunities for disabled people through the development and support of social firms. See [www.socialfirms.co.uk](http://www.socialfirms.co.uk)

**UnLtd** – supports individuals who want to develop their own social enterprise ideas and want to make a positive change in their communities. Operates a national awards scheme providing financial support to budding social entrepreneurs. See [www.unltd.org.uk](http://www.unltd.org.uk)

**Village Retail Services Association** – helps rural villages keep or re-start their village shop or post office. Provides support and advice to any rural community group wanting to set up a retailing social enterprise. See [www.virsa.org](http://www.virsa.org)

## Publications

Bates, Wells and Brathwaite with Social Enterprise London (2005) *Keeping it Legal: Legal forms for social enterprises*. Available at [www.bateswells.co.uk](http://www.bateswells.co.uk)

Charity Commission (2001) *CC35 Charities and Trading*. Available from [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

Charity Commission (2003) *CC37 Charities and Contracts*. Available from [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

Copeman, C et al (2004) *Tools for Tomorrow – A practical guide to strategic planning for voluntary organisations*. NCVO. London.

*From Asking to Earning – Experiences of trading* (2005). NCVO, RISE and South West Forum.

*Full Cost Recovery: A guide and toolkit on cost allocation* (2005). New Philanthropy Capital and ACEVO. London. Available from [www.acevo.org.uk](http://www.acevo.org.uk)

Hart, L. (2005) *To Have and to Hold: The DTA guide to asset development for community and social enterprises*. DTA. London.

Nicholls, J and J. Sacks and M. Walsham (2005) *More for Your Money: A guide to procuring from social enterprises*. Social Enterprise Coalition. London.

Palmer, P and F. Young and N. Finlayson (2005) *The Good Financial Management Guide*. NCVO. London.

*There's More to Business Than You Think: A guide to social enterprise* (2003). Social Enterprise Coalition. London.

## General voluntary and community sector support

[www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)  
[www.navca.org.uk](http://www.navca.org.uk)

[www.btteg.co.uk](http://www.btteg.co.uk)  
[www.acre.org.uk](http://www.acre.org.uk)  
[www.guidestar.org.uk](http://www.guidestar.org.uk)  
[www.charityfacts.org](http://www.charityfacts.org)  
[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

NCVO (National Council for Voluntary Organisations)  
NAVCA (National Association of Voluntary and Community Action)  
Black Training and Enterprise Group  
Action for Communities in Rural England  
Guidestar  
Charity Facts  
Charity Commission

## ChangeUp Hubs of expertise

### *Finance Hub*

The Finance Hub is delivering to the Government's ChangeUp programme to create voluntary and community organisations which are effective and independent because they are financially sustainable. Further details and resources available at [www.financehub.org.uk](http://www.financehub.org.uk)

### *Governance Hub*

The Governance Hub is working to improve the levels of good governance in charities. It offers VCS trustees, Chairs and Boards sources of fresh ideas, inspiration and contacts to help them develop their organisations and become more effective. Further details and resources available at [www.governancehub.org.uk](http://www.governancehub.org.uk)

### *ICT Hub*

The ICT Hub aims to improve VCS information and Communications Technology infrastructure so that VCOs are enabled to achieve their missions more efficiently and effectively through the better use of ICT. It provides ICT guidance, good practice, advice and support accessible at a local level. Further details and resources available at [www.ictHub.org.uk](http://www.ictHub.org.uk)

### *Performance Hub*

The Performance Hub aims to bring together in one place the wealth of experience and expertise in performance improvement that already exists, and make this expertise far more accessible to VCOs. It also helps local, sub-regional, regional, and national infrastructure improve the quality and quantity of the support they can offer to VCOs and works with funders and policy-makers to improve the environment within which VCOs operate. Further details and resources available at [www.performancehub.org.uk](http://www.performancehub.org.uk)

### *Volunteering Hub*

The Volunteering Hub works to achieve a leaner, effectively marketed and high-quality volunteering infrastructure reaching, recruiting and placing a greater number and diversity of individuals coupled with improved volunteer management. Further details and resources available at [www.volunteering.org.uk/aboutus/volunteeringhub](http://www.volunteering.org.uk/aboutus/volunteeringhub)

### *Workforce Hub*

The UK Workforce Hub helps VCOs recruit, retain and develop the staff, volunteers and trustees they need. It works in four main areas: learning and skills, human resources and good employment practice, leadership and working and volunteering in the voluntary sector. Further details and resources available at [www.ukworkforcehub.org.uk](http://www.ukworkforcehub.org.uk)

## Additional support

### Councils for voluntary service and other support agencies

The NAVCA website can help with locating local CVS. Available at [www.navca.org.uk](http://www.navca.org.uk)

### CIB/fit4funding

fit4funding (The Charities Information Bureau) provides training, information and consultancy on every aspect of the funding process – from giving grants, accessing and managing funds, to giving funding advice. A Finance Hub commissioned programme of training designed for funding advisors and delivered by partners (fit4funding, SYFAB, CA Hants, FINE, Engage East Midlands and NAVCA) throughout the country will be launched in 2006. Further details available at [www.fit4funding.org.uk](http://www.fit4funding.org.uk)

### Collaborative working

NCVO's Collaborative Working Unit provides good practice information and advice to help VCOs make decisions about whether and how to work collaboratively. Further details available at [www.ncvo-vol.org.uk/collaborativeworkingunit](http://www.ncvo-vol.org.uk/collaborativeworkingunit)

### Strategic planning and foresight

NCVO's Third Sector Foresight project helps VCOs to plan effectively for the future by providing information on trends affecting the sector and planning guidance to deal with these. The project's annual publication, *The Voluntary Sector Strategic Analysis*, is a useful tool for future planning and decision-making. For more information, visit [www.ncvo-vol.org.uk/3sf](http://www.ncvo-vol.org.uk/3sf)

### Sustainable funding

NCVO's Sustainable Funding Project works to encourage and enable VCOs to explore and exploit a range of funding and financing options. Further case studies illustrating how VCOs have pursued income diversification and other resources providing ideas, information and inspiration are available on the Sustainable Funding Project website [www.ncvo-vol.org.uk/sfp](http://www.ncvo-vol.org.uk/sfp)

To register for the Sustainable Funding e-newsletter – delivered free via email each month – email [sfp@ncvo-vol.org.uk](mailto:sfp@ncvo-vol.org.uk) and ask to join the mailing list.



NCVO's Sustainable Funding Project encourages and enables voluntary and community organisations to explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

The Sustainable Funding Project  
*funding in the round*  
Website: [www.ncvo-vol.org.uk/sfp](http://www.ncvo-vol.org.uk/sfp)  
Tel: 020 7520 2519  
Email: [sfp@ncvo-vol.org.uk](mailto:sfp@ncvo-vol.org.uk)

The Finance Hub is delivering to the Government's ChangeUp programme to create voluntary and community organisations which are effective and independent because they are financially sustainable.

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