

Overview of Innovative Business Models

Webinar Training with

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Today's Webinar

- 1. Introduction**
- 2. Business Model Innovation**
- 3. Choosing the Right Growth Model & Structure**
- 4. Alternative Legal Structures**
- 5. Case Examples**
- 6. Q&A**
(Please send questions at any time)

About Social Enterprise Associates

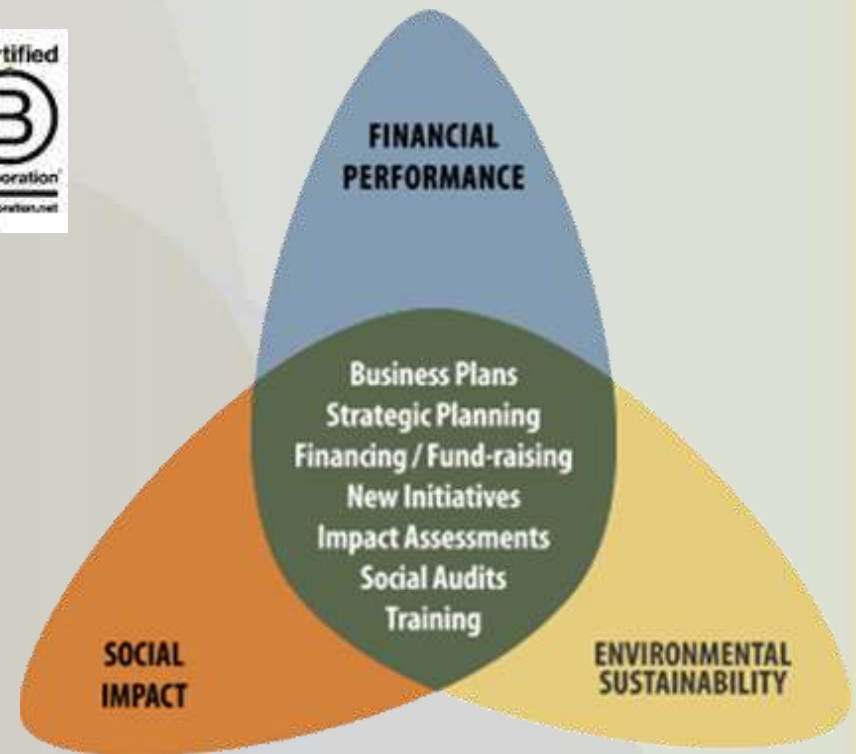
Registered 'B Corp' Consulting firm

2011 'One of the Best for the World' small businesses fostering 'triple bottom line' - profits, people, planet - solutions to support entrepreneurs and community organizations.



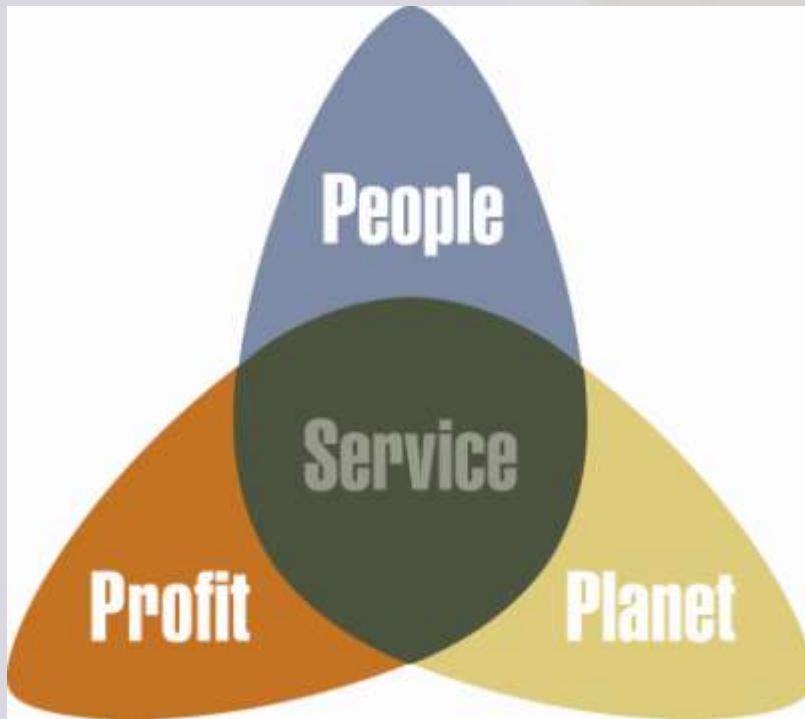
Drew Tulchin, Managing Partner, MBA

- 15 years; consulting 40+ countries
- Biz plan winner, Global Social Venture Comp; raised \$1.2 mil.
- Written >100 business/strategic plans
- Efforts raised >\$100 mil. impact capital
- Judge national social ent & biz plan competitions

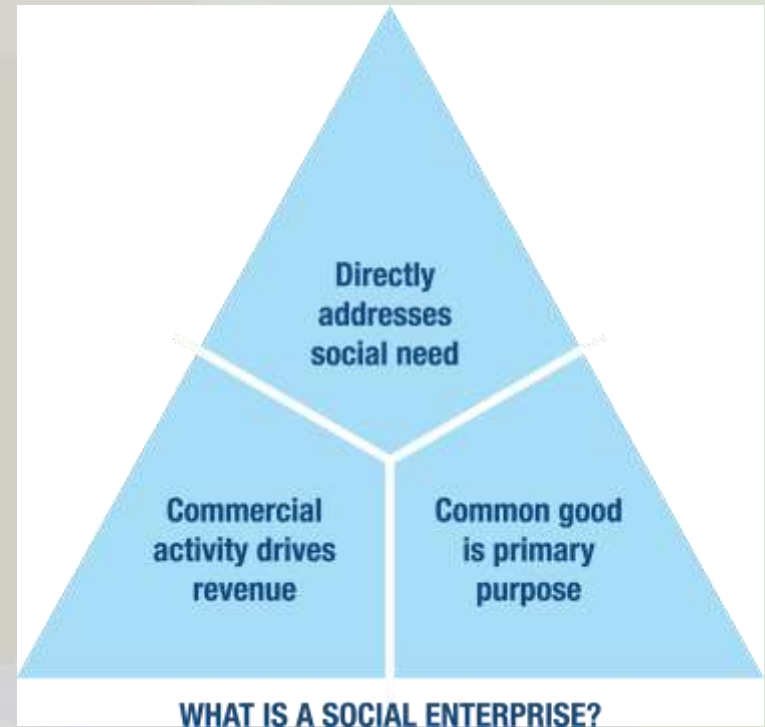


Common Definitions

The Triple Bottom Line - 3 Ps

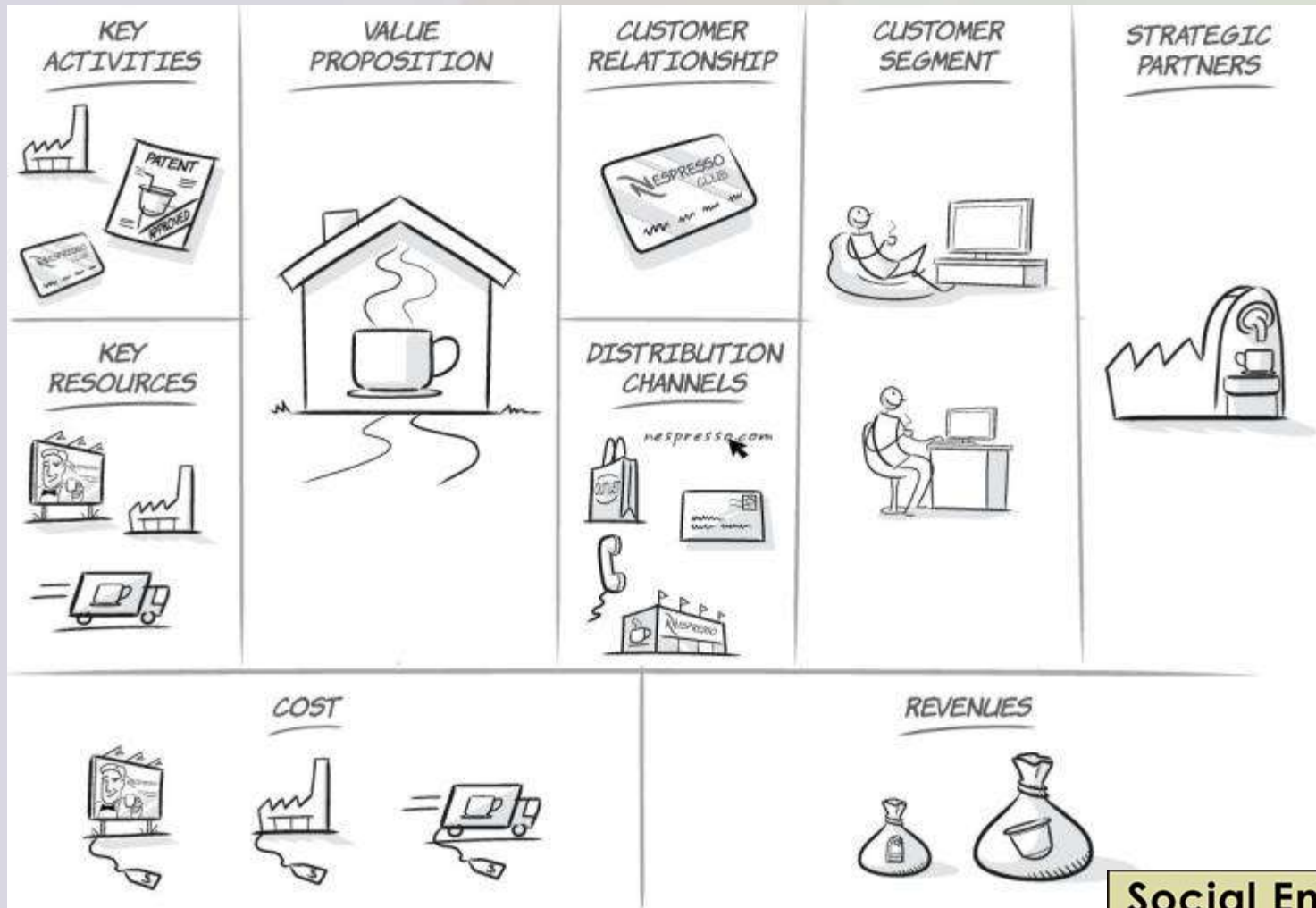


Defining Social Entrepreneurship



Business Model

How Do You Want To Innovate & Grow?



Business Model Innovation

NGOs Need to Innovate – Why? Situation in the Marketplace

- Gov't not covering the requirement; bigger need in marketplace for socially motivated efforts
- Existing/traditional legal forms can be messy in social enterprise
- Rising interest by clients, consumers & funders in values based decisions

Definition

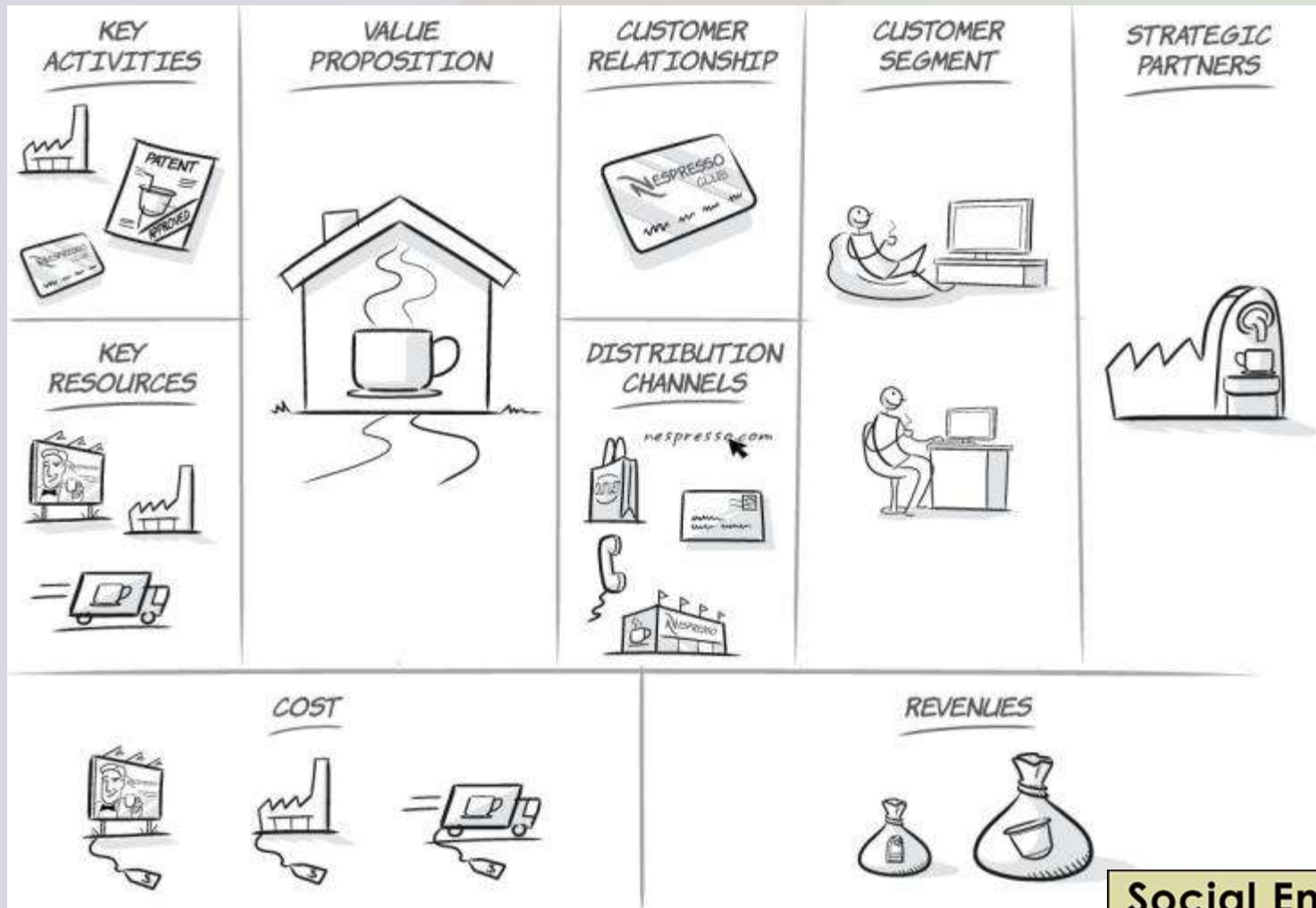
A business model describes rationale how an organization creates, delivers, and captures value (economic, social, etc.)

New innovations allow an entity to:

1. Carry out its value proposition bringing products/services to market
2. Match with appropriate legal structure, resources & processes
3. Align mission, gain customers/clients, successfully grow (sustainably)

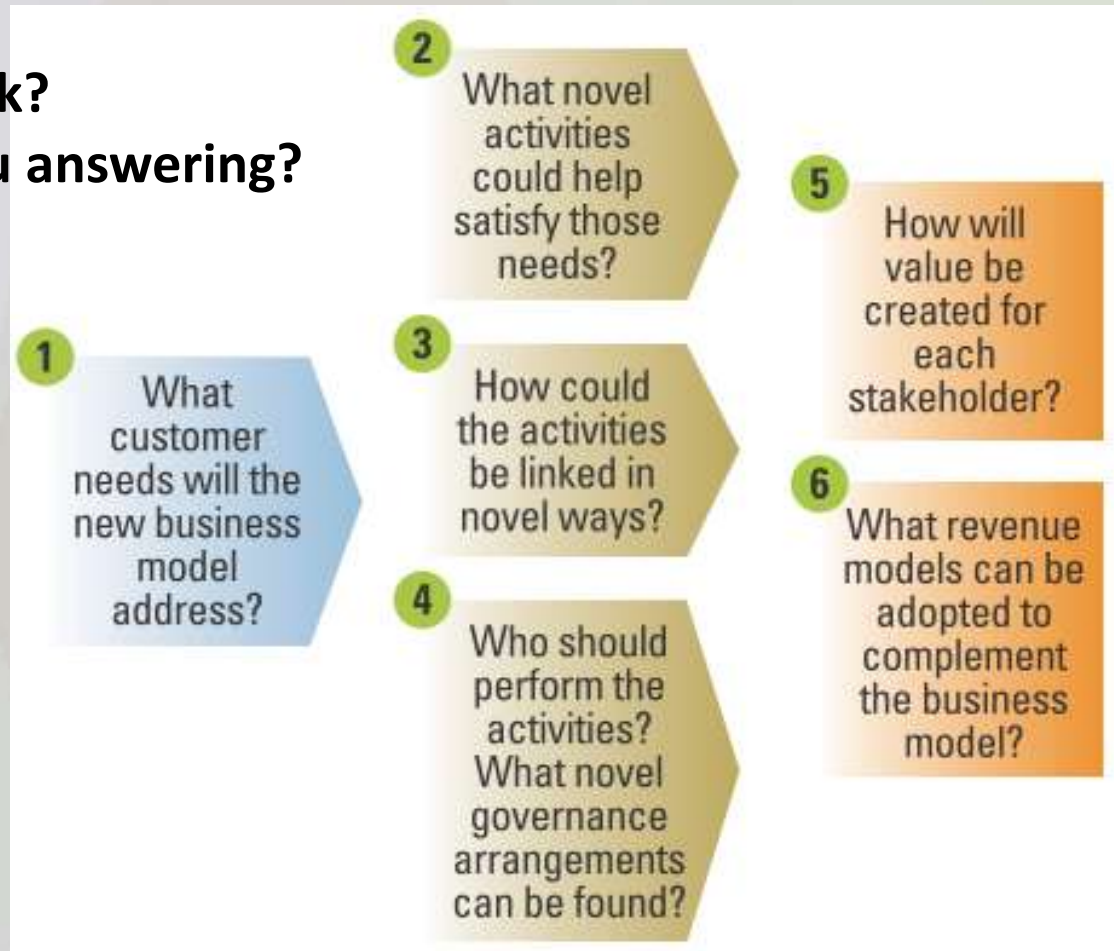
Business Model

How Do You Want To Innovate & Grow?



Key Questions - Biz Model Innovation

What is your framework?
What questions are you answering?



What is Your Model?

Framework

Contributing Factors

What
problem
are you
trying to
solve?
Why?

WHAT

WHO

WHERE

WHEN

HOW

1. Mission

Clear purpose?

2. Market

Value proposition? Special sauce?

3. Your Team

Ownership, salaries, org culture?

4. Customers / Clients

Segments, channels, relationships?

5. Geography

Where going? What laws?

6. Growth

Timeline to replicate model? Plan?

7. 'Sales' Implementation

Get product/service out there?

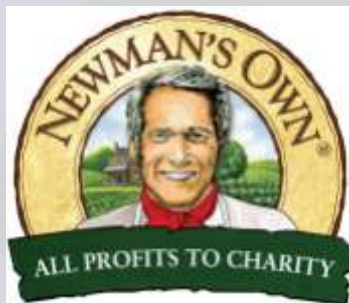
8. Capital

Amount, type, ROI?

Typical Legal Entities

FOR PROFIT

- Sole Prop
- LLC / Partnership
- S-Corp
- C-Corp



NON PROFIT

- 501 c3
- 501 c4
- 501 c6, etc.
- Co-op



Other Shared Models

Employee Stock Ownership Plan (ESOPs):

Compensation providing employees ownership stake

Ex: W.L. Gore & Associates (Gore-Tex makers)

Worker Co-Ops:

Owned, democratically controlled by worker-owners (1 person = 1 vote)

Ex: Mondragon in Spain, Grain Distributors in U.S.

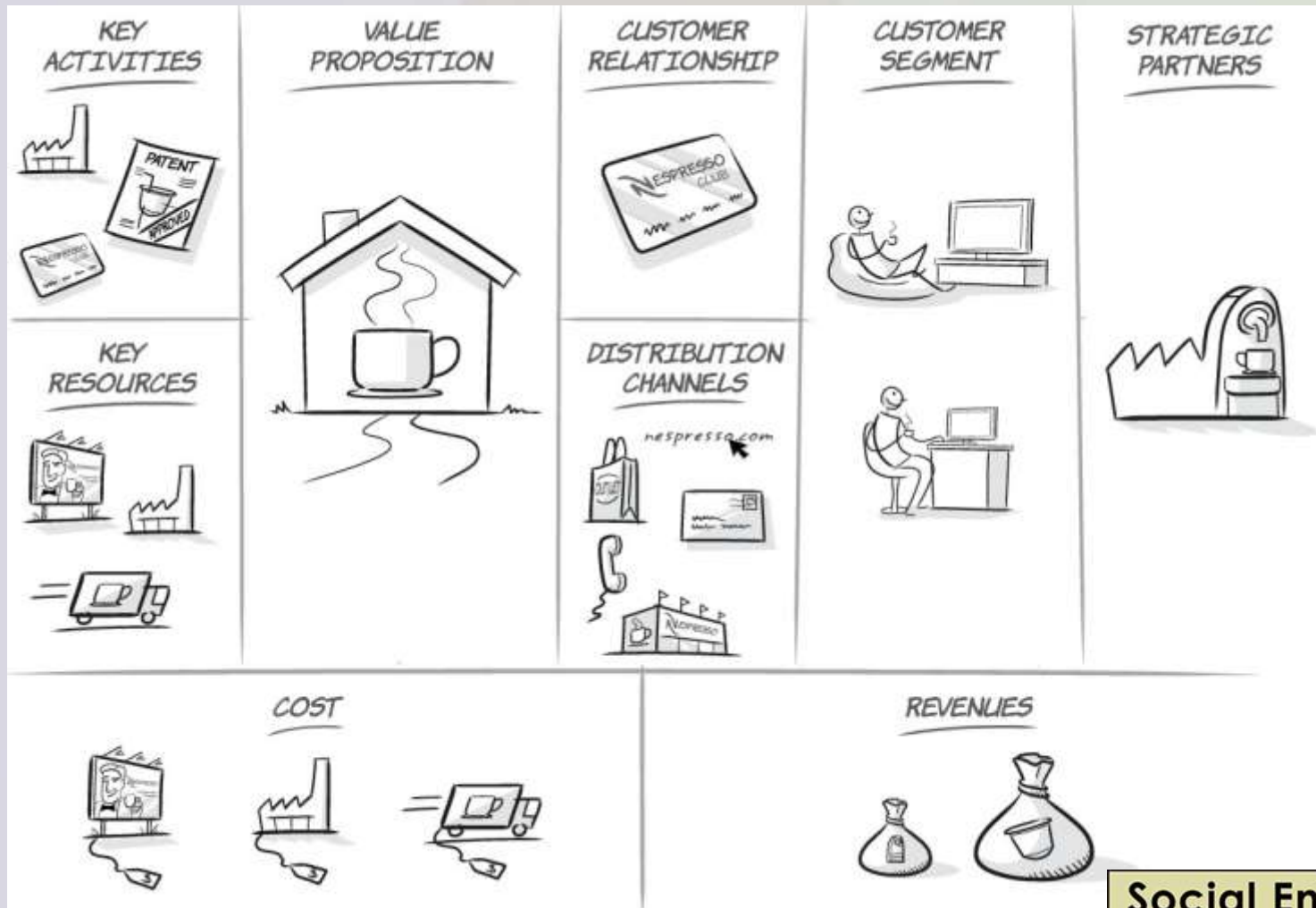
Company Foundation:

Corporate philanthropy and charitable efforts, can be created by donation of company stock or regular dedication of for profit

Ex: Entrepreneurship Foundation

Business Model

How Do You Want To Innovate & Grow?



From Model to Structure

Contributing Factors

1. Mission

Clear purpose?

2. Market

Value proposition? Special sauce?

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Ownership, salaries, org culture

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Amount, type, ROI?

Your Take: Leaning More

society or market

product / service / social good

control, pay level, partners,
board, volunteers

clients or customers

US in which states, which countries

IP, doing growth yourself, license,
franchise, partnership

selling a specific product (& pay
taxes), offering social service

Private capital, equity, debt, grants

Legal Entities

Contributing Factors

FOR
PROFIT

NON
PROFIT

1. Mission

Make stuff, sell to others

Do things, for benefit of people

2. Market

Product / service

Social good

3. Your Team

Own, control, closed, higher salary

Public, transparent, affordable,
board oversight

4. Customers/Clients

Customers

Clients

5. Geography

Good for both, just need a plan and local knowledge

6. Growth

Better known here, more flexible
& allows faster

Usually locally based, tailored

7. Sales

Pay taxes, more transactional

No taxes (usually), more services

8. Capital

Equity

Grants

Alternative Legal Structures

- 1. Low Profit Limited Liability Company (L3C)**
- 2. B Corporation**
- 3. Benefit Corporation**

About Howard J. Finkelstein

- ~30 years “big firm” work corporate, structured finance
- Pioneered microfinance securitization Blue Orchard
- Lead counsel > \$1 billion in capital to MFIs world wide
- Went ‘entrepreneurial’ 2009, advising early-stage impact ventures & investors
- Has worked on clean energy, housing, finance, technology, healthcare, education + more

L3C

Definition

LLC designate itself L3C by adopting qualifying tests for PRIs (furthers 1+ charitable or educational purposes, production of income / appreciation of property not significant purpose)

Status

Authorized by 9 states and one Native tribe
600 organized to date

Challenges

No systematic study of results; lots of questions
Will private foundations or traditional investors be attracted?
Satisfy IRS standards?

B Corporation



Definition

To meet “rigorous and independent standards of social and environmental performance, accountability & transparency”

Certification by B-Labs

Assess social & environmental-focused business model; recertification on a regular basis. Not legal, more like community identifier

Status

600+ B Corps today, including Social Enterprise Associates

Challenges

No tangible evidence certification helpful increasing revenues or investments. Too early to tell
B-Lab requires documentation

Benefit Corporation

Definition

Legislative to address perceived problem of fiduciary duty of corporate directors to maximize profits; allows corporations to adopt a “public-benefit purpose”, report publicly

Status

Adopted in 8 states (+DC) & introduced in 4 more

Challenges

Obligation not enforceable through any damages mechanism or by any specific injunctive relief

No evidence yet on impact adopting this form - revenues or investments

Hybrid Approach – 2 Basic Models

Side by Side

- For-profit corporation or LLC (or Benefit Corp, L3C) formed by founder(s) / employees(s)
- Contractual relationship with not-for-profit

Parent / Sub

- For-profit or LLC (or Benefit Corp, L3C) formed by not-for-profit as direct subsidiary
- Relationship with not-for-profit both contractual & through governance mechanism

Examples



Hybrid Approach (cont'd)

Both models:

- Contractual relationship w/ not-for-profit & for-profit, include 1+ of:
 - IP Licensing
 - Rights to leverage customer lists
 - Performance of services
 - Financial management
 - Sharing of premises, website, etc
- For-profit agrees to restrictions on activities, limit mission drift
- Funds flow from for-profit to not-for-profit: royalties, fees for services and/or contributions

Hybrid Approach (cont'd)

Consequences of legal failure are **NOT** pleasant

Planning essential

Important considerations

- Portray complete picture of hybrid in 501c3 app
- Structure arm's length b/t two entities (document all)
- Limit management/governance overlap
- Avoid “unrelated business income”
- Adopt provisions limiting mission drift
- Avoid “related party transactions”
- Structure for-profit correctly
- Disclose all transactions accurately
- Satisfy both not-for-profit donors & for-profit investors

Implications for Your Organization

Key Steps:

1. Plan- think things through
2. Document- write it down
3. Ask- seek appropriate professional counsel

Remember:

1. Don't do all at once- Incremental okay
2. Make specific choices- be consistent, focused
3. Be transparent
4. Manage risks

Implications for Society

What do you think?

- Provide transparency regarding which businesses are truly dedicated to their stated missions
- Build collective voice for social & environmental businesses to impact policy-making
- Multiplier effect of L3Cs leads to more funds directed to social, environmental good

Q&A

Thank you!

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