

# International Social Enterprise Business Models Conference Mergers, Acquisitions & Partnerships

2nd September 2009



## Conference Report



**1. Introduction and Summary**

**2. Delegate Feedback**

**3. Keynote Presentations**

## Introduction

On September 2nd 2009, CEIS welcomed delegates to the International Social Enterprise Business Models Conference in Glasgow. On the day 180 individuals, including delegates, speakers and sponsors, participated in a discussion on mergers, acquisitions and partnerships as a means to social enterprise growth. The conference provided an opportunity to hear from speakers who have experience and specialist knowledge of the positive and negative aspects of acquisitions, mergers and partnerships and provided a unique learning opportunity through participation in workshop sessions and networking opportunities.

## Summary of the Day

Organisations operating in the third sector during a recession may naturally focus attention inwards on the sustainability of enterprises, retaining jobs, securing funding, meeting deadlines and keeping a tight eye on finances. It can be difficult in these circumstances to create the opportunity to reflect on and consider the value being created and whether the way a business is operating is the most effective way of producing social outcomes.

This event looked at ways in which social enterprises might deliver more value and whether enterprises can be more effective and innovative by working in partnership with others. The event featured world class examples of social enterprise growth and value creation through acquisition of private businesses and social enterprises, mergers with other social enterprises and new forms of working in partnership to have a greater impact.

The conference provided delegates with information on a range of models and methodologies which have been adopted by others, but while positive elements of growth were highlighted, so were the pitfalls and errors. Participants appreciated the honesty and insights and the event was enhanced by the willingness of presenters to reveal the scar tissue as well as highlighting the benefits.

Themes emerged during the day initiated by presentations and carried over into networking and workshops. The importance of consultation and support of stakeholders during a challenging period for enterprise management, the significance of cultural and ethical fit and how this is particularly crucial for social enterprises in mergers emerged as common themes. Similarly the importance of early planning to determine the capacity and interest of a company to take on an acquisition well in advance of actively seeking or responding to an opportunity was emphasised. CEIS has been contacted by a number of enterprises who are working with Boards and stakeholders since the event to discuss the opportunity and views on using these business models to achieve growth.

Those leading the merger, acquisition or partnership process must also be aware of the time to enter and to exit this process and the nature of market which they are entering into. Strong leadership demands a balance of heart and head, i.e. knowing what's good for the business and what makes financial sense. The experience of our conference presenters and the dialog amongst participants indicates that the event has raised awareness of the potential, the pitfalls and the process of creating value and impact through these growth models.

## Actions

A number of actions were identified for the role of support agencies, third sector and the government.

### Support Agencies:

- Should be proactive in their approach and advocate that people look at different business models. They should also make organisations aware of the potential of collaborations that they may have interest in exploring.
- Should be working with communities to suggest suitable clusters and partnerships that can work for them.
- Can provide the right type of support to organisations wishing to enter this process and involve specialist agencies and projects such as Social Firms Scotland or the Ready for Business Programme to provide specialist advice where required.

### Third Sector Organisations:

- Should be proactive if entering into a merger, acquisition or partnership is the right thing for their organisation to do.
- Should be encouraged to forge more links with the private sector.
- Will benefit greatly by learning from each other and sharing best practice and learning points from other organisations that have been through the process.

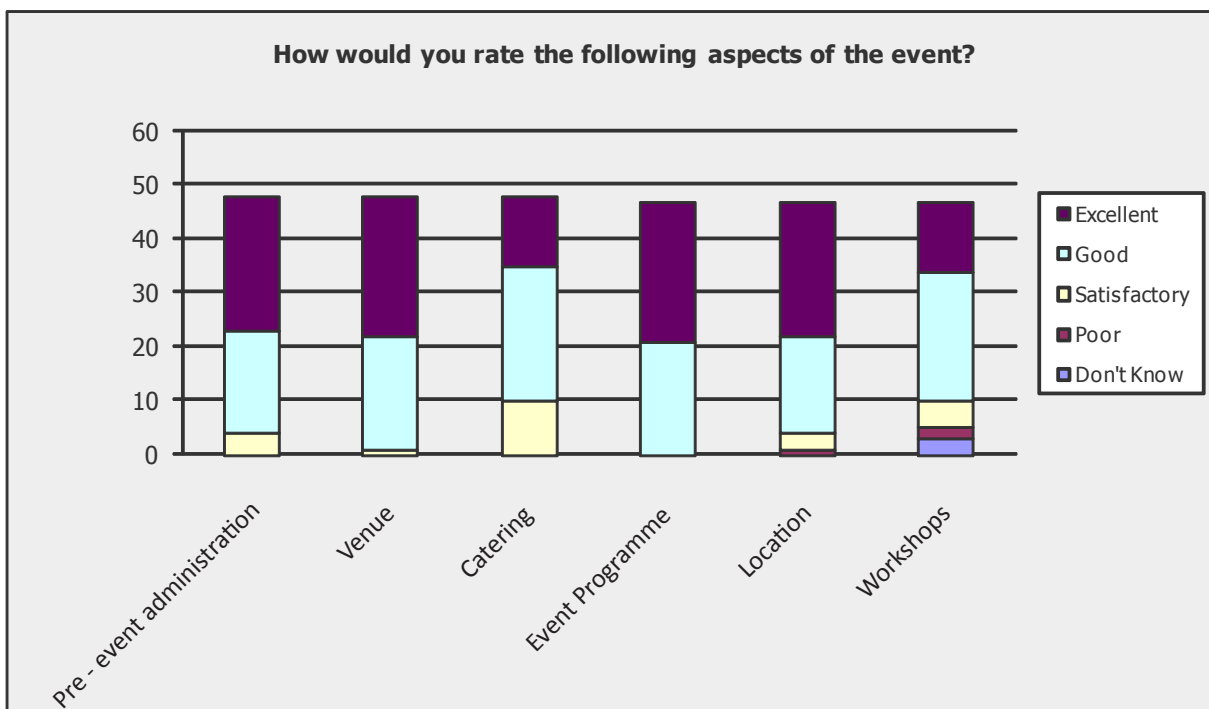
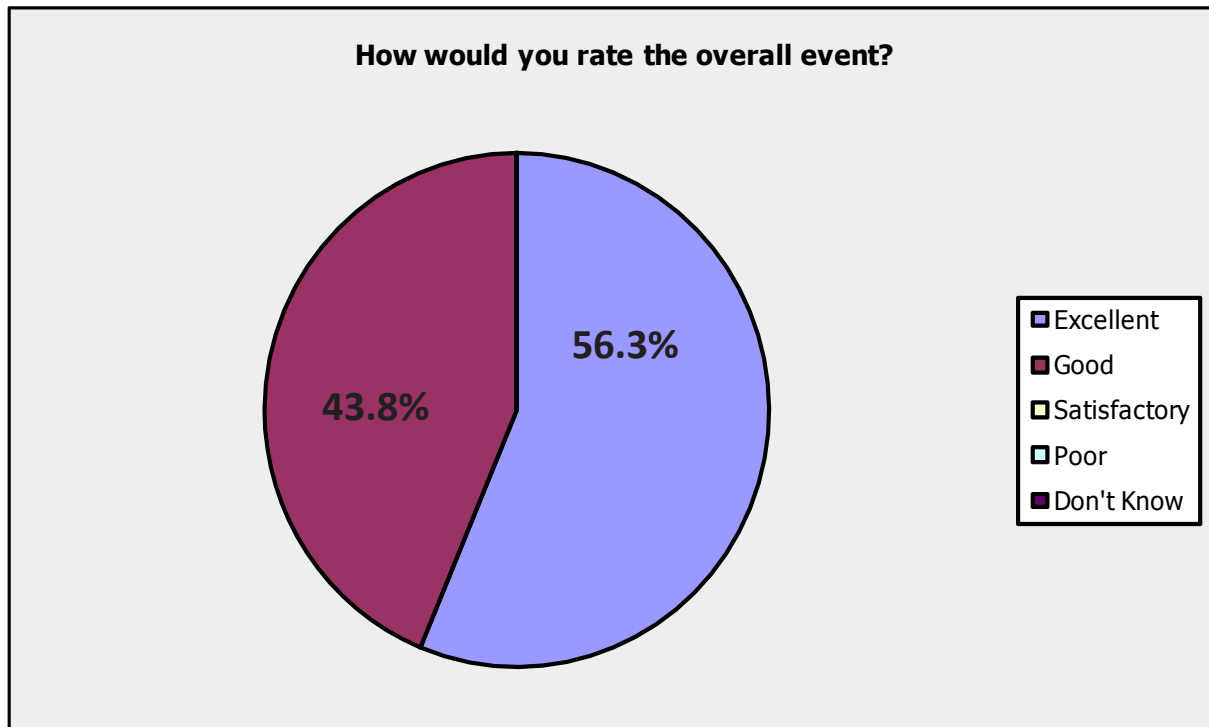
### Government:

- Due to the often lengthy time scale which this process can follow government could assist by providing more risk finance to support organisations throughout the process.
- Fast and flexible response from governments would also prove to be beneficial throughout the merger, acquisition or partnership.

### The event was agreed that enterprises should:

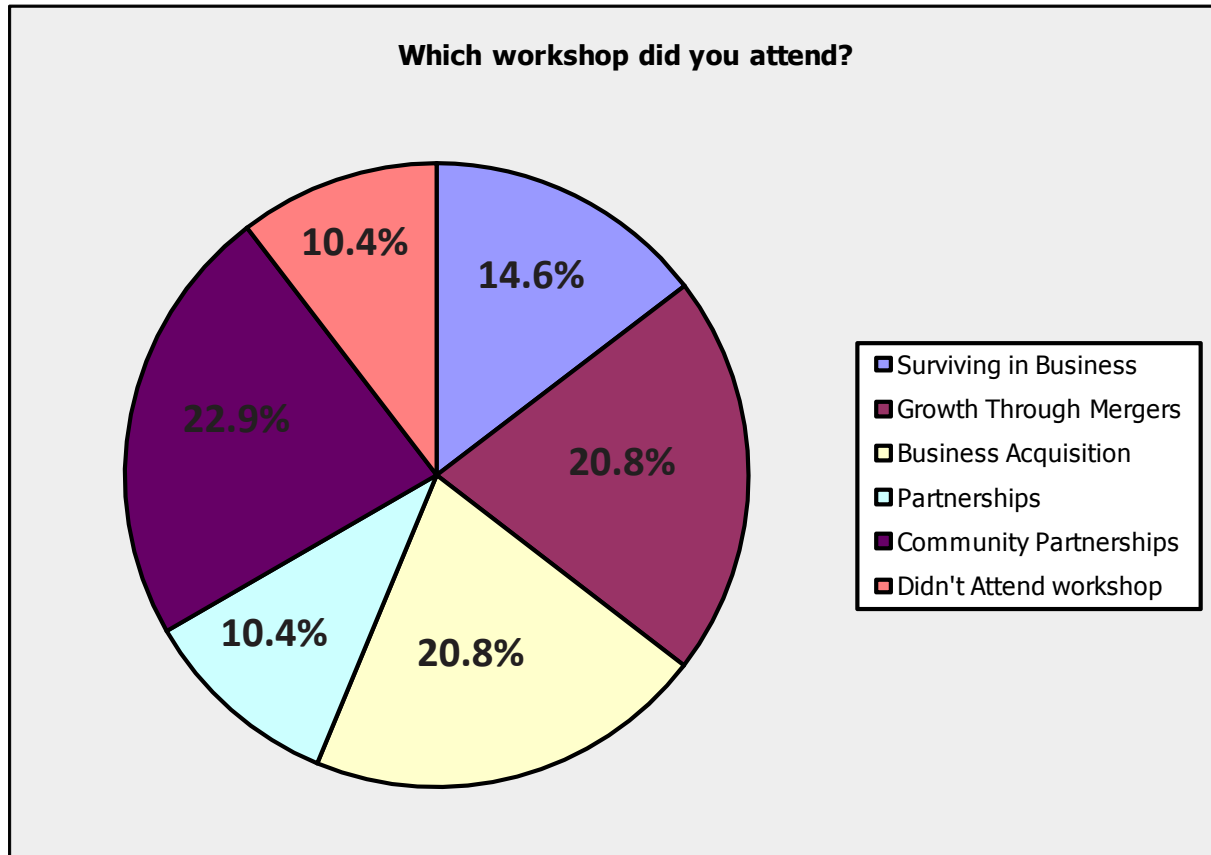
- Research
- Plan
- Use the support available
- Utilise partners
- Establish strong leadership
- Be proactive and drive the process forward
- Ensure a cultural and ethical fit exists
- Finance should be sound – a higher turnover does not always result in a higher profit margin
- Governance has to change to match the new organisation
- It is crucial to know when to enter and when to exit the process

Following the event all delegates were asked to complete a short online evaluation using Survey Monkey. Of the 150 delegates attending the event (as delegates with no other role), a third responded to the survey.



## Comments

- More roaming mikes required
- Massage & health check - an excellent opportunity to benefit from
- Venue was nice and in a central location however lack of on site free car parking was a drawback



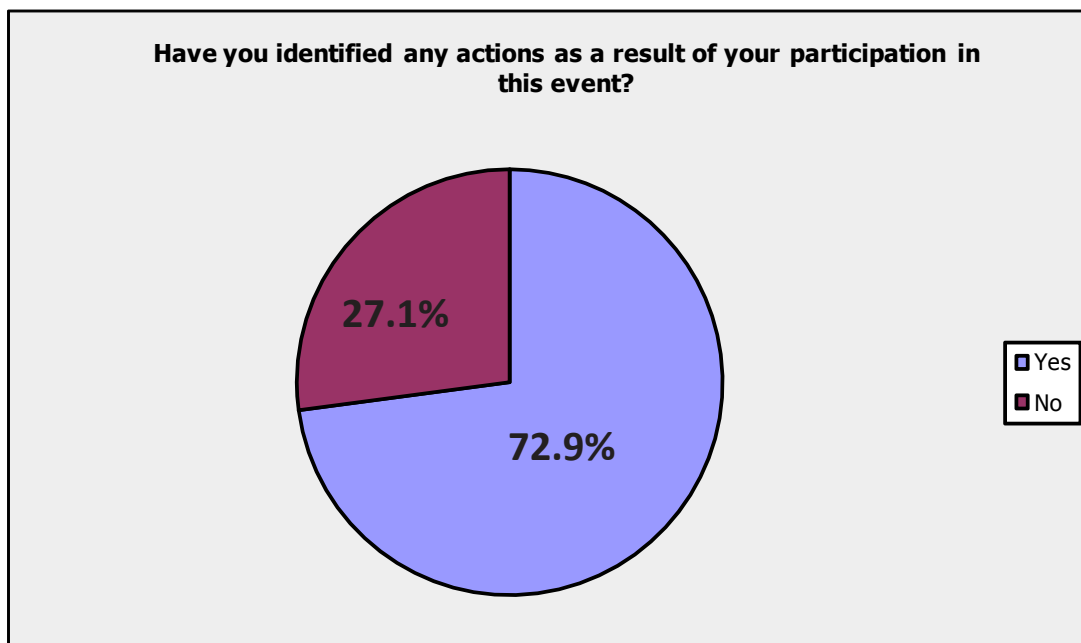
## Did the workshop meet your expectations?

- Very interesting discussion(s) - Q & A's put to Kevin
- Was a bit more specific than anticipated and was not particularly relevant to our organisation, however it did stimulate thought in other directions
- Not enough time for questions
- Would have liked more time for this session, allowing more discussion
- The workshop was good
- Wasn't sure what to expect but ample opportunity to ask questions and learn
- It was an interesting workshop however not sure it was quite what I was expecting
- In as far as gaining a better knowledge of Renewable energy projects in Scotland, very good. However the lack of structure meant that not much concrete was discussed or resolved, current knowledge was simply recapped
- Would have liked more input on spotting the lemons
- Unfortunately dominated by one speaker - no time for second speaker or any real time for discussion
- Yes, in all aspects
- I felt the workshop could have benefited from a bit more leadership and direction to maintain focus on the subject matter
- Yes, felt interesting mix of theories and practical examples



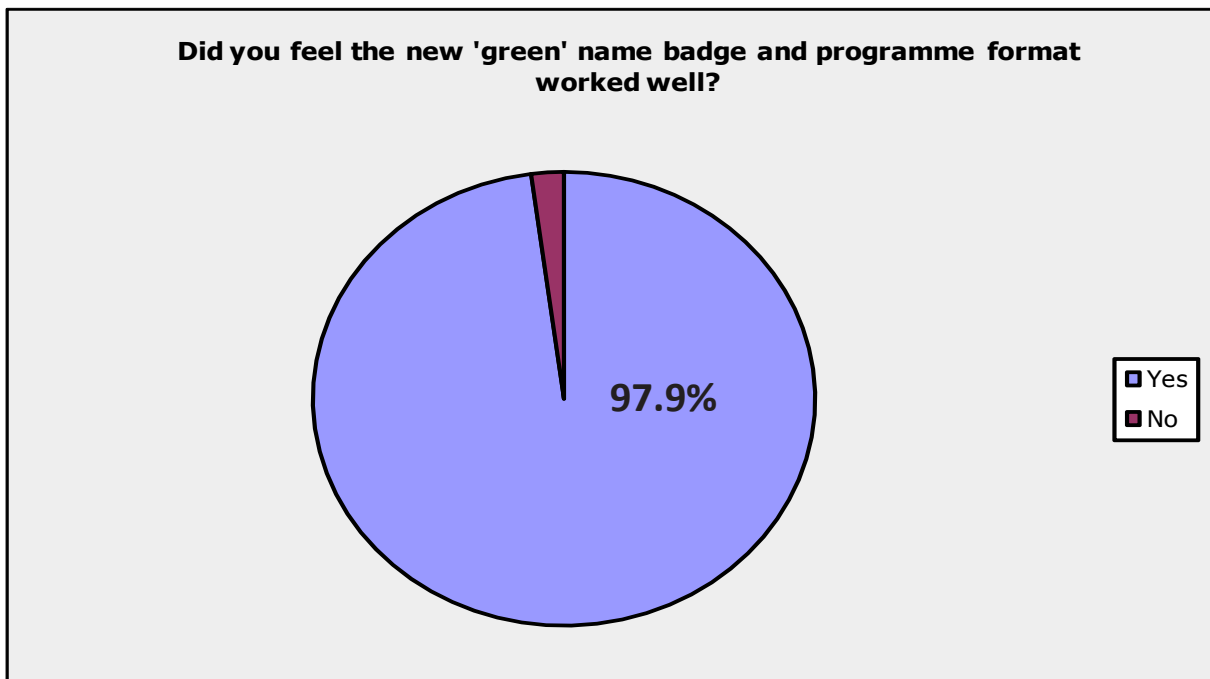
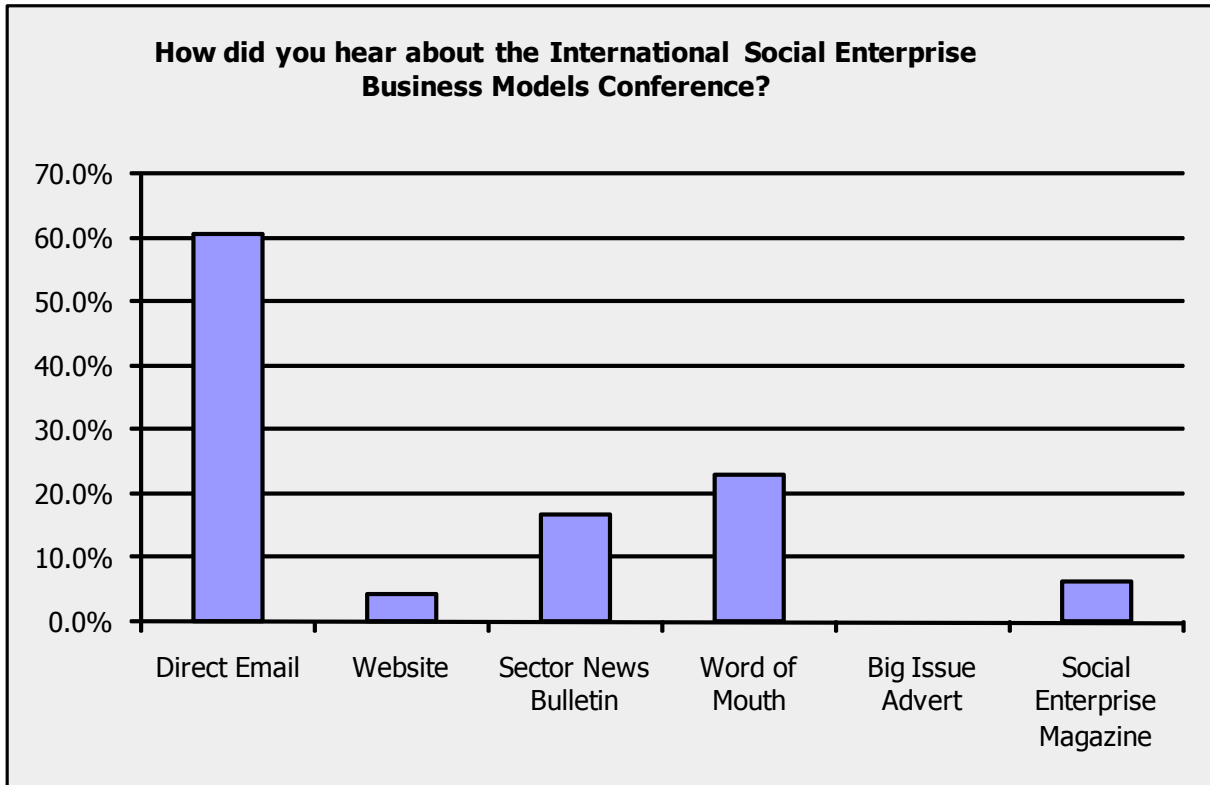
## Comments

- Well thought out event with timely topics
- It would be good if we could have training sessions on the basic nuts and bolts of setting up a social enterprise
- A great array of speakers, clearly knowledgeable in their fields. A good flow to the day...however sometimes it's not too bad to run a wee bit over
- I tend to not attend too many events as most are not practical and 'to the point' enough. This had honesty, expertise and a reality to it
- Although I would have preferred a little more in depth information about why the acquisitions/mergers happened, what the process was like, problems encountered, how overcome etc
- Interesting and positive
- Would have liked more input on recognising overly risky business proposals
- The choice of topic and the speakers to back it up gave a strong lead on the pros and cons around growing a social business in these ways. The presenters for the speaker sessions understood their brief and ensured that value was added during the questions and discussion following the speakers



## Describe

- Work with local college to talk about Social Enterprise
- New contacts made
- We would like to contact Kevin Lynch
- Will look at our organisation in a slightly different way and will look for other routes of expansion
- To encourage social enterprises I'm working with to consider alternative models of development
- Networking project
- To maintain and develop the momentum and expertise developed through our recent takeover of a neighbouring CVS operation, actively seeking out other opportunities to develop the organisation, whether through organic growth or by further takeovers
- I've learned a few lessons on 'how' to do things better
- Clarify our core competencies as a company to ensure we are strong enough at the core to look for business growth over the next few years potentially through acquisitions
- Aim for me was to get a general background to social enterprise. Useful website addresses to follow up on
- This event supports current action to stimulate the social enterprise sector in our area
- Bought and read the books on sale by Kevin. Contacting Social Firms Scotland for advice
- There were some exhibitors whose material I will follow up
- I now appreciate that our venture needs core funding
- 3xE network working closer with i-SE on mentoring roles and future joint seminars for the sector. A growth in interest on the work of community development through renewable micro energy networks
- 3/4 potential opps to be followed up
- Senior management team to take time out to map future business strategy
- Networking/potential opportunities for further engagement
- Follow up meetings arranged with two organisations
- Get ahead and organise our first annual conference and have arranged to meet the CEiS Events Team
- No actions as yet, but definitely developed my thinking
- Considering acquisition
- Looking at a pilot partnership with LA



## **Do you have any further feedback or suggestions for the event?**

- Thanks for the addition of the Health Check, it was very worthwhile!
- Excellent networking opportunity
- More time for group discussion possibly...
- Another great display of masterful, slick operations from CEiS - well done
- Excellent event with a good range of informative speakers
- Is there not a social enterprise venue? Move it out of the city centre so people don't spend more time getting to and from it than they do at it
- Last session not required the messages had already been presented and it resulted also on the conference going over the finish time
- Session after lunch could be shorter and with speakers energy to get conference back into the swing
- Feedback from workshop discussions would be useful
- Somehow allow time at tables for discussion after a speaker to prompt more questions
- Keep doing more of the same

# International Social Enterprise Business Models Conference – Mergers, Acquisitions & Partnerships



# Session 1

# Acquisitions – Practice and Process



# Karen Anderson

## Social Firms Scotland



Social Firms create work in commercial businesses for people who are severely disadvantaged in the labour market.





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LOTTERY FUNDED

# Context



- Research
- Programme outcomes
  - 10 new Social Firms
  - Provide acquisition resources for Third Sector
  - Partnerships across Third Sector and with private sector

# Why?

- Increase the mix
- Risk and Capacity

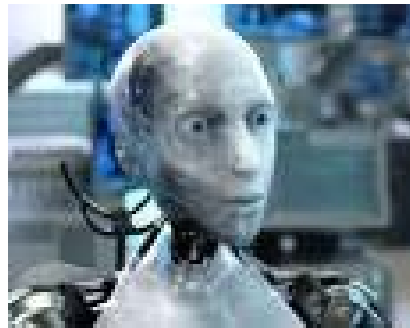


- Acquisition failure

- Risk Management



# How?



# Partners

- Johnston Carmichael
- RBS
- Baker Tilly
- Big Lottery Fund
- Brodies
- BTO
- CEIS
- DTAS
- Chambers of Commerce
- Eriskay Associates
- Scottish Family Business Ass.
- Social Investment Scotland
- Cranfield Trust
- Inspiring Scotland
- Forth Sector
- MacRoberts
- Morton Fraser
- Pilotlight
- Scott Moncrief
- Kersland Associates
- Scottish Government
- Senscot
- SSEC
- Triodos
- Shepherd + Wedderburn
- Acumen
- Ledingham Chalmers
- McGrigors



# Process



Phase 1 Strategy	Phase 2 Planning	Phase 3 Execution	Phase 4 Negotiation	Phase 5 Completion	Phase 6 Integration
Business plan	Identify team	Approach target	Heads of Agreement	Completion documentation	Implement integration plan
Acquisition strategy	Start search	Give confidentiality	Due Diligence, plan integration	Completion meeting	Monthly integration review
Finalise acquisition criteria	Identify & screen targets	Social screening	Finalise deal structure & price		1 yr strategic review
Fund raising proposal & implementation		Evaluate synergies	Finalise agreement		

Acquiring business 4 good programme support from Social Firms Scotland

Intermediary support from programme stakeholders

Professional advisers

# Who?



- Purchasers
  - “maybe considering acquisition”
  - Ready to buy
- Sellers
- Funders
- Advisers
- Investors
- Intermediaries



[www.AcquiringBusiness4Good.com](http://www.AcquiringBusiness4Good.com)

# Mahua Nandi

## ECT Group



ECT Group

**Mahua Nandi**  
**Finance and Corporate Director**

# ECT brief history

1979 - founded as a community transport project, incorporated 1987

1995 – first recycling project

2002 – subsidiary holding company established

2003 – acquired Avon FoE

2005 – acquired first community rail businesses

2008 – disposed of recycling business to May Gurney, rail business to Iowa Pacific Holdings



# Turnover and profit

	<b>Turnover</b>	<b>Profit margin</b>
<b>2002</b>	8,909,102	5%
<b>2003</b>	13,126,013	6%
<b>2004</b>	22,866,597	3%
<b>2005</b>	26,914,274	3%
<b>2006</b>	46,135,484	3%
<b>2007</b>	51,777,800	2%



# Debt repayment

	<b>Interest payable</b>	<b>Interest cover</b>
<b>2002</b>	37,020	12.28
<b>2003</b>	141,531	5.40
<b>2004</b>	343,532	2.07
<b>2005</b>	508,403	1.58
<b>2006</b>	646,299	1.87
<b>2007</b>	929,721	1.09



# Cash flow

	Cash increase/ <b>decrease</b>
<b>2002</b>	295,280
<b>2003</b>	196,496
<b>2004</b>	<b>-1,911,136</b>
<b>2005</b>	<b>-792,989</b>
<b>2006</b>	<b>-829,494</b>
<b>2007</b>	<b>-2,433,345</b>



# Lessons

Protect the integrity of your social mission

Governance matters

Finance matters

The balance is never perfect

IT CAN HAPPEN TO YOU



# David Whyte

## Momentum



# International Social Enterprise Business Models Conference – Mergers, Acquisitions & Partnerships



# Session 2

## Gaining Business and Seizing Opportunities



# Dharmendra Kanani

## Big Lottery Fund



# Kevin Lynch

## Rebuild Resources

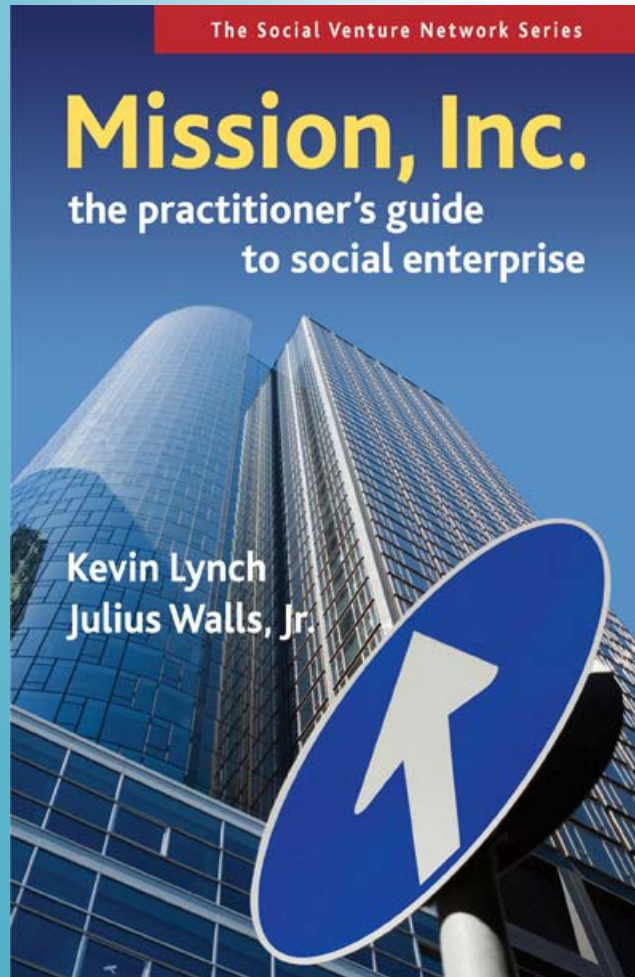




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*CeIS*

*Business Models Conference*



# A PRACTITIONER'S APPROACH TO BUILDING BUSINESS, RELATIONSHIPS & PARTNERSHIPS



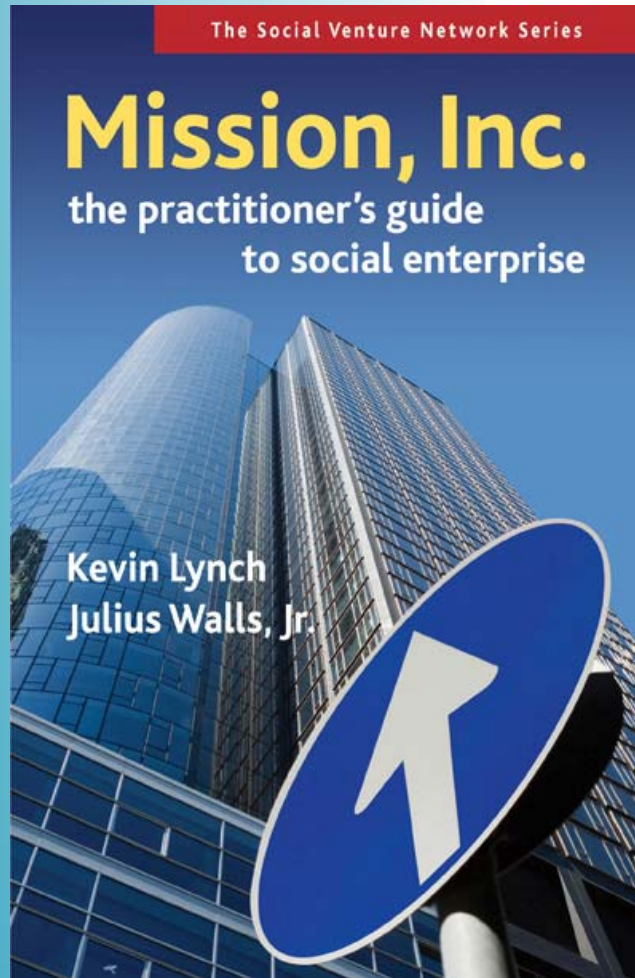
# ***Mission, Inc.***

## ***Contributors***

- **Rick Aubry - Rubicon**
- **Shari Berenbach - Calvert Foundation**
- **Scott Blackwell - Immaculate Baking Co.**
- **Allen Bromberger - Perlman & Perlman**
- **Jim Fruchterman - Benetech**
- **Cynthia Gair, Carla Javits - REDF**
- **Darell Hammond - KaBOOM!**
- **Mike Hannigan - Give Something Back**
- **Jeffrey Hollender - Seventh Generation**
- **Kevin Jones - Good Capital**
- **Scott Leonard - Indigenous Designs**
- **Chris Mann - Guayaki Yerba Mate**
- **Kevin McDonald - TROSA**
- **Clara Miller - Nonprofit Finance Fund**
- **Fred Miller - Kaleel Jamison Consulting Group, Inc.**
- **Joan Pikas - The Enterprising Kitchen**
- **Mal Warwick - Mal Warwick Associates**
- **Judy Wicks - White Dog Cafe**
- **Alfred Wise - Community Wealth Ventures**
- **Lee Zimmerman - Evergreen Lodge**



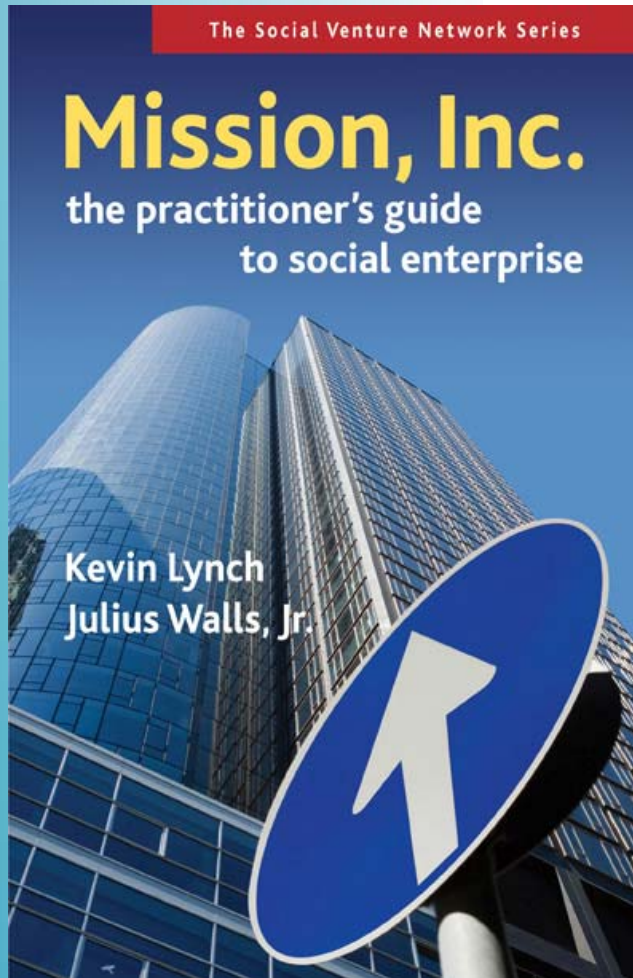
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**What  
brings you  
here?**



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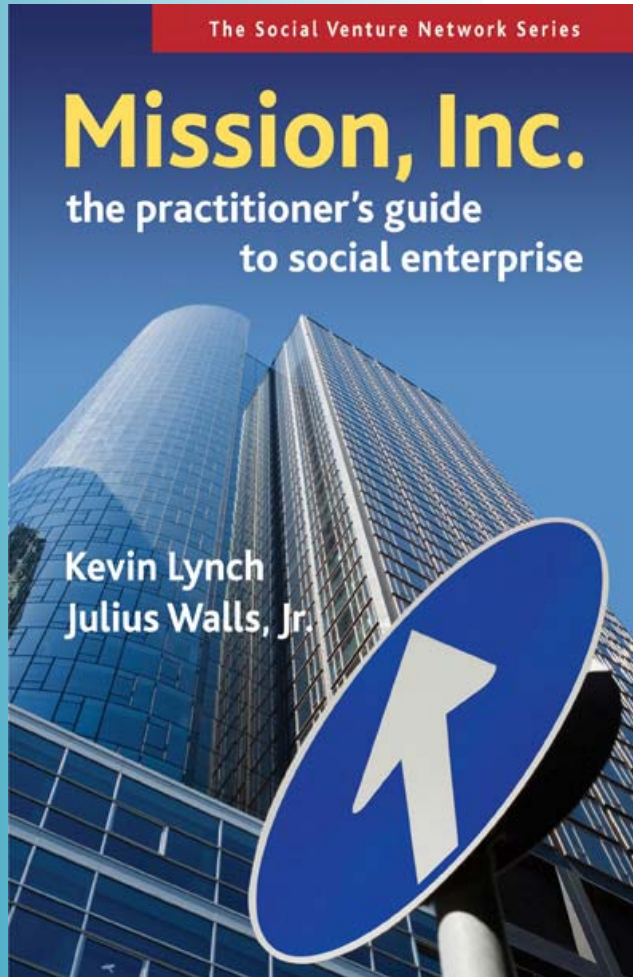


# Why Social Enterprise?



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# ***Social Enterprise Definition***

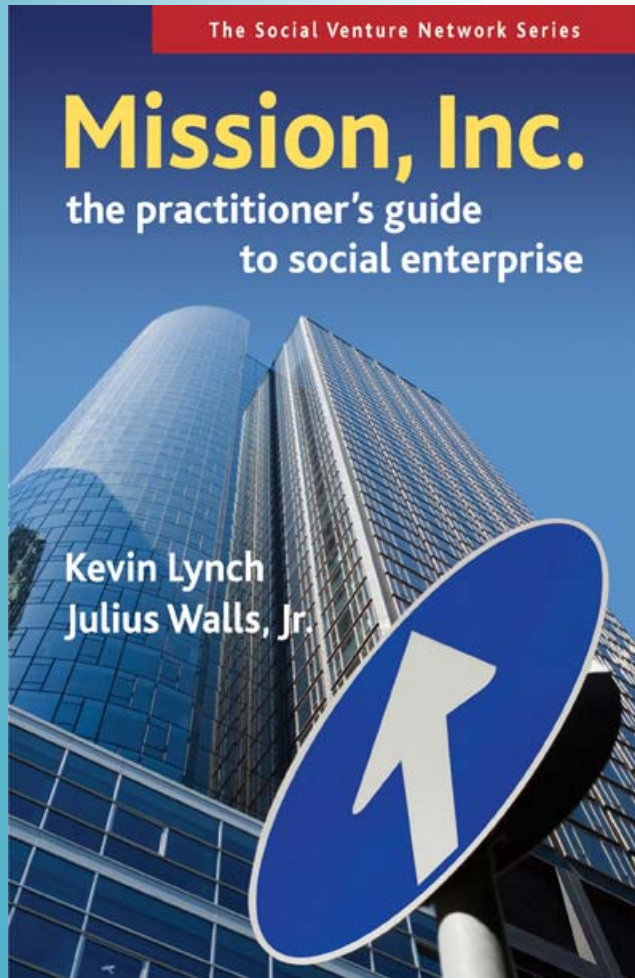


**A business whose  
primary purpose is  
the common good.**



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# ***Social Enterprise Dilemma***



**We're not doing  
enough.**

**We have to get  
better to get bigger  
to do more.**



## ***Why Businesses Fail:***

### **TRADITIONAL BIZ**

- **Lack of cash**
- **Lousy marketing**
- **Failure to innovate**
- **Poor service**
- **Inefficient ops**
- **Lack of leadership**
- **Unhealthy culture**
- **Low business skill**

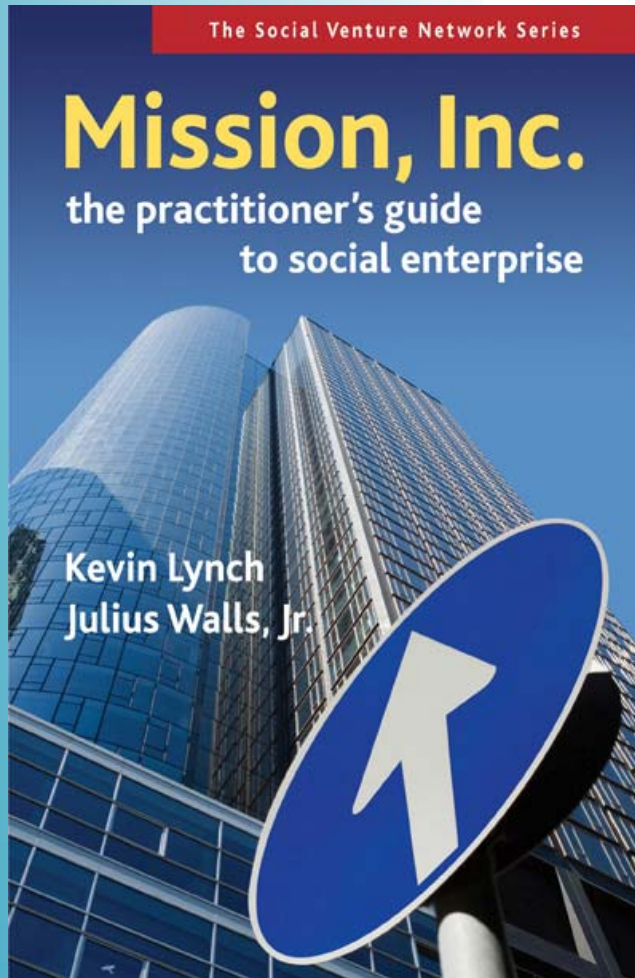
### **SOCIAL ENTERPRISE**

- **Lack of cash**
- **Lousy marketing**
- **Failure to innovate**
- **Poor service**
- **Inefficient ops**
- **Lack of leadership**
- **Unhealthy culture**
- **Low business skill**
- **Unwarranted optimism**
- **Failure to cut losses**
- **Unrealistic belief in mission over reality.**



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# ***The Practitioner's Formula***



**Do all the right things a traditional business does.**

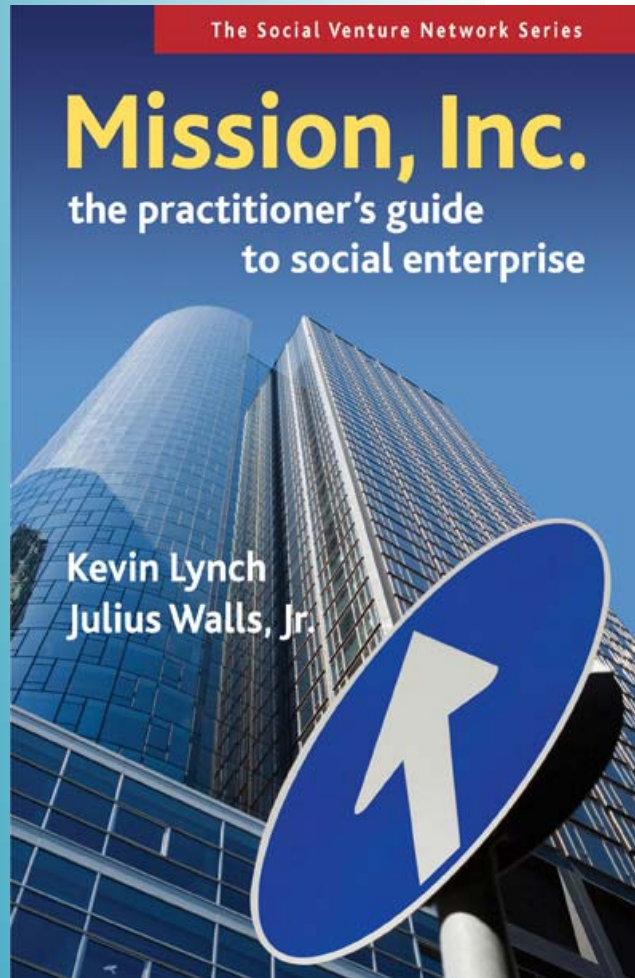
**Avoid the social enterprise traps.**

**Grab the points of leverage available only to social enterprise.**



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# *The Ten Paradoxes of Social Enterprise*

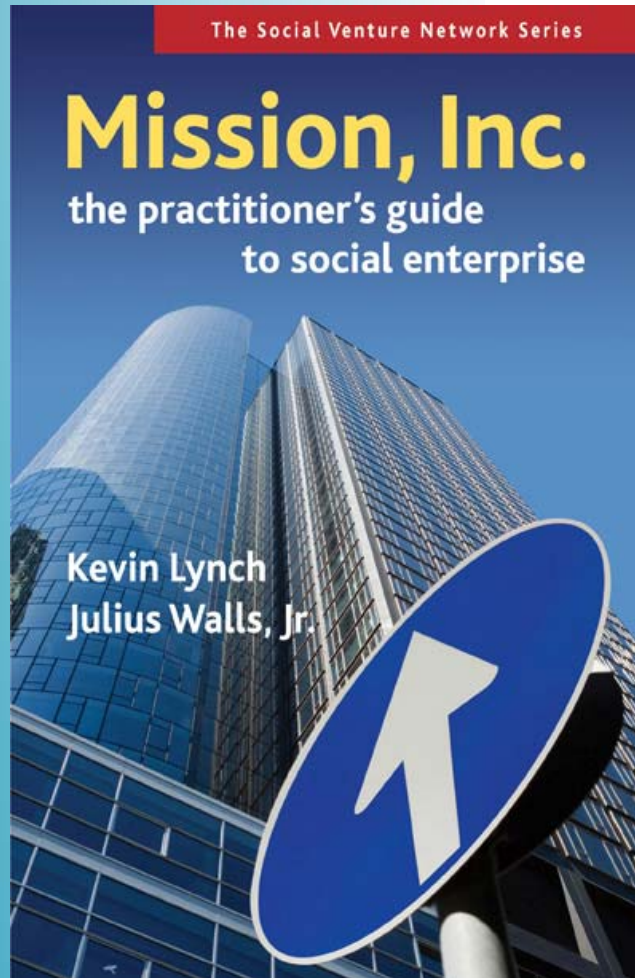


- 1. Doing Good vs. Doing Well**
- 2. Form vs. Function**
- 3. Planning vs. Practice**
- 4. Debits vs. Credits**
- 5. Do-Gooders vs. Good-Doers**



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# *The Ten Paradoxes of Social Enterprise*

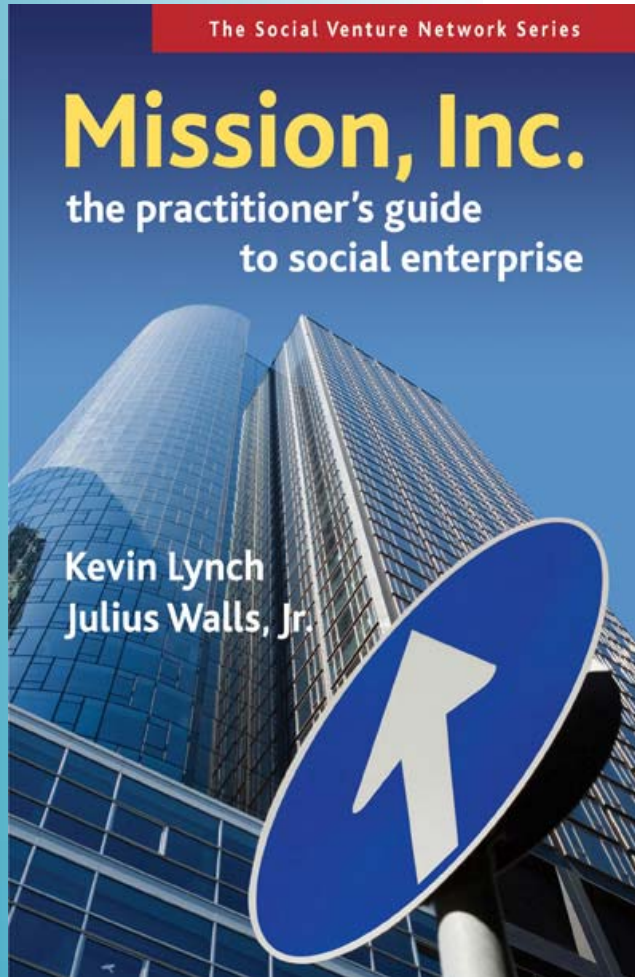


6. Perception vs. Reality
7. Value vs. Waste
8. Metrics vs. Instinct
9. Growth vs. Focus
10. Sweat Equity vs. Blood Equity



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# *Profound Opportunity for Social Enterprise*

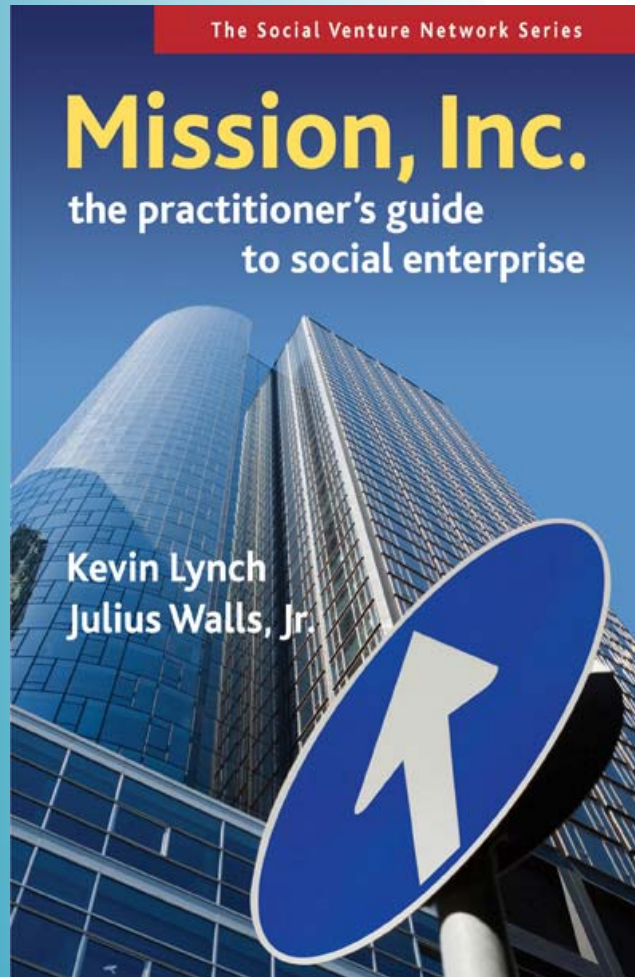


**Historic opening  
due to lack of  
confidence in  
traditional  
economy.**



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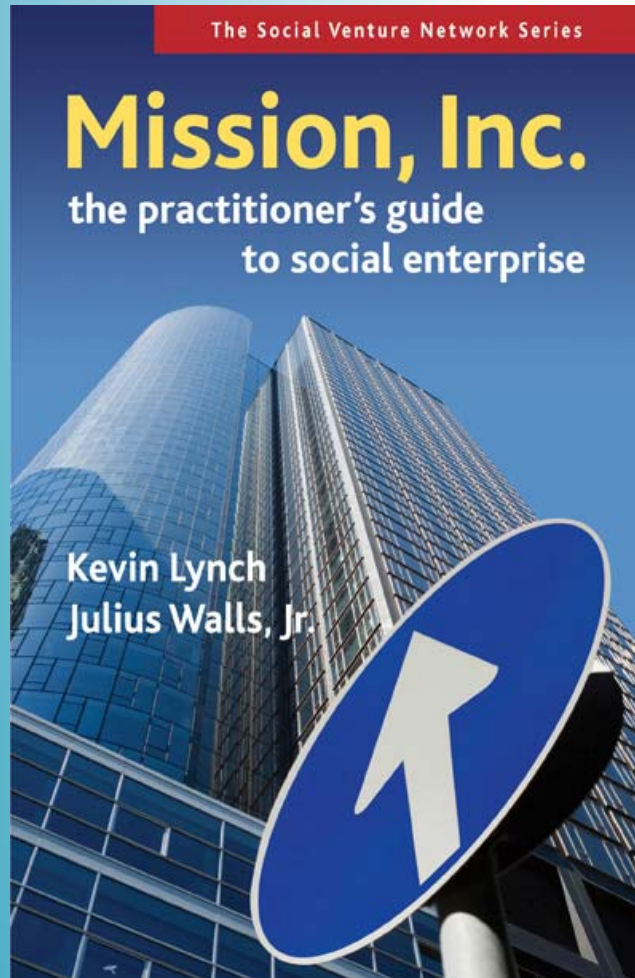
***Corollary:***



**New  
Opportunities Up  
For Grabs When  
Marginal  
Businesses Fail**

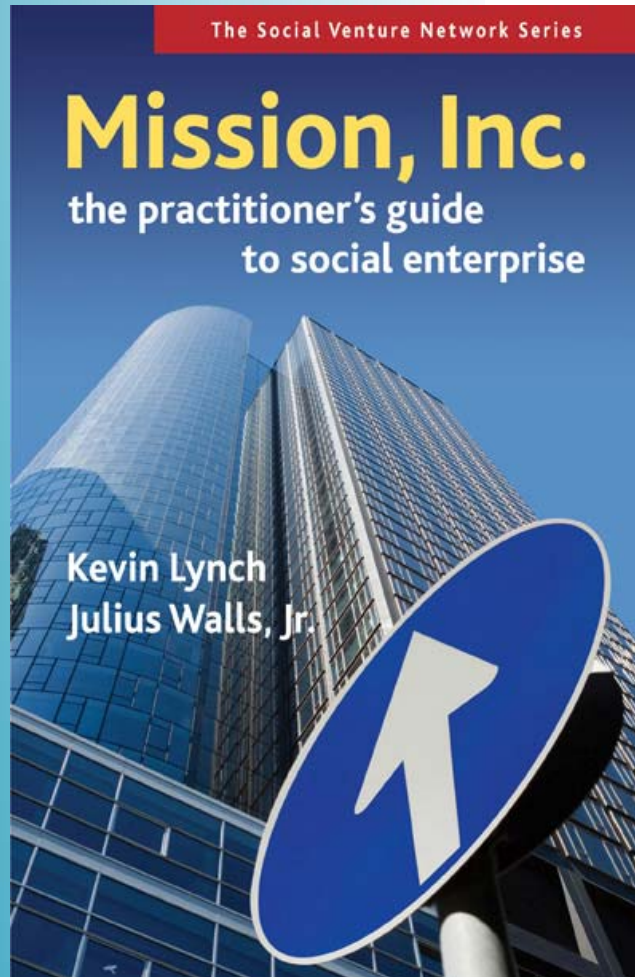


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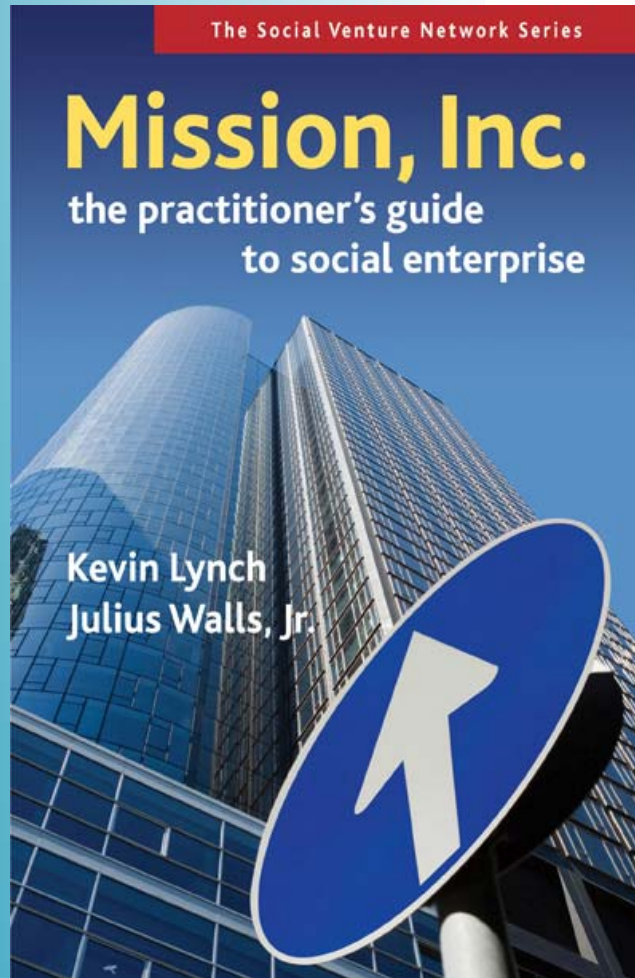
# A PRACTITIONER'S APPROACH TO BUILDING BUSINESS, RELATIONSHIPS & PARTNERSHIPS

# *Practitioner Approach* **#1**



**Good  
competitors  
make good  
partners.**

# *Practitioner Approach* *#2*

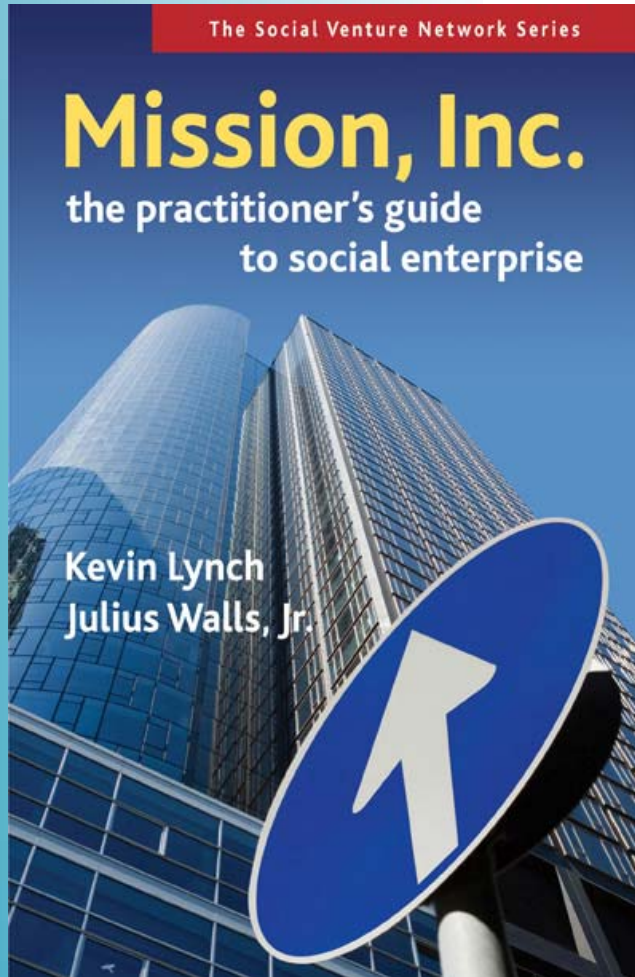


**Mitigate  
partners' risk  
through  
operational  
excellence.**



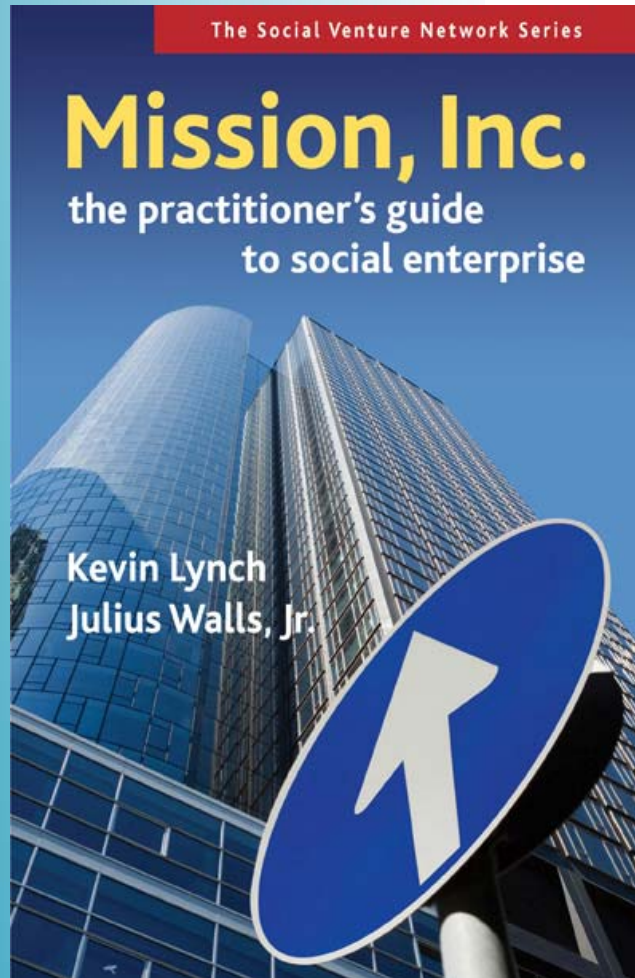
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# *Practitioner Approach* *#3*



**Clearly account  
for cost of  
business and  
cost of mission.**

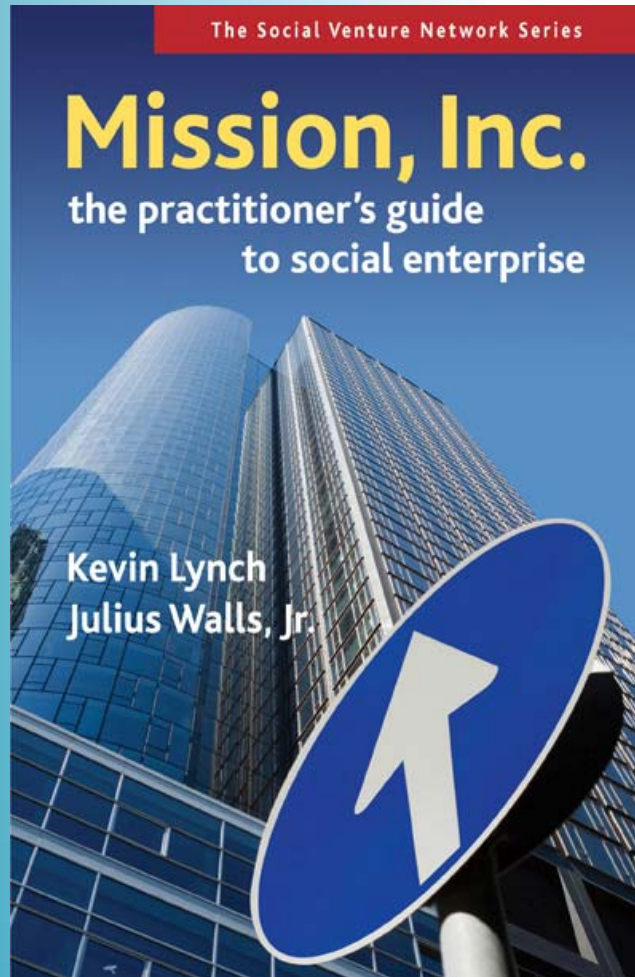
# *Practitioner Approach* *#4*



## High leverage partnerships:

### A. Technology and Infrastructure

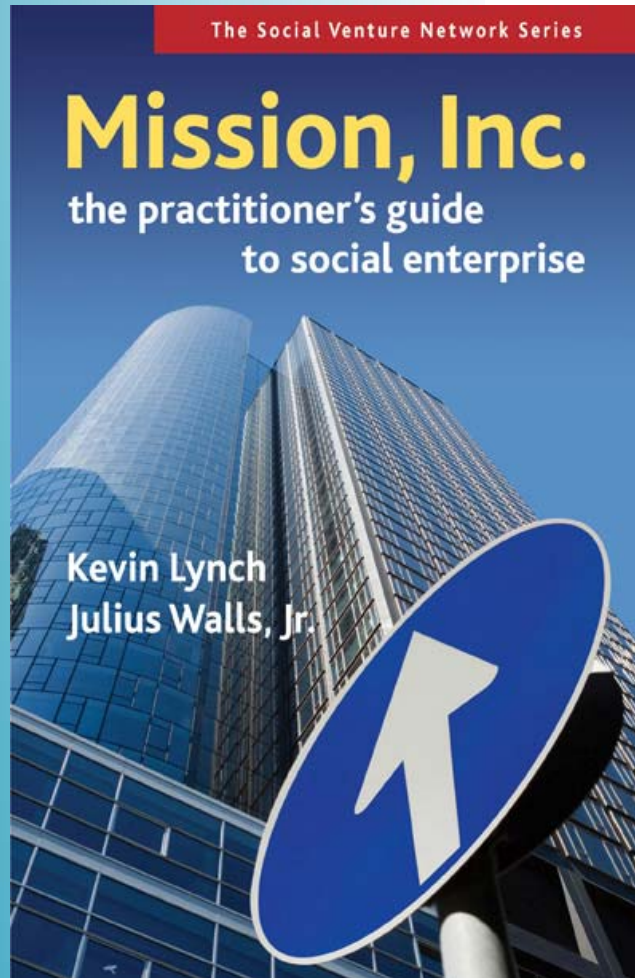
# *Practitioner Approach* *#4*



**High leverage  
partnerships;**

**B. Do-Gooders  
and Good Doers**

# *Practitioner Approach* *#5*

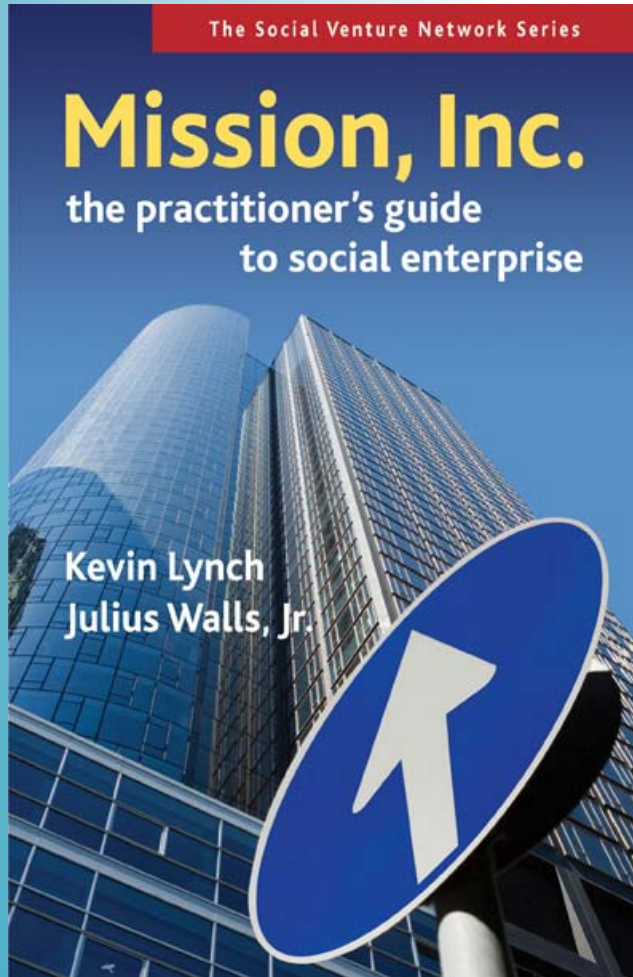


**Above all,  
build healthy  
cultures.**



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***For further conversation...***



**Kevin Lynch**

**MissionIncLynch@gmail.com**

**612-723-4209**

# International Social Enterprise Business Models Conference – Mergers, Acquisitions & Partnerships



# Session 3

## Mergers and Partnerships



# Martin Kinsella

P3



# Sarah Crawley

iSE



# Clustering for social enterprise growth



Sarah Crawley  
CEO

Initiative for Social Entrepreneurs

# Clustering - what is it?

What is Clustering?

- Where groups and organisations work together on a issue, theme, contract, programme or project.
- Can be long term or task and finish.

- Two or more organisations working together either for a fixed term or within a permanent relationship
- Organisations can cluster on any aspect of their work from sharing office services to delivery of programmes.

# Types and terminology

- Collaborative working
- Partnership working
- Clustering
- Micro clusters
- Joint bidding

# Who works in clusters?

- There are collaborative projects across all sectors - private; public and voluntary sectors.
- Increasingly we see cross-sector partnerships – some large partnerships for example health services with PFI's
- Within education – academy's for example

# Why cluster?

- Reduction in grants and move to contracts
- Contract model of prime contractor/large contracts
- Building seamless service
- Offer higher quality
- Offer broader more inclusive services
- Lack of track record
- Access to new markets

# Are these partnership driven or tender driven?

- Either!

# Realise Programme tested the model – [partnership driven]

- 4 clusters comprising 8-16 members [over 2 yrs 68 orgs working together]
- £2.95 million new sales
- 41.5 jobs created
- 5 new Social Enterprises started
- All received business support linked to procurement

# Private sector building company

## – [contract driven]

- Wants to include at least one social enterprise in every contract they deliver – board approval
- New cluster for building and related social enterprises [bricklaying, painting & decorating, sandwich suppliers, landscaping etc]
- Different SE's will be sub-contracted dependant upon the main contract
- This way of working means SE has access to new markets!

# WNF – £28 million resources for access to employment [both!]

- Public sector driven geographically based clusters
- 10 constituencies, 89 3<sup>rd</sup> sector orgs engaged
- Some pre-existing clusters, some formed for the purpose
- Some brokered in private sector agencies [contract values high!]
- 9 providers – 6 led by 3<sup>rd</sup> sector = 12 of 34 contracts – many more will be sub-contractors!

# What have these clusters learnt?

- Do
  - Research your topic
  - Organisations
  - Track record
  - Legal issues
  - Ensure working agreements – (written)
  - Monitoring framework
  - Be prepared to pull out

# Remember ...

- Don't
  - Underestimate the time and resource involved
  - Assume you can work without written agreements
  - Assume you won't need legal or professional advice
  - Allow mission drift
  - Chase the money

# Successful clusters have...

- Shared vision
- Clear leadership
- Formal written agreements
- An agreed approach to quality
- Common understanding & conflict resolution
- Awareness of cultural differences
- Accountability
- Ongoing review

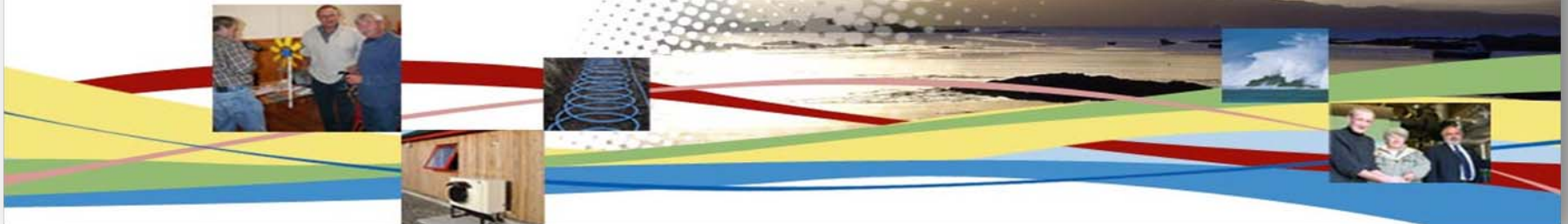
# Finally .....

- From our learning we have produced a toolkit available from [www.i-se.co.uk](http://www.i-se.co.uk)
- Its not easy to do but it provides real opportunities for the SE sector to work in new markets at scale!

# Nicholas Gubbins

## Community Energy Scotland





# The Business of Community Energy Development

*International Social Enterprise Business Models Conference*

Nicholas Gubbins, Chief Executive, Community Energy Scotland

nicholas.gubbins@communityenergyscotland.org.uk

<http://www.communityenergyscotland.org.uk>

Scottish Charity Number: SC039673



## Who are we?

- New Scottish Charity, Company Ltd by Guarantee + trading company
- *To build confidence, resilience and wealth at community level in Scotland through sustainable energy development*
- Membership based – non-profit distributing community groups (80 so far)
- Voluntary Board
- Opened for business August 2008

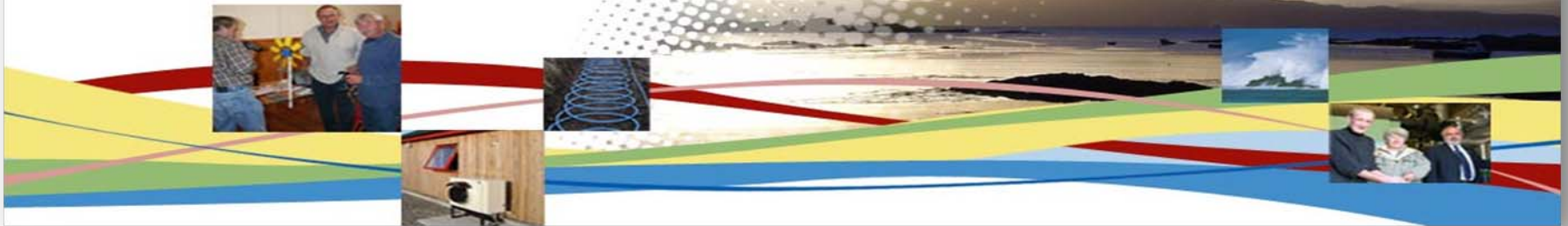


## Origins

2002 Community Energy Unit, HIE core

2004 Highlands and Islands Community Energy Company – HIE subsidiary

2008 Community Energy Scotland – independent company

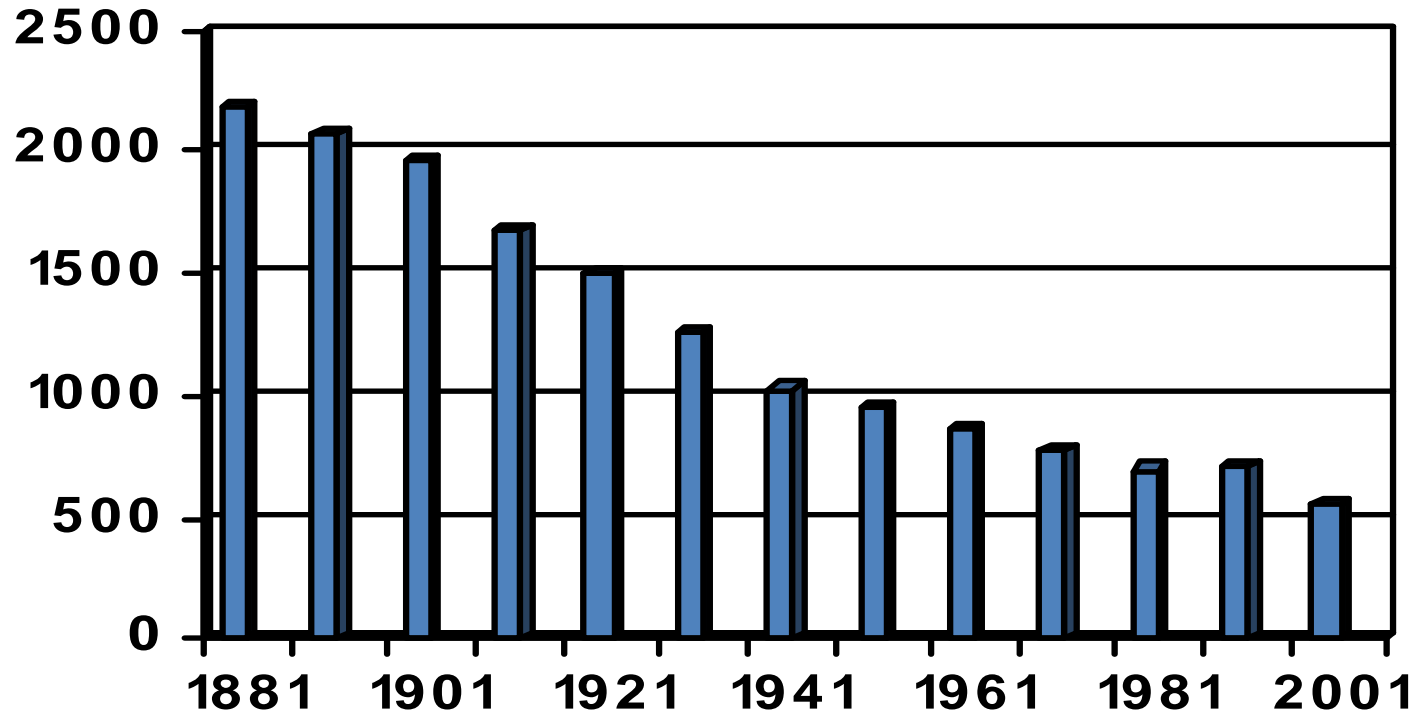


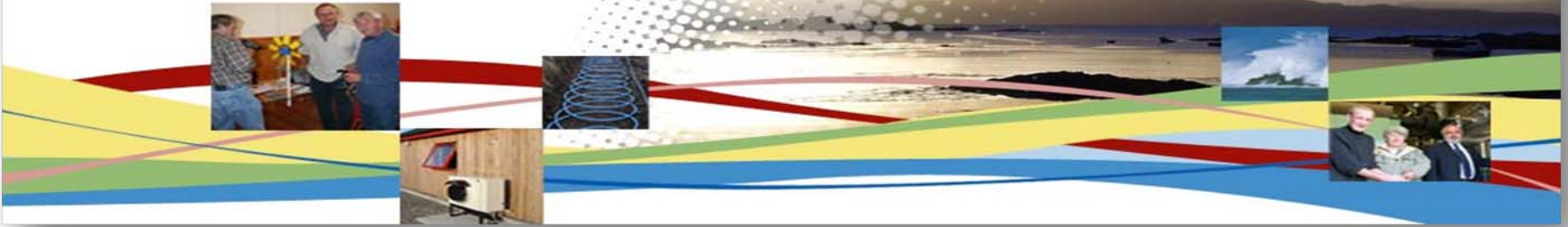
## What we do

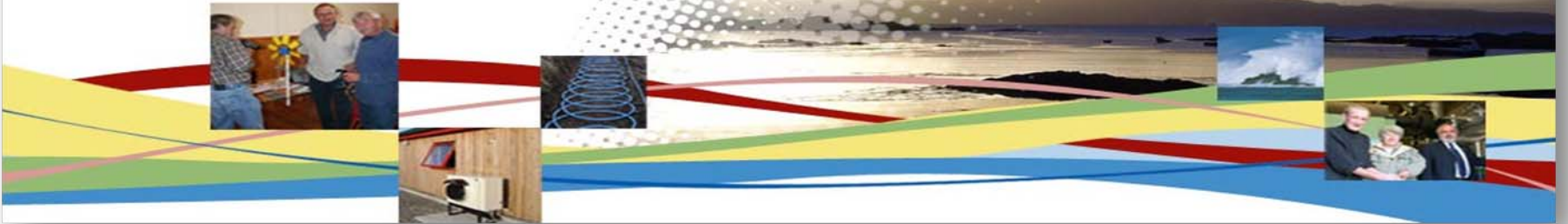
### *2 stories*

- *Westray Renewable Energy Ltd, Orkney – a 5 year story, the last 4 weeks*
- *Averon Leisure Centre, Alness, Highland – ‘More People, More Active, More Often’*

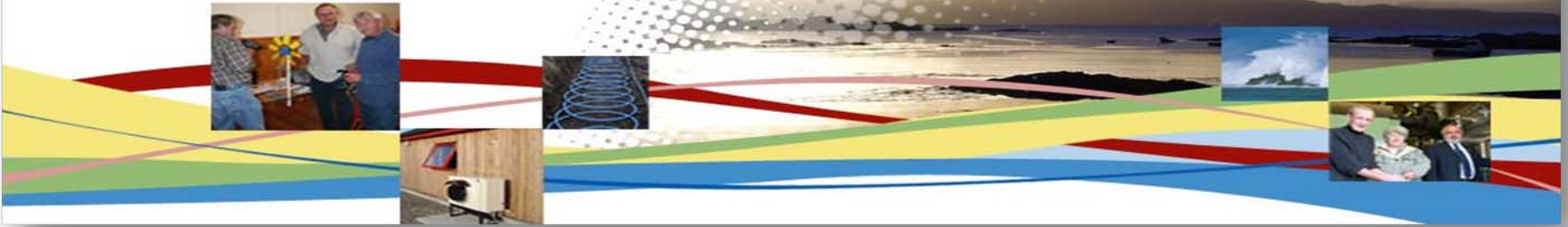
# WESTRAY'S POPULATION

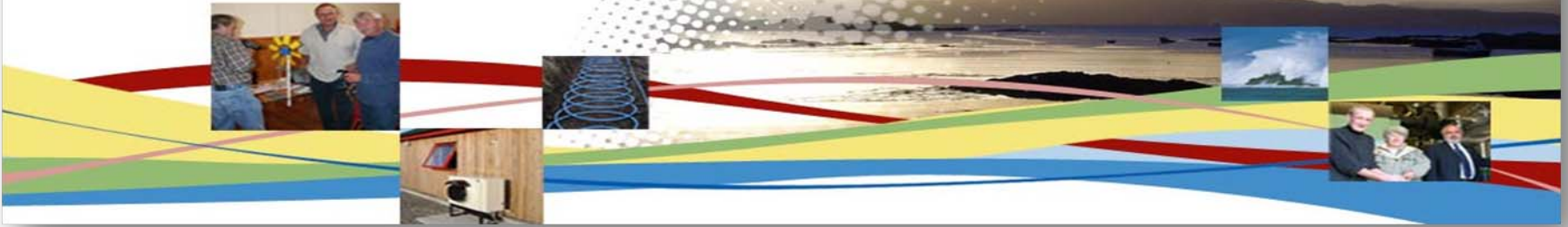


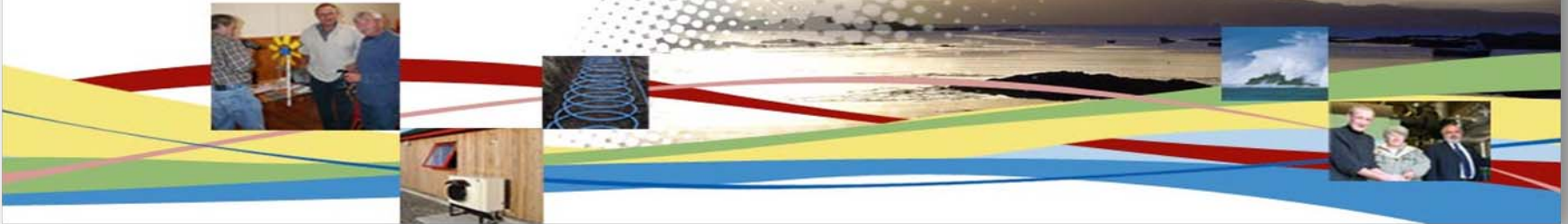












900kW

£300k gross income  
pa

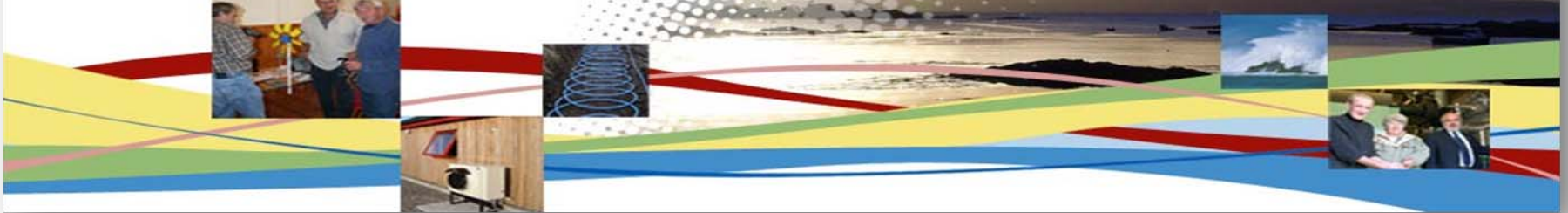


CES: Advice  
Funding  
Strategic action  
Friend

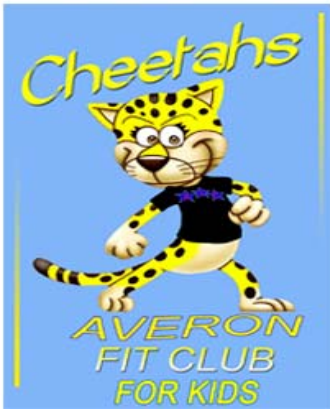


**Community Energy Scotland**  
Cumhachd Coimhearsnachd na h-Alba



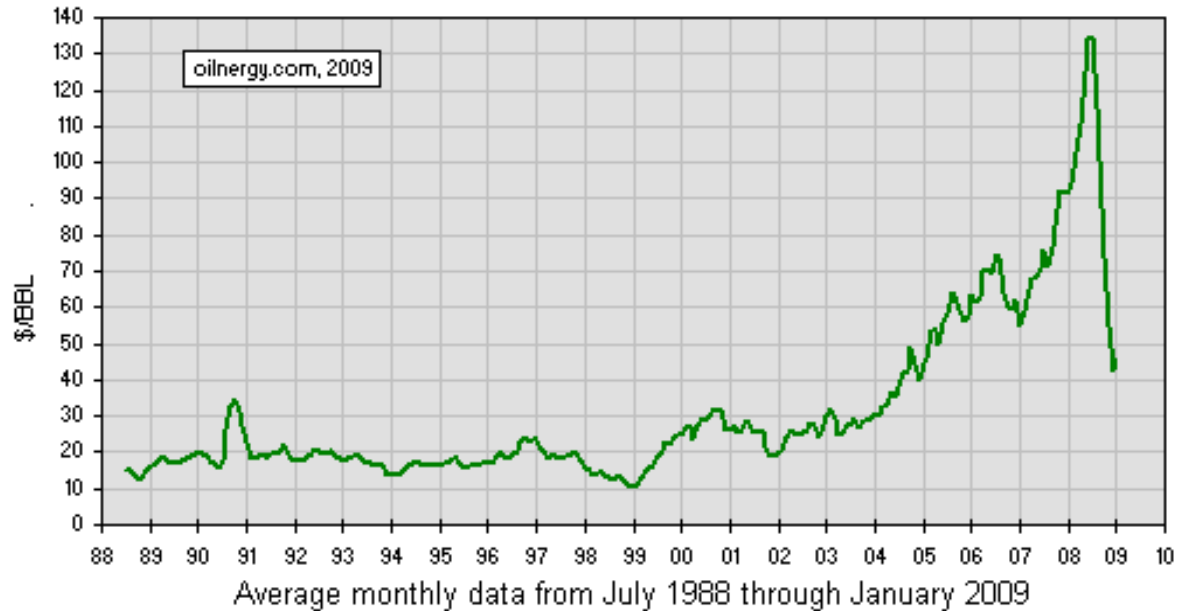


NEW NEW NEW



Heated by oil – 300kW boiler

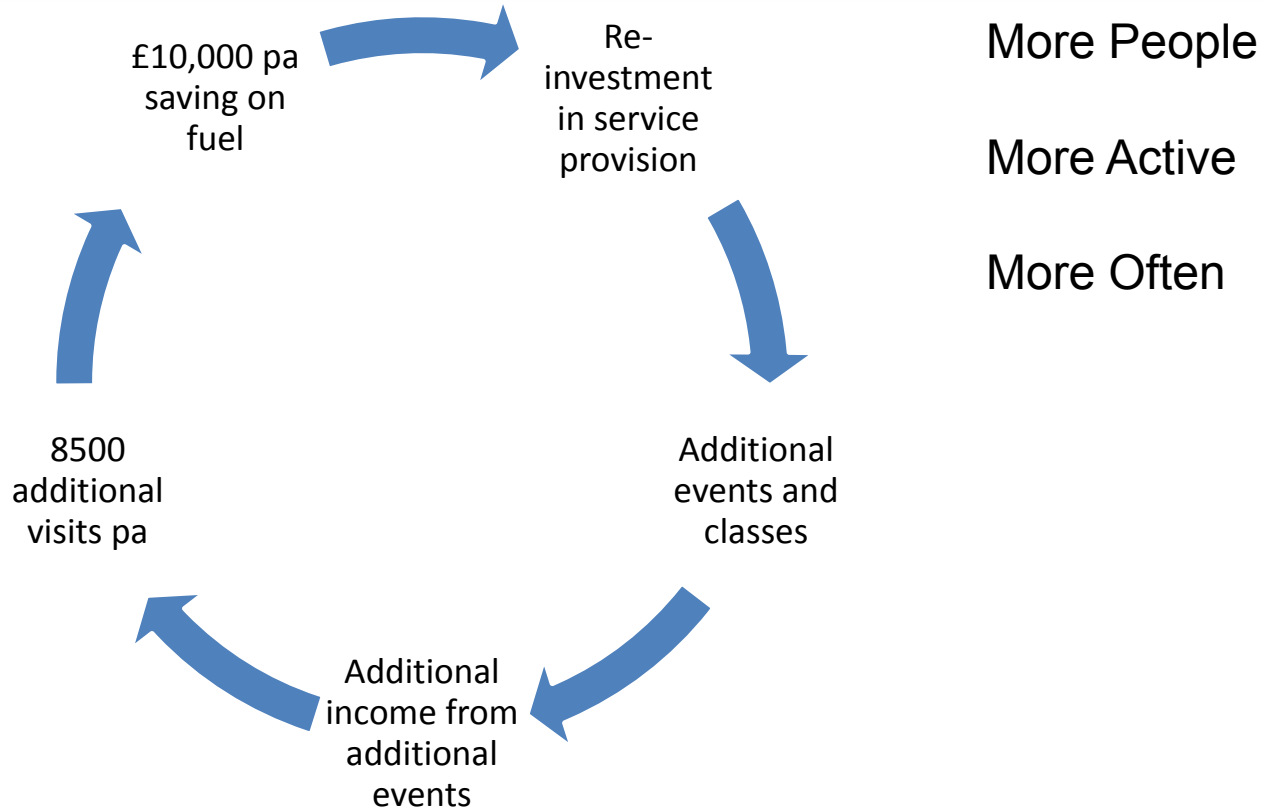
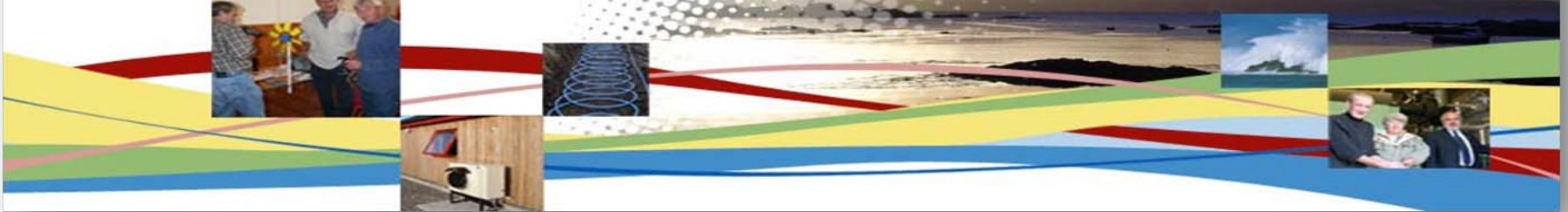
**ICE Brent Crude Oil Closing Price** (begin July 1988)





**Community Energy Scotland**  
Cumhachd Coimhearsnachd na h-Alba

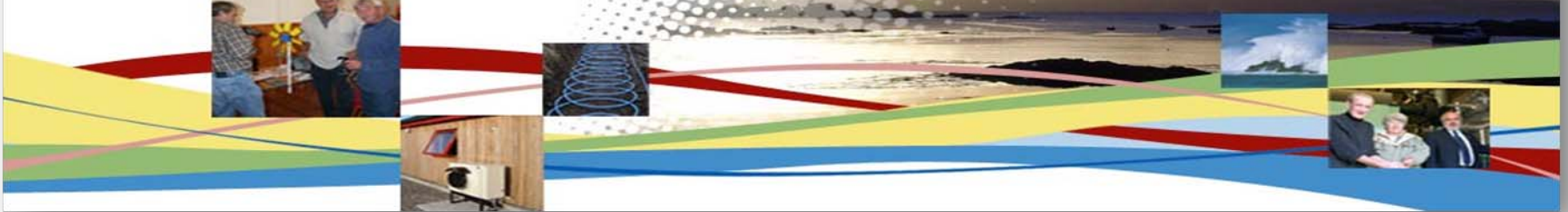






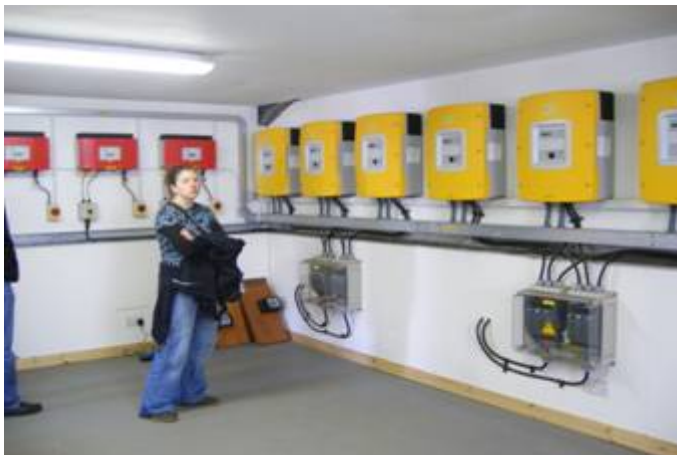
## Why change...?

- constantly growing stream of requests from communities elsewhere in Scotland
- specialised and growing role beyond the role of a public development agency
- a wish to be able to represent a new sector
- a sense that we could make it work and add real value
- realise a vision – empowering communities across Scotland



## Strategy

- Real projects
- Track record
- Market driven
- Policy influence





## Strategy

- set up as independent voluntary body
- start up funding from HIE
- TUPE transfer of all staff – 6 months work
- bid hard for key contracts only – high risk



## Main Commercial Contracts



Scottish Government Community and Renewable Energy Scheme – advice service and grant provision



Highlands and Islands Enterprise  
Advice service and grant provision – project >1MW

Other contracts: Growing Community Assets (BLF), Community Powerdown (Climate Challenge Fund Grant), Scottish Government – Schools Renewables; Scottish Government – Pilot wind project, Registered Social Landlords (grant)



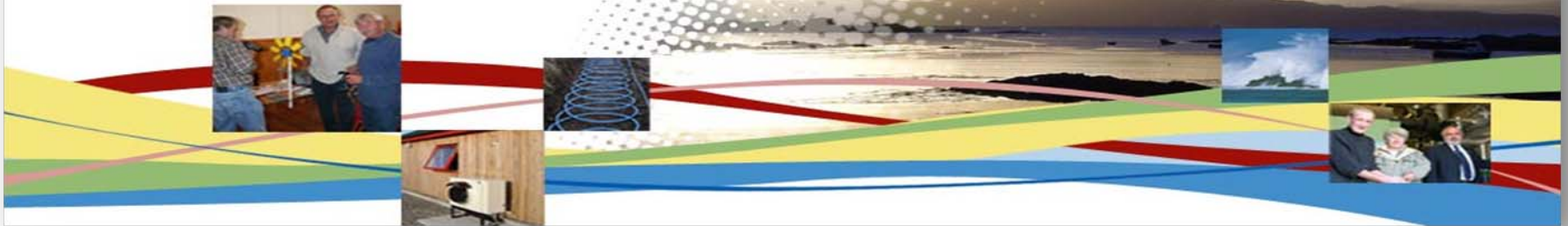
## Business Model

- provision of a free service to the non-profit distributing sector in Scotland
- funded **now** through service contracts
- funded **in the future** through service contracts and revenue-generating energy projects
- forecast turnover 2009-2010 ~ £7.5m including restricted and unrestricted funds
- *core elements: commercial contracts and partnerships*



## Who are we?

- New Scottish Charity, Company Ltd by Guarantee + trading company
- *To build confidence, resilience and wealth at community level in Scotland through sustainable energy development*
- Membership based – non-profit distributing community groups (80 so far)
- Voluntary Board
- Opened for business August 2008



# The Business of Community Energy Development

*International Social Enterprise Business Models Conference*

Nicholas Gubbins, Chief Executive, Community Energy Scotland

nicholas.gubbins@communityenergyscotland.org.uk

<http://www.communityenergyscotland.org.uk>

Scottish Charity Number: SC039673



## Main Partnerships

- deep and lasting relationships with client groups, tend to be incremental – building capacity and enthusiasm
- growing partnerships with some strategic bodies with complementary, not competitive purposes (eg Development Trusts Association Scotland)
- discussion with energy utilities
- some possible joint ventures



## Trading Company - revenue generating energy projects

- wind and hydro projects
- 10MW
- £350k development cost
- £16.6m capital cost
- 30% equity / 70% debt
- £776k net revenue during loan period (10 years)





## What we have learned

- we were lucky to be able to play a role in setting a new agenda – community renewables
- committed and enthusiastic staff required
- need to be v adaptable : respond quickly to opportunities
- procurement process for contracts – v challenging: plan for more time than expected
- we are only just starting out.



## Future Directions

- 1000s of 'distributed' community energy projects
- potential for significant independent revenue
- potential for CES to fund its own (free?) service over the long term
- potential for JVs, partnerships to help underpin community and social enterprises