



Tools for Trading

Funding and Finance Toolkit 2



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About the Funding and Finance Toolkit Series

The *Funding and Finance Toolkit Series* has been designed to provide practical checklists, templates and exercises to help frontline Voluntary and Community Organisations (VCOs) improve their funding and finance for long-term sustainability. The exercises and templates can be completed by frontline VCOs independently or in conjunction with in-put from a Council for Voluntary Service (CVS) or other support-agency-based advisor who can help organisations consider their options and can signpost to further support where necessary.

The *Toolkits* are companion publications to the *Introductory Pack on Funding and Finance* and aim to complement it. The *Pack* provides information on key areas of voluntary sector funding and finance. The *Toolkits* provide supporting exercises and templates to help organisations put ideas into practice. There are four sections, each relating to an income generation topic covered in the *Introductory Pack*:

- Fundraising
- Trading
- Procurement and Contracting
- Loans and Other Forms of Finance

Two additional resources related to the *Toolkit Series* are the pocket guide, *Introducing Funding and Finance for Voluntary and Community Organisations* and the *Sustainable Sun Needs-Analysis Tool*. These are first-step awareness-raising tools designed to alert new, small and less-well-resourced VCOs to the funding environment and to highlight where development work may be needed to improve their place within it. They are appropriate for organisations not yet ready to engage with the exercises included in the *Toolkits* or the *Introductory Pack*.

The *Introductory Pack*, *Toolkit Series* and related resources were commissioned by the Finance Hub from NCVO's Sustainable Funding Project.

Copies of all these resources are available from both the Finance Hub and NCVO's Sustainable Funding Project. They can be downloaded from the Finance Hub website at www.financehub.org.uk or NCVO's website at www.ncvo-vol.org.uk/sfp/Introductory-Pack

About the author

Jim Brown works for Baker Brown Associates, a research and development co-operative based in Bristol, which specialises in the social economy and lifelong learning. Jim has worked in the social economy sector for over 25 years, during which time he has written numerous training manuals and books, the most recent being *Co-operative Capital*, a guide to equity finance for co-operatives and social enterprises. Baker Brown Associates was responsible for researching and writing the national occupational standards in social enterprise business support and development, and is currently working with Social Enterprise London to turn these standards into a series of nationally recognised qualifications in partnership with the Institute of Leadership and Management.

For more information see:
www.bakerbrown.co.uk

Toolkit authors, contributors and advisors

The *Toolkit Series* 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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How to use this Toolkit

Who should use the Toolkit

These Tools have been designed with the aim of providing funding advisors (e.g. an advisor based within a CVS or other support agency) with a series of templates, checklists and exercises they can either work through with, or copy and hand out to, clients based on what support the advisor feel is needed.

VCOs can use the Toolkit independently, but best results will be achieved by working in tandem with an advisor who can provide additional support or advice where appropriate.

The Tools are best used by a group of stakeholders from within a VCO. Each Tool gives an indication of who should get involved for guidance, but this may vary between organisations.

Structure of the Toolkit

Each *Toolkit* contains Tools of varying levels of complexity. These are designed to build upon and complement the Tools and information included in the associated guide from the *Introductory Pack on Funding and Finance*. Some Tools are equally relevant to a number of income generation areas (e.g. developing a business plan). It is therefore useful to be aware of all the Tools available and to mix and match where appropriate. A complete list of the Tools contained within the *Introductory Pack* and *Toolkit Series* is available at the end of this document for reference.

Choosing Tools

The Tools that are most relevant to a particular organisation will depend on how familiar it is with the individual topic, the development stage it has reached, and the commitment it wishes to make in moving forward in that area.

The three Tool levels are:

Level/Symbol	Overview
Introductory 	Suitable for new organisations or for those getting to grips with a new area (e.g. contracting). Designed to help VCOs gain an understanding of the area (e.g. preliminary checklists or exercises to gauge whether an income stream is suitable).
Intermediate 	Suitable for organisations wanting to explore a topic further. Designed to help organisations get started in the topic area.
Advanced 	Suitable for organisations wishing to seriously explore a topic or income stream further. Activities requiring some time and resource commitment from an organisation. May be best used in conjunction with input from a funding advisor.

Each Tool level is indicated by the icon at the start of the Tool and highlighted in the reference list at the end of this document.

Intermediate and advanced-level Tools

These Tools use a design based on the advice cycle: an action learning approach to advising VCO clients. The overall aim is to equip clients with the skills to achieve sustainable funding for their organisations.

Each Tool is designed to achieve a specific aim and set of objectives. These are stated at the beginning, to set the scene for the three main stages of the advice cycle: planning, action and review.

The **planning** stage focuses on models and methods that can be used to research and explore key issues associated with the highlighted aim and objectives. This leads to the **action** stage, where organisations are required to put their plans into practice, and learn through their experiences. This learning is reinforced in the final stage of the cycle, where the organisation and advisor **review** the outcomes of their actions. Advanced-level Tools also include a case study demonstrating the concept covered in practice.

By engaging in this cycle, organisations will learn from their own actions and experiences, and will develop sustainable funding skills.

Trading in a nutshell

Trading involves considering what goods or services an organisation might charge for to generate income. This might include selling publications, providing training, renting space, running a transport scheme, offering crèche provision, and beyond. Traded income can be a valuable source of unrestricted, independent income and a real contribution to supporting organisational independence and growth.

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. Depending on the kind of work they do, some organisations may find it easier than others to develop trading ideas.

Developing a trading idea will almost certainly require some level of investment in resources to enable training for staff, purchase of equipment or materials, and capital to finance the set-up period. Investing in developing new skills for trading can also be more widely beneficial, building capacity and creativity throughout an organisation. Organisations typically finance this and other investment needed to begin trading through one-off grants, loans or organisational reserves.

Any organisation can trade, what varies is the scale, scope and nature of the product or service sold. Trading can be small-scale (e.g. selling posters or education packs), or large scale (e.g. setting up a separate trading arm to manage a consultancy or training service). The key to success is identifying a potential market and a product that people will purchase. Ideally, VCOs considering trading should focus on their social purpose and pursue a form a trading which allows them to make money, whilst also contributing to meeting their mission.

Further detailed information on trading is available in the *Introductory Pack Guide to Trading* which is the companion publication to this Toolkit. The guide is available at www.financehub.org.uk and www.ncvo-vol.org.uk/sfp/Introductory-Pack

Note on earning

Earning income (sometimes referred to as 'social enterprise' activity) is an important source of funding for the UK voluntary and community sector. Earning can come from 'trading' (selling on the open market) or 'contracting' (tendering to deliver goods and services under contract). This *Toolkit* relates to trading, but many of the Tools are equally relevant to VCOs considering delivering services under contract. Further Tools specific to contracting can be found in *Tools for Procurement and Contracting* also part of the Toolkit Series and also available from the above websites.



Tool 2.1 – Exploring attitudes to enterprise

Aim

Attitudes to trading amongst a VCO's staff, volunteers, Trustees and other stakeholders are explored.

Objectives

- VCOs considering trading establish whether internal work needs to be done to convince stakeholders of the benefits.
- VCOs understand the potential cultural challenge and change involved when starting to trade.

When to use

Useful for VCOs considering developing a trading idea for the first time. Ideally used with all internal stakeholders.

How to use

VCOs considering earning income from trading need to ensure the whole organisation supports the idea. This exercise will highlight colleagues' assumptions, hopes, ambitions and prejudices in relation to trading and may highlight groundwork needing to be done before a VCO can start developing a trading initiative.

Copy-out the words below on separate pieces of card. In a group (this might be with Trustees, CEO, staff, volunteers or beneficiaries, together or separately, in a single session or several) ask everyone to very quickly sort the cards into those they feel happy with and those that cause them discomfort or hesitation. Spend around 30-40 minutes discussing the reasons behind people's thinking.

- Some people will agree, others will have differing views.
- The point is for everyone to understand the importance of shared belief and support for developing new initiatives – different views may exist, the key to discovering if trading will work for an organisation internally is to find out if objections can be overcome and new working methods adopted.
- Typically people fear change, not the end in itself, so discussing views openly and providing information where needed to help people understand what it is the VCO wants to achieve can help get people on board.

Risk	Competitive	Competition	Profit
Opportunity	Price	Business	Afford
Undercut	Expensive	Income	Investment
Spare cash	Exploit	Mission	Assets
Win	Capital		



Tool 2.2 – Peer-learning for trading activities

Aim

VCOs learn from the experiences of others about associated costs, benefits and how to pursue new trading activities.

Objectives

- Links are established with an organisation already engaged in a trading activity similar to that being considered by a VCO from which it can learn.
- A shortlist of promising trading activities is drawn up.
- VCOs are ready to undertake feasibility studies of promising trading activities.

When to use

An inspiring activity for VCOs interested in developing a trading idea which encourages them to learn from others. Depending on organisation size, this peer-learning approach can involve several staff or the whole organisation.

How to use

1. Planning

- Consider the benefits of visiting a similar organisation that has already developed successful trading activities (e.g. learning what pit-falls to avoid, what good practices to replicate).
- Working together, VCO and advisor should draw up a shortlist of potential host organisations from which the VCO could learn (these could be local, inspiring organisations etc.). Advisors may need to alert under-networked organisations to potential hosts or suggest trading areas to research.
- The VCO should then conduct background research into each organisation, identifying what trading activities have been developed and prepare a summary description of each short-listed organisation.
- Use the descriptions to select one or two potential host organisations.
- Ensure a visit is realistic (i.e. how far away is the host? Can travel costs be met? Is the potential host happy to receive a visit?) and if so, make arrangements for the visit.

2. Action

- Plan for the visit by drawing up a list of questions to help the VCO investigate the host organisation's trading activities.
- The **Trading activities questions sheet** can be used to identify the subject areas the VCO wants to investigate, and to record questions.
- Discuss how the VCO will capture and record their thoughts and experiences during the visit.

- Funding advisors should make arrangements for a review meeting with the VCO for after the visit.
- After the visit, the VCO should thank the host organisation and provide any feedback they have requested or may welcome. If the host is happy to provide further occasional mentoring support then follow up.

3. Review

- Review the visit using the **Trading activities analysis sheet** to examine the trading activity, identifying any good practices or potential pit-falls.
- Discuss how the VCO could replicate or even improve upon the good practices they identified, and how they could avoid the potential pit-falls. Decide which, if any, of these trading activities are viable options for the organisation.
- Based on the information gathered, the VCO should draw up a shortlist of potentially viable trading activities which they can then investigate further through feasibility studies.
- To develop further see:
 - **Tool 2.5 – Feasibility Studies.**

Materials

Trading activities questions sheet

VCOs will get the most out of a visit if they consider what questions they want to explore in advance. Drawing up a list of questions like the one below can be helpful. The examples below are given for guidance and should be adapted and supplemented according to the trading activity to be investigated. If more than one activity is to be explored, complete a separate sheet for each one.

Trading activity:	
Issues to investigate	Questions to ask (record below)
Product/service design and development	What were the origins of the idea? What are the special design features? Have any modifications been made since launch – if so why were they needed?
Finance	What were the start-up costs? How were these financed?

Trading activity:	
Issues to investigate	Questions to ask (record below)
Marketing	What were/are the main sources of competition? How were prices determined?
Workforce skills and development	What skills and training have been required?
Operational practices	What equipment is needed? What staffing levels have been required – are staff paid or volunteers?
ICT requirements	Did the project need a customer database or website?
Management and governance	Did the VCO create a trading subsidiary? What was the reaction of trustees to trading?
Alignment with social objectives	How did the VCO ensure the service or product was affordable for all users?
Other issues	

Trading activities analysis sheet

After the visit has taken place, complete the sheet below to analyse the answers received to the trading activities questions and any other information or advice gained. This will highlight good practices which can be replicated and pit-falls to be avoided.

Trading activity:	
Good practices	Potential pit-falls
Product/service design and development	
Finance	
Marketing	
Workforce skills and development	
Operational practices	
ICT requirements	
Management and governance	
Alignment with social objectives	
Other issues	

Further resources

Only Connect is a bursary scheme to encourage VCOs to visit other VCOs that have already developed trading activities. The scheme is managed by NCVO's Sustainable Funding Project and sponsored by Triodos Bank. The scheme pays travel expenses of up to £100, and pays host organisations a £150 consultation fee for their time spent with the visitors. The visiting organisation is asked to write a short report about the visit to allow others to learn from their experience.

For further information see: www.ncvo-vol.org.uk/sfp



Tool 2.3 – Establishing an enterprise team

Aim

VCOs establish an internal group of stakeholders to champion and take forward a trading idea.

Objectives

- VCOs establish who internally is responsible for developing a trading idea.
- VCOs dedicate staff-time and resources to developing a trading idea.
- VCOs establish what entrepreneurial skills they have in-house and what additional skills may need to be sourced (e.g. from consultants, new Board members, business support specialists).

When to use

An early-stage exercise for VCOs that want to move forward in developing a trading idea.

How to use

1. Planning

- It is crucial, when starting to pursue a trading idea, for a VCO to dedicate time and resources to development and it is important that funding advisors alert organisations to this.
- An important starting point is to establish who within an organisation will be responsible for taking forward a trading idea. This may be one or several individuals, depending on the size and scope of the activity a VCO wishes to develop.
- For large-scale projects, development will require much input and involve many people, so it is useful for those responsible to have a broad spectrum of skills and experience. Key tasks will include:
 - Generating and researching ideas for trading.
 - Carrying out feasibility studies before selecting what idea to pursue.
 - Writing a business plan.
 - Obtaining finance if needed.
 - Implementing the project.

2. Action

- Working together, advisors and VCO should discuss the idea of establishing an in-house 'enterprise team', with responsibility for developing new trading activities.
- Discuss who should be recruited to join this team. Depending on the size of the VCO, it should include people from the Board/committee, senior managers, front-line staff, volunteers and service users (Ideally no more than around six people).
- Discuss whether it is possible to recruit someone with experience of establishing and running a business.

- If assistance is needed in helping the VCO consider what skills are needed, see:
 - ***Introductory Pack Guide to Sustainable Funding: Tool – Organisational capacity and capability grid and Tool – Skills/knowledge audit.***
- The VCO should subsequently take steps to establish an enterprise team.

3. Review

- The newly formed enterprise team should be encouraged to devote its first meeting to completing ***Tool 2.4 – Cultural shift*** to establish the basis for any future trading activity.



Tool 2.4 – Cultural shift

Aim

VCOs identify enterprising characteristics they would like to incorporate into their own trading initiatives and consider how this might be achieved.

Objectives

- VCOs reconcile any potential tensions between entrepreneurial attitudes and social mission.
- VCOs establish objectives for any new trading activity.

When to use

For VCOs that are ready to start developing a trading idea and want to establish clear objectives for the new enterprise.

How to use

1. Planning

- Ensure the VCO has established an internal enterprise team responsible for developing a trading idea. For further information see:
 - **Tool 2.3 – Establishing an enterprise team.**

2. Action

- Working with a funding advisor and at a first or early stage meeting of a newly formed enterprise team, the team should consider what successful businesses they know something about or admire. These could be local, high profile, national or international, socially driven or purely commercial etc. Advisors may need to make some suggestions.
- Select one or two businesses from those suggested that all or most team members have some knowledge of.
- Use the **Business profile sheet** to develop a profile of the selected business(es) based on shared knowledge and opinions.
- Use the **Enterprising characteristics sheet** to list the top ten enterprising qualities of the selected business(es), drawing on the evidence provided by the business profile.
- When this list is complete, ask the team to consider each quality in turn, discussing whether their organisation should aim for, avoid, or adapt it in some way within their own trading initiative.
- Where the team wishes to adapt a quality, consider how they will align this with the VCO's social mission. What are the implications of these enterprising qualities for their organisation? How much of a cultural shift would be involved in adopting or adapting these enterprising qualities within their organisation?

3. Review

- The enterprise team should review the cultural shift exercise by reflecting on their analysis of the selected business, and the implications they identified for their own organisation.
- Arranging a follow-up review meeting with an advisor can help VCOs objectively assess the points, ideas and issues raised by the exercise.
- The team should draw up a set of enterprise objectives for themselves. These should include what the team is trying to achieve and the changes in culture and attitudes this might require. Ensure the objectives describe measurable criteria for success.

Materials

Business profile sheet

Business name, plus brief description	
Public image of the business	
Reputation of its founder or chief executive	
Attractive products/ services design features	
Lasting qualities of its products or services	
Pricing strategy	
Image conveyed through advertising and marketing campaigns	
Reputation as an employer	
Involvement in community affairs	

Enterprising characteristics sheet

Top ten enterprising characteristics of selected business	Aim for, avoid, or adapt this quality?	Implications for the enterprise team/ Actions for VCO
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

Further resources

Pro-help is a national network of over 1,000 professional firms who give their time and expertise for free to local community groups and voluntary organisations. The network is managed by **Business in the Community** a business-led charity whose purpose is to inspire, engage, support and challenge companies, to improve the impact they have on society. See www.bitc.org.uk

Common Purpose is a national organisation that runs programmes bringing together public, private and voluntary sector leaders to develop partnership solutions to community issues. See www.commonpurpose.org.uk



Tool 2.5 – Feasibility studies

Aim

VCOs identify relative strengths of each proposed trading activity under consideration and identify a viable option for development.

Objectives

- VCOs identify resource needs for developing proposed trading activities.
- Potential competitive advantages of a VCO are checked.
- Trading competencies of the VCO are reviewed.
- Feasibility studies are completed for proposed trading activities.
- VCOs select a suitable trading idea to develop.

When to use

A decision-making tool to help VCOs identify the most suitable trading activity for them based on resources, in-house capacity and overall objectives.

How to use

1. Planning

- Feasibility studies using this tool will normally take about a week to complete. However, if as part of the assessment the VCO needs to undertake additional research (e.g. user focus group) it may take several weeks.
- As part of the assessment VCOs and advisors should consider and discuss options to obtain additional skills and resources if necessary. Specialist business skills can be useful for objectively assessing ideas and may also be valuable in supporting the subsequent development of a business plan. This might include using external business support agencies, volunteers, or business students.
- The VCO should have identified at least three, and up to five, potential trading activities it wants to assess through feasibility studies. Having more than one will enable a VCO to consider all available options before committing whole-heartedly to one single course of action.

2. Action

- Identify who will be responsible for carrying out each feasibility study. This could be VCO staff independently or working in conjunction with a funding advisor and/or business advise specialist.
- Read through and consider the **Four 'C's' information sheet for feasibility studies** to understand the areas which need to be investigated.

- Use the **Feasibility study question sheet** to draw up a common set of questions that will be addressed by the feasibility studies, ensuring this is achievable within the available budget and timescales.
- It is important to stick to a common set of questions and reporting format for assessing each trading option. This will make comparisons easier.
- Agree a deadline for completion and review of the feasibility studies.

3. Review

- A review meeting between advisor and VCO should be arranged for when the VCO has completed all the feasibility studies.
- Working together, advisor and VCO should use the **Feasibility study review sheet** to rate each proposed trading activity.
- Discuss the relative merits of the highest rated trading activity. The VCO should then agree which of the proposed trading activities it wants to take forward to the next stage: preparing a full business plan.

Materials

Four 'C's' information sheet for feasibility studies

Customers – Identifying customers for a product or service is a vital first step in any feasibility study. It is important to understand what they want from a product or service and whether there is sufficient demand (both in terms of number of potential customers and whether demand will be ongoing). VCOs providing public services should distinguish between the needs of service users and any purchasing body. Providers also need to understand how relationships between purchasers, service users, and themselves will work. In a market environment, showing there is need for a product or service is not sufficient; it is also necessary to find a purchaser willing to pay for it. The best way to find out what customers want, be they purchasers or users, is to ask them, by conducting meetings, interviews, focus groups or quick surveys.

Competitive advantage – If there is a viable market for a product or service, there will almost certainly be competition for this market. Developing a unique selling point or 'competitive advantage' is key to the feasibility and longer-term sustainability of any trading activity. There are seven main sources of competitive advantage for VCOs. For information on these see:

- ***Introductory Pack Guide to Trading: Tool – Developing a competitive advantage.***

Use this tool to identify potential sources of competitive advantage and to consider how to strengthen these advantages.

Cash-flow – The two issues to address here are:

- **Long-term** – will the product or service fully recover all the costs that can be attributed to it, and even generate a surplus?
- **Short-term** – will the VCO be able to cope with the cash-flow needed for that product or service (e.g. to avoid running out of cash or being unable to pay its bills)?

Different product or service markets will have different cash-flow profiles. Some services will involve large initial investment and cash outflows before the VCO starts trading and receives an inflow of cash (e.g. a community café). Other services might require little or no initial investment but involve trading in an area where purchasers take a long time to pay. This can place a strain on cash resources if other more immediate cash demands have to be met (e.g.

wages). For further support to help VCOs develop and evaluate a cash-flow budget for any proposed trading activity see:

- ***Introductory Pack Guide to Financial Management: Tool – Example cash-flow budget.***
- ***Tools for Loans and Other Forms of Finance: Tool 4.2 – Assessing Finance Needs.***

Competencies – Has the organisation got the competencies required to operate in the proposed area of trade? This question is often overlooked and can be something a VCO finds it difficult to be honest and objective about, but it is central to the success of any trading activity. High quality products and services can only be produced by highly competent staff working with the right tools, and following the right procedures. It may be possible to recruit people with the requisite skills, but this will require investment. It can also take time to gain the necessary trade experience, and to get operating procedures in place. These resource needs and associated delays need to be factored into the cash-flow calculations. For further support to help VCOs consider in-house skills and where they may need to undertake training or recruit new staff, volunteers or Trustees see:

- ***Introductory Pack Guide to Sustainable Funding: Tool – Organisational capacity and capability grid and Tool – Skills/Knowledge audit.***

Feasibility study question sheet

The sample questions are provided for guidance. These should be used as a starting point for drawing up a more comprehensive list of areas to investigate.

	Sample questions
Description of the product or service	What are the key characteristics of the product or service?
Customers	Who are the potential customers? Are the purchaser and the user the same person? How large is the target market and what are its key characteristics? What do customers need, want, expect?
Competitive advantage	What are the best sources of competitive advantage in this market? Who are the main competitors? What are their strengths and weaknesses? What trends are affecting this market?
Cash-flow	How much initial investment is required? What turnover is required to break even? How profitable will this activity be over the next 12 to 24 months? What are the cash-flow requirements?
Competencies	Has the VCO got the skills, knowledge and experience needed to trade in this area? Has the VCO got the appropriate resources (e.g. tools, equipment) and systems in place (e.g. financial management procedures)? How easy/difficult/expensive will it be to acquire the necessary competencies?

Case study: Business Plan Test

Link Mediation

Link Mediation helps people resolve disputes. It works in neighbourhood, workplace, school and family settings, providing an independent, impartial and confidential service. It employs four part-time staff supported by a team of 12 freelance sessional workers. In the year ending March 2006 its total income was £128,000; almost double its turnover for the previous year, and more than six times its income six years ago. They attribute their growth to three things; the introduction of business planning, the adoption of a business model and the development of paid work teams.

Graham Moors, CEO, says 'in the past we were too focused on trying to secure funding and worrying how we were going to meet our core costs. We decided to adopt a different approach, to 'sell' services which people wanted rather than seek funding to do what we wanted. We now cover our costs through our charges for delivering services.'

When the organisation was four years old it successfully applied for funding to hire a consultant to help them develop a business plan. Graham, then the only paid worker, explains: 'The business plan took about three months to complete. We had four days with the consultant. We parceled up different parts of the plan between management committee members and myself and worked on drafting these sections between the sessions with the consultant. To do this you have to set yourself deadlines, otherwise it's the kind of thing that you could do for many months. There is a temptation to be a perfectionist – you really have to try to avoid that.'

'Looking back on it now, I think a business plan is essential for any voluntary organisation. I used to see them as quite dry and tedious documents, but now I understand the value of planning for the future. It has enabled us to be proactive rather than simply reactive.'

Case study: Feasibility Studies

Bromley Voluntary Sector Trust

Bromley Voluntary Sector Trust (BVST) is a registered charity set up by five voluntary organisations in Bromley to provide themselves with fully accessible premises in the town centre. The lead partner in this initiative was Community Links Bromley (a CVS), which applied for funding and managed the project until BVST was established. The other partners are Age Concern Bromley, Citizens Advice Bureau, Relate and Deaf Access. All five partners previously occupied separate council buildings.

The partnership was formed in 1998, and work began on refurbishing an old council building one year later. This was reopened as The Community House in October 2000. Almost £1.4m was spent on the building, funded by the Community Fund (now Big Lottery Fund), the local council and the Bridge House Trust. As well as providing accommodation for the five partners, the building is home to a community café, meeting rooms and additional office space, which were all intended to generate additional income for BVST.

The additional office space contained 14 desks which were available for hire on a daily basis. The idea was to provide facilities for new and embryonic groups in Bromley which needed a space to get established. There was enthusiastic support for the idea at the planning stage, but nothing was done to test the feasibility of the idea. As it turned out, uptake of the desk hire facilities was very poor. In 2004 Bridge House Trust funded consultants to investigate the problem. They discovered that the target audience for desk hire, small voluntary and community organisations, preferred to locate outside of the town centre, and closer to the communities they served. With the benefit of hindsight, it would have been better to have conducted a feasibility study of the idea at the planning stage. The investigation in 2004 helped BVST refocus their use of this office space, resulting in fuller lettings. Combined with higher usage rates of the meeting rooms, particularly in the evenings and at weekends, BVST was able to generate sufficient income to cover the cost of a business manager plus part-time administrative support, which had previously been funded by grants.

Further resources

Trainers and Consultants Direct is an online database managed by the National Association of Voluntary and Community Action (NAVCA). It lists over 200 trainers, consultants and project managers, including over 40 people who identify feasibility studies as an area of expertise. See www.trainersandconsultantsdirect.org.uk

Cultivating Enterprise is a resource pack developed by the Development Trusts Association (DTA) to help guide VCOs through the stages involved in setting up a new enterprise. To order a copy see the publications section of their website at www.dta.org.uk



Tool 2.6 – Business plan test

Aim

VCOs have confidence in the quality of their business plan and feel able to communicate it to others.

Objectives

- VCOs ensure that their commercial and social objectives are aligned in any business plan.
- A VCO's business plan is tested for coherence and completeness.
- A summary presentation of the business plan is produced.

When to use

Suitable for testing any business plan, whether for trading, funding applications, or any other purpose. Especially useful for VCOs preparing a plan for new trading initiatives because they will almost certainly need to present it to stakeholders, potential investors and other external agencies all of whom will rigorously examine proposals.

How to use

1. Planning

- This exercise will help VCOs prepare, test and improve their business plan before presenting it to other potential stakeholders, such as funders, customers, purchasers or investors.
- The VCO should prepare a draft business plan for their proposed trading activity. To help VCOs in the preparation and production of a business plan, see:
 - **Introductory Pack Guide to Sustainable Funding: Tool – Business Plan.**
- Working together, advisor and VCO should review the **4 Ms business plan test sheet: Mission, Money, Management and Methods**. These are the sort of questions the VCO might be asked in face-to-face meetings with potential stakeholders.

2. Action

- Working together, advisor and VCO should discuss the following three options for applying the 4 Ms business plan test, and choose one to try out in practice:
 - 1) Review the completed business plan using the 4 Ms business plan test as a checklist. Identify:
 - Which questions are directly answered by the business plan.
 - Which are not addressed by the business plan but can be answered by the clients verbally.
 - Which questions are not addressed by the business plan and cannot be answered by the clients.

- 2) The VCO prepares a ten-minute presentation of their business plan, addressing as many of the questions raised by the 4 Ms business plan test as possible. Make this presentation to a friendly audience and request feedback.
- 3) VCO representatives divide into two groups. One group prepares questions to ask the other, based on those listed in the 4 Ms business plan test. Include new questions related to the same areas. Allow 15 minutes for the preparation, followed by 15 minutes of questions and answers. Reverse group roles if there is sufficient time.

3. Review

- Review the outcomes of the 4 Ms business plan test. Discuss what changes (additions, deletions or amendments) the business plan requires to enable the VCO to answer all the questions raised. Discuss what further preparations (e.g. additional research, stronger emphasis on particular areas in the plan) need to be made before presenting the business plan to potential stakeholders.

Materials

4 Ms business plan test sheet: Mission, Money, Management and Methods

Mission

- What is unique and special about this new business activity?
- Who will be the main beneficiaries of this new activity?
- What needs will the new product or service satisfy?
- How will the new business activity enhance the social purpose of the organisation?
- What will the new business become known for?
- How is the new product or service better than competitors' products or services?
- What evidence will be used to show that the new business activity is a success?
- What impact will this new activity have on the local community and the environment?

Money

- How much will the new product or service cost?
- Who will pay for it?
- How much initial investment is required?
- How much money could the new activity lose?
- Where will the initial investment come from?
- How will this initial investment be rewarded?
- How will other stakeholders be rewarded?
- How long will it take for the new activity to break even?
- How much income will the new business generate?
- How much profit will it make?
- What will it do with its profit?

Management

- Who is responsible for implementing the business plan?
- Who will be responsible for winning new business, contracts and customers?
- Who is accountable if the business doesn't go according to plan?
- Who are the important stakeholders in this new activity?
- How will stakeholders have a say in the development of the new activity?
- What experience does management have of launching new businesses?
- Who has already pledged support for the business plan?
- What management information systems will be used?
- How will the business performance be monitored?

Methods

- Who will work in this new business activity?
- What skills will they need?
- What technologies will be employed?
- What will be done to ensure a quality product or service?
- How will work methods be monitored and improved?
- How long will it take to get the new business activity up and running?
- What are the most critical tasks in establishing the new business?
- What indicators will be used to measure social impact?
- What actions will be taken if things don't go according to plan?

Case study: Business Plan Test

Link Mediation

Link Mediation helps people resolve disputes. It works in neighbourhood, workplace, school and family settings, providing an independent, impartial and confidential service. It employs four part-time staff supported by a team of 12 freelance sessional workers. In the year ending March 2006 its total income was £128,000; almost double its turnover for the previous year, and more than six times its income six years ago. They attribute their growth to three things; the introduction of business planning, the adoption of a business model and the development of paid work teams.

Graham Moors, CEO, says 'in the past we were too focused on trying to secure funding and worrying how we were going to meet our core costs. We decided to adopt a different approach, to 'sell' services which people wanted rather than seek funding to do what we wanted. We now cover our costs through our charges for delivering services.'

When the organisation was four years old it successfully applied for funding to hire a consultant to help them develop a business plan. Graham then the only paid worker, explains: 'The business plan took about three months to complete. We had four days with the consultant. We parceled up different parts of the plan between management committee members and myself and worked on drafting these sections between the sessions with the consultant. To do this you have to set yourself deadlines, otherwise it's the kind of thing that you could do for many months. There is a temptation to be a perfectionist – you really have to try to avoid that.'

'Looking back on it now, I think a business plan is essential for any voluntary organisation. I used to see them as quite dry and tedious documents, but now I understand the value of planning for the future. It has enabled us to be proactive rather than simply reactive.'

Further resources

Voluntary Matters 1 and 2 is an online learning resource for the voluntary sector developed by the Media Trust. It has learning activities, case studies, checklists and essential guidance covering four main subject areas: people, money, organisation and message.
www.voluntarymatters1and2.org

The Media Trust helps charities communicate. It does this by encouraging media and communications professionals to volunteer their time and skills. See www.mediatrust.org

Directory of Tools

Further Tools in addition to those contained in this document are available in the other Toolkits in the series and in the accompanying *Introductory Pack on Funding and Finance*. Details of available Tools and their location are given below.

The Tools contained in this document are highlighted. Tools included elsewhere which are *directly* relevant to trading are also highlighted for guidance. Those highlighted do not form an exhaustive selection, however, and others may also be relevant depending on a VCO's individual circumstances.

Topic	Tool	Level	Location
Sustainable funding	Summary overview of funding environment with first-step assessment exercises	Introductory	<i>Introducing Funding and Finance for Voluntary and Community Organisations</i> pocket guide
	Self-assessment needs-analysis tool		<i>The Sustainable Sun Needs-Analysis Tool for Voluntary and Community Organisations</i>
	SWOT and PEST environmental analyses		<i>Introductory Pack Guide to Sustainable Funding</i>
	Risk analysis		
	Business plan		
	Income diversification diagnostic tool		
	Organisational capacity and capability assessment grid	Intermediate	
	Skills/knowledge audit		
Financial management	Developing a financial strategy	Introductory	<i>Introductory Pack Guide to Financial Management</i>
	Example revenue budget		
	Example cash-flow budget		
	Example monthly budget report		
	Example of fixed and variable costs		
	Example cash-book summary		
	How to do a bank reconciliation statement		
	Example receipts and payments management account	Intermediate	
	Example of how accrual accounting works		
	Example contents of an annual report		
	SORP information required in the annual report		

Topic	Tool	Level	Location
Fundraising	How to prepare and use a Case for Support	Introductory	<i>Introductory Pack Guide to Fundraising</i>
	Fundraising from individuals jargon buster		
	Legacy fundraising jargon buster		
	Deciding who should fundraise		
	Applying to grant-making Trusts and Foundations	Intermediate	<i>Tools for Fundraising</i>
	Raffles and Lotteries		
	Charitable events		
	Hiring a fundraising consultant	Advanced	
Trading	Exploring attitudes to Enterprise	Introductory	<i>Tools for Trading</i>
	Developing an entrepreneurial culture		<i>Introductory Pack Guide to Trading</i>
	Developing a competitive advantage	Intermediate	<i>Tools for Trading</i>
	Deciding where to start		
	Peer-learning for trading activities		
	Establishing an enterprise team		
	Cultural shift	Advanced	<i>Introductory Pack Guide to Trading</i>
	Feasibility studies		
	Business plan test		
	Trading activity development framework		
	Trading subsidiaries checklist		
Procurement and contracting	Contract checklist	Introductory	<i>Tools for Procurement and Contracting</i>
	Is Value Added Tax (VAT) applicable?		
	Identifying likely customers checklist	Intermediate	<i>Introductory Pack Guide to Procurement and Contracting</i>
	Marketing to potential purchasers checklist		
	Making direct contact with purchasers checklist		
	Meeting potential purchasers checklist		
	Deciding whether to bid and what for		
	Checklist for tender preparation	Advanced	<i>Tools for Procurement and Contracting</i>
	Negotiating contracts		
	Working with other VCOs		

Topic	Tool	Level	Location
Loans and other forms of finance	Checklist for loan finance decision-making	Introductory	<i>Tools for Loans and Other Forms of Finance</i>
	Comparison table of grants, debt and equity		<i>Introductory Pack Guide to Loans and Other Forms of Finance</i>
	Preparing a proposal for finance	Intermediate	
	Checklist of information required by finance providers		
	Checklist of investment decision criteria		
	Assessing finance needs	Advanced	<i>Tools for Loans and Other Forms of Finance</i>
	Finance options planning		
	Negotiating finance		
Demonstrating the social value of investment			



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.

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
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Email: sfp@ncvo-vol.org.uk

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March 2007

Charity registration: 225922