

‘Shop for Change’

An Analysis of Trends in Social Enterprise Markets

1.0 INTRODUCTION

During the period January-April 2010 iSE conducted an extensive surveying exercise in which social enterprises and trading third sector organisations were asked to complete a detailed ‘markets and trading’ diagnostic. This is the first time in Birmingham that there has been an attempt to examine in such detail how social enterprises *behave* in the marketplace.

This analysis is based on a sample of 60 out of more than 100 diagnostics completed. The sample captured a representative cross-section of Birmingham’s social enterprises and reflected the diversity of its service and trade sectors.¹

2.0 SOCIAL ENTERPRISE MARKETS

Public sector

The public sector still remains the dominant customer for social enterprises’ services. **83%** of the sample (50 organisations) derives 20%-100% of their income from public sector customers, with 67% dependent on the public sector for 50%-100% of their income.

58% (35 organisations) also want to increase their trade with the public sector, typically by at least 20%, but in some cases by as much as 60%-100%.

Social enterprise remains overwhelmingly dependent on the public sector marketplace and many are looking to increase this as a proportion of their business. This raises serious questions regarding sustainability and growth in a period when the deepest public spending cuts in a generation are anticipated.

¹ The sample included: large community-based social enterprises providing multiple services and products; children and young people’s services; recruitment, employment support and training providers; specialist disability organisations; creative, educational and arts organisations; events management and conferencing; health, social care and welfare services; childcare; HR services; personal development, guidance, advocacy and information; community-based counselling; community transport; textiles/soft furnishings; construction, grounds maintenance, landscaping; and cycle repair.

Private sector

However, social enterprises do already have more private sector customers than might have been imagined to be the case. **50%** (31 organisations) derive some income from private sector customers, but as a proportion of business this remains relatively low – typically 5%-20%, with a peak at about 40% of overall business. There are some exceptions, however. For example, one enterprise (probably the only one in the sample whose business could be said to consist entirely of consumer products) reported that the private sector marketplace accounted for 100% of its business.

Over half the sample (51%) also want to increase their private sector trade – typically by 10%-30% but in some cases by 40%+ and in one case by as much as 200%.

The private sector is not quite the entirely neglected market for social enterprises that might have been anticipated. Clearly some have been innovative in marketing themselves to the private sector, and several report being able to capitalise on major corporates' CSR obligations.

Other social enterprises & the third sector

The big surprise is that **more** social enterprises trade with the private sector than with each other and the wider third sector. Only **42%** of the sample (25 organisations) report trading with the third sector, typically at levels between 5%-70%, but generally less than 50%.

Nor are social enterprises currently looking to change this particularly. Only 31% of the sample (19 organisations) said that they plan to increase trade with the third sector, and this at predominantly quite low levels – typically 10%-30% and in just a few cases by 40%+.

Currently:

- 35% of social enterprises in our sample don't buy any products/services at all from other social enterprises or third sector organisations.
- 45% buy less than 10% of what they need from other social enterprises or third sector organisations.
- 13% buy 10%-30% of what they need from other social enterprises or third sector organisations.
- And only 1.6% buy up to, or more than, 50% of what they need from other social enterprises or third sector organisations.

The key reasons for this are as follows:

- First and foremost, because social enterprise providers of the goods/services required do not exist: there are significant gaps in the marketplace.
- Price is also a factor – 10% said that where appropriate social enterprise providers do exist, they are more expensive than their private sector competitors.
- Quality and convenience are also issues – 13% said that where appropriate social enterprise providers do exist, their goods/services are not of high enough quality, and 13% said it is more convenient to use mainstream, commercial providers.

Social enterprises are being used to provide –

- PAT testing
- Stationery (to some degree)
- Printing
- Room hire
- Consultancy/training
- Business support
- Catering
- HR services
- Accountancy
- Cleaning

– but there are major market gaps, especially in IT support, ethical/environmental office supplies, cleaning and cleaning supplies, landscaping and maintenance, utilities, rental office space, and window cleaning, to name just some areas.

Interestingly, in utilities, such as telecoms, even where a major mutual/social enterprise provider does exist – such as The Phone Co-op – one respondent said they had tried this service and were dissatisfied, which suggests that the service standards of social enterprises *as customers* are also very high.

It must also be acknowledged, however, that some in our sample clearly regard other social enterprises and third sector organisations as *sub-contractor delivery partners* rather than just ‘suppliers’, and this may mask the true extent of inter-trading that does take place.

But it is also significant that in our sample only two enterprises reported developing goods/services whose primary target market is the third sector.

Approaching half the sector buys less than 10% of the goods and services it needs from *within* the sector. There is enormous potential for mutually



beneficial inter-trading amongst social enterprises and the wider third sector, but there are also major gaps in the market – in some cases social enterprise providers of the required goods/services simply don't exist. There are also significant barriers to market entry for new providers in some areas – such as the price, discount, quality and convenience thresholds set by major corporate suppliers.

Government departments

Only **18%** of the sample (11 organisations) do business directly with government departments, and this at levels ranging from around 5%-50% of turnover. This can probably be assumed to be a decrease on previous years, as other research has fairly categorically demonstrated a consistent decline in both the value and number of contracts/commissions directly from government departments. This is probably attributable as much to changes in buying/commissioning practices as it is to declining budgets, however.

Only 10% of the sample (6 organisations) is seeking to increase business with government departments, typically by 10%-25%.

Direct business with government departments is a declining market and even putting aside the current projected cuts in public spending of c.30% is unlikely to offer a route to growth for the sector.

Individuals/consumers

33% of the sample (20 organisations) regard individuals and consumers as an important part of their marketplace, typically at levels below 50% of overall business. Given the predominance of Personalisation and individual budgets one might have expected this to be higher.

Nor are that many in our sample looking to change this. Only 25% (15 organisations) said that they planned to increase their business with individuals/consumers.

Marketing directly to individuals and consumers remains under-explored, although more enterprises do now seem to be facing up to this challenge. For some, there is clearly an issue about how they 'repackage' services so that they are clear, coherent 'products' appealing to the individual consumer as opposed to the public sector purchaser.

3.0 MARKET RESEARCH & MARKETING

There seems to have been a significant shift in terms of social enterprises utilising market research and wider marketing techniques. Four or five years ago it was evident that the sector's adoption of marketing in its widest sense was dramatically lagging behind that of its private sector competitors. This seems to be changing.

A majority of enterprises in this sample are now successfully using all kinds of market research, market feedback and broader marketing and promotion techniques to promote their businesses, make contact with new customers and identify or create market opportunities. These techniques include:

- Formal and informal networking.
- Consultation.
- User, customer and community feedback.
- Opportunities created by legislative change.
- Social media, new media and social networking sites.
- Online presence.
- Tele-marketing.
- Local media advertising.
- Promotional events and trade fairs.
- 'Taster' sessions.
- Community outreach and in fewer instances dedicated business development posts.

Social enterprise messages & values

While a significant proportion do include social enterprise messages and values in their marketing, many currently do not. The reasons for this vary. In some cases, organisations consider themselves new to social enterprise – interestingly, not because they are necessarily 'new-start' but because they have only relatively recently adopted a social enterprise structure (converting to a CIC, for instance, or setting up a social enterprise trading arm) – and are as yet unsure how best to incorporate social enterprise messages in their marketing and promotion.

Others are serving customer groups for whom social enterprise *per se* is not a primary consideration, and typically these businesses focus instead on price and quality as key differentiators. But there are many who do see social enterprise values and messages as key to their marketing – for example, several state that they have successfully broken into private sector markets by promoting their social enterprise 'mission' to major corporates seeking to deliver on Corporate Social Responsibility goals.

The Social Enterprise Mark

While there are still relatively few holders of the Social Enterprise Mark in Birmingham, these enterprises are using the Mark vigorously in their marketing and promotion. There is widespread interest in the sector in achieving the Mark, and significant numbers of social enterprises now recognise that it can help them achieve wider credibility and competitive advantage. This is very encouraging.

There seems to be a new recognition in the sector of the importance of marketing. Even allowing for limited resources, more social enterprises now seem to be utilising more – and more varied – marketing techniques to raise awareness of their businesses, reach new customers, and identify and create new market opportunities.

Are social enterprises successfully developing new products/services as a consequence?

The track record here is more mixed but still appears to be good. The majority of this sample reported that new **services** have successfully been developed, usually in response to emerging need, legislative opportunities, or gaps in provision left by the closure or contraction of other providers.

What is less clear is the degree to which this constitutes genuine diversification and the serving of entirely new customers, markets or sectors.

Historically, the social enterprise sector has always been overwhelmingly service-based, dominated by service industries rather than manufacturing and for this the development of new **products** – goods with maximum ‘transferability’ and the potential to appeal across entirely different customer groups and markets – remains problematical.

Obstacles to service development

A number of enterprises in the sample report that lack of time, capacity, or resources have prevented them taking forward new service developments despite a clear market opportunity having been identified. Several cite adverse economic conditions as the key reason for not pursuing new service developments.

A related issue emerges in regard to public sector purchasing. Several in the sample report that even when they have been able to develop services of a ‘commissionable’ standard, it has proven impossible to identify the key commissioning officers (or even organisations) they need to approach in order to make a ‘sale’. Identifying and getting the message across to the right commissioners remains a problem.



Despite adverse economic conditions, and limitations in time, capacity and resources, new services are being successfully developed and brought to market. Significant numbers of social enterprises are identifying and responding to new market opportunities, emerging need, and legislative opportunities. To what extent this constitutes genuine diversification is less clear, however. Nonetheless, these are all encouraging signs for a sector that with some urgency needs to diversify beyond its core public sector marketplace if it is to ride out the storm of public spending cuts.

iSE June 2010