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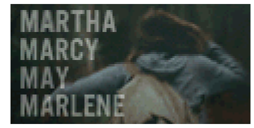

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Some Ways to Get Started as a Social Entrepreneur

By SUSAN MORAN

With the economy still struggling, it may seem like an impossible time to start a do-good social venture. It can be hard enough to operate any business profitably — let alone one that also tries to improve the world. But some observers believe that the tough times may be increasing interest in social ventures.

"I get the sense that the recession actually has resulted in more people taking interest in investing in companies that are doing the right thing right from the start," said Wes Selke, investment manager at Good Capital, a social-impact venture capital firm in San Francisco. As one indicator, at least three social-impact funds have raised more than $100 million in the last couple of years: Ignia Fund, Leapfrog Investments and MicroVest.

Marrying mission and money in one business can be tricky. This guide focuses on commercial, profit-making businesses and entrepreneurs who want to build self-sustaining social ventures, a term that encompasses nonprofit and profit-making companies as well as some new types of legal hybrids, like an L3C, which stands for low-profit limited liability company. These ventures are commonly thought of as enterprises that serve a so-called triple bottom line: people, planet and profits.

At a social venture, the social mission is expected to be at least as important as the money-making mission. So, for example, the tobacco giant Philip Morris does not pass the test even though it donates generously to artistic and social causes. But a business that addresses a socioeconomic or environmental challenge as part of its DNA — for instance by selling low-cost solar-powered lanterns to villages that lack electricity — would be considered a social enterprise, according to Deb Nelson, executive director of Social Venture Network, an organization of some 500 chief executives, company founders, nonprofit leaders and investors.

To those looking to start such ventures, social entrepreneurs and investors offer the following pointers.

IT'S O.K. TO MAKE MONEY If you choose the profit-making model, stick with it — without apology. A few years ago, Assaf Shafran founded a nonprofit in Israel that offered a smartphone-based dispatching system for first responders, like firefighters and emergency medical technicians.

But his social venture, called IsraeLife, had an impossible time giving the system away to volunteer organizations, largely because the organizations were suspicious of giveaways — they demanded exclusive rights or they got mired in red tape related to receiving gifts. Mr. Shafran decided he could do more good by selling the systems. In 2008 he and his team formed a profit-making division, called NowForce, which has expanded into the United States. The business has raised $2.5 million from private investors, and Mr. Shafran expects sales to surpass $3 million this year.

Proudly embracing a profit-making model may require focusing on the balance sheet before unleashing the social mission. “You can’t pay employees a livable wage if you don’t have money in the bank,” said Lisa Lorimer, former chief executive of the Vermont Bread Company, which started making organic cookies in 1978.

VENTURE CAPITAL NOT THE SOLE OPTION Financing a social venture can be even more challenging than financing a traditional business. Some entrepreneurs prefer to self-finance with the help of bank loans. Others pursue venture capital, and they accept the loss of control that entails.

Vermont Bread began with a commitment to paying employees a “livable wage” — three to four times more than the minimum wage most competitors offered. It also offered employees health insurance and bought ingredients from local and sustainable farms, which further squeezed margins, according to Ms. Lorimer.

As a result, the company grew deliberately, mostly through bootstrapping and bank financing. At a time when many in the baking business said the company was unrealistic in trying to sell organic goods (with their brief shelf life) and to pay employees a premium, Vermont Bread was able to find a local bank that offered small loans so the fledgling business could buy equipment — one pan, one truck, one pizza oven at a time.

BE WARY OF GROWTH In 2005, James Gutierrez founded Progreso Financiero, a bank based in Mountain View, Calif. It offers small loans, averaging $1,000, to individuals and small businesses with little or no credit history, through staffed kiosks in Hispanic grocery stores and pharmacies in California and Texas. Borrowers often use the loans to buy a delivery truck or other equipment.

Mr. Gutierrez, 33, whose grandparents immigrated to the United States from Mexico, conceived Progreso Financiero as a “social entrepreneuring” research project when he was earning an M.B.A. at Stanford. He wanted to see if microlending, which was taking off in India, could help the millions of immigrants in the United States. He started in one Mexican supermarket in East Los Angeles. Before long he was operating staffed kiosks in 16 Sears and Kmart stores, which he figured would be magnets for many Latino families. “We thought this was a great opportunity, a great way to grow fast," he said. It did not turn out that way.

Sears and Kmart shut down Progreso's kiosks because their loan volume was thin. "We found out that the grass-roots supermarkets are where people go three times a week, not the national chain stores," Mr. Gutierrez said, which ended up being a valuable lesson. The closings prompted Progreso to refocus on what Mr. Gutierrez called the basic building blocks: technology, automated credit scoring (yielding more loans per store per month), and the grass-roots supermarket channel.

Progreso's business model is based on charging an average percentage rate of 36 percent, roughly double the rate for bank credit cards but much less than the rates that many payday loan services charge. If borrowers pay back loans on time, Progreso grants them better terms on subsequent loans. With 480 employees, the company has secured more than $75 million in venture capital and another $75 million in debt financing, and it has issued more than 160,000 loans. Its loss rate is 5 to 10 percent, and Mr. Gutierrez said he expected the bank to become profitable next year.

HIRE CREATIVELY Despite paying less than mainstream companies, social enterprises have the ability to hire talented people.

Mathieu Senard is chief executive of Alter Eco Americas, a San Francisco-based company that sells organic Fair Trade products, including dark chocolate bars, quinoa, rice and sugar to retailers. (Fair Trade purchasers offer above-market prices and promote sustainability in developing countries.)

Mr. Senard and Edouard Rollet started the company in the United States in 2005, hoping to fight poverty through business. They buy goods at a premium from small farming cooperatives in developing countries. Mr. Senard expects sales to grow to $5 million this year from $3 million last year.

Alter Eco broke into Whole Foods early on, but its products were not widely distributed nationwide. Mr. Senard feared that he could not afford the industry talent he needed to capture more shelf space. His big break came unexpectedly, four and a half years ago, when Kate Tierney, vice president for sales at a big natural foods distributor, agreed to serve on Alter Eco's board.

Ms. Tierney introduced Alter Eco to influential brokers and retailers. At one point she joined Alter Eco executives on a visit to a farming cooperative in Thailand. Not long after spending three days in a small village, Ms. Tierney told Mr. Senard that she planned to leave her job and come work for him. "I was like a deer in the headlights," Mr. Senard said. "I said, 'We can't afford you. We'd have to cut your salary in half.' " Undeterred, Ms. Tierney joined Alter Eco and has helped double the company's sales.