



SPARK SPREAD TRANSFORM

Project Wildfire
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Social business

Making profit while making change

A true social business is a business that is cause driven rather than profit driven. It is not simply a “socially responsible” business - the social cause is the reason for the business’ existence, rather than simply one feature of the business’ overall operations.

A social business starts with a cause and then asks how it can apply market principles and make a profit while addressing the social issues it seeks to solve. The business’ social mission is the driving force behind its operations.

A social business is different from a nonprofit or charity in that it seeks to make a profit while addressing a social issue. The biggest difference from a traditional business is that profits from a social business are re-invested into the company rather than directed to its investors; the profit allows the business to expand and have additional social impact.

The founders/investors of the business can still be paid (as employees of the business) and earn a fair market salary, but they cannot earn a financial return on their investment (they can recoup their initial investment, though).

Ways to incorporate a social mission into your business

The following are a few ways that businesses in Toronto and internationally have incorporated a social mission into their businesses:

Donate your profits to a nonprofit or charity (a true social business must donate 100% of after-tax profits, not simply a portion)

EXAMPLES

Buytopia.ca (Toronto): Buytopia is a group-buying website (like Groupon), with the profits going to local charities and nonprofits

One-for-One Model: When a customer purchases a product at regular price, the profit from the sale offsets the cost of providing the same product for free to the economically disadvantaged.

EXAMPLES

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Tom's Shoes: Buy a pair of Tom's Shoes and they will donate a pair of shoes to a needy child.

One Laptop Per Child: Buying a laptop enables OLPC to donate a laptop to a child in the developing world.

Improving your suppliers' livelihoods

EXAMPLES

ChocoSol (Toronto): Chocosol sells gourmet chocolate from Mexico and gives farmers a better-than-fair-trade price for the cacao. They also facilitate the use of technology such as solar roasters, to improve the productivity of Mexican farmers.

Create employment opportunities for groups that traditionally face barriers to employment

EXAMPLES

St. John's Bakery: St. John's Bakery provides employment and training opportunities

Haween Enterprises: textile and manufacturing company that provides training and employment to recent immigrants.

Make your products available at discounted rates (or free) to the poor/economically disadvantaged

EXAMPLES

Grameen Bank: Grameen bank is the pioneer of microcredit. They lend small amounts of money to the poor in Bangladesh to allow them to establish small enterprises. They charge interest on the loan and earn a profit, which has allowed them to scale tremendously (over \$10 billion USD in loans). They are 95% owned by their members/borrowers

Panera Cares Cafes: Panera Cares coffeeshops don't have a cash register. Instead, they have a donation box and a suggested donation for your meal. If you can afford it, you can pay the suggested amount or more. If you're in need, you can pay less or pay nothing at all for your meal.

Panera is finding that their Panera Cares locations actually outperform their regular counterparts. 20% of the customers pay less, 60% pay the suggested amount, and 20% actually pay more.

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OneWorld Health: The Institute for OneWorld Health develops safe, effective, and affordable new medicines for people with infectious diseases in the developing world. In areas where medicines are either not available, or are too expensive, OneWorld makes medicines available at a greatly reduced price.

Of course, there are many other ways to incorporate a social mission into your business, and companies are coming up with new, innovative ways to address social issues every day!

Social Business Structures

Unfortunately, Canada does not currently have the regulatory/tax structures in place to allow for the smooth implementation of a true social business and the incorporation of a social mission into a for-profit model, so social businesses are forced to improvise or accept certain limitations.

Many other jurisdictions around the world have recognized the emergence of social business with new legislative forms and taxation rules; there are people in Ontario and Canada working to follow their leads.

At present, in Canada, there are a few different ways to structure a social business, each with their own advantages and disadvantages:

Incorporated For-Profit Business

This is a traditional, for-profit business. As a for-profit, the business can raise capital via investors and scale quickly, however the business relies on its founders and shareholders to hold the business to its social mission.

Pros: As a for-profit, the company can offer returns to investors, which help the company's ability to raise capital (i.e. \$ for growth).

Cons: As the business scales and attracts more shareholders, the business may find its social goals abandoned if shareholders feel it gets in the way of its profit goals. It is up to the board of directors and entrepreneur to make sure the company fulfills its social obligations.

Incorporated Non-Profit

An incorporated nonprofit has a social goal built into its mission statement. It has a board of directors that oversee the direction and strategy of the organization. A nonprofit can have a revenue-generating stream of activities (e.g. selling merchandise with its logo on it).

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Pros: Can raise money through donations. The board of directors will hold the organization to its mission.

Cons: A nonprofit cannot provide a financial return to investors, so it is limited in its ability to raise capital for growth (“investors” in the organization simply make donations and cannot have their investment returned).

Hybrid

A hybrid model consists of a nonprofit organization being the owner of a for-profit company.

Pros: The for-profit company can provide a return to investors; this allows the company to raise capital helping it to scale quickly. Having a nonprofit as owner means the profits do not flow to investors, but back to the business (or to the nonprofit).

This allows the company to operate in a manner that will allow quick growth (through the ability to raise capital from investors) while ensuring it does not abandon its social mission (through the oversight of the nonprofit).

Cons: Setting up a hybrid model from scratch is time-consuming and somewhat complicated. An individual entrepreneur has to create both a nonprofit organization (and recruit a board of directors) and a for-profit company.

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