



# Preparing your community organisation for the future

*A guide to diversification*



## In summary:

- Do not diversify for the sake of it - if an activity does not contribute to your mission, do not do it.
- Diversification does not mean 'throwing the baby out with the bathwater' - make the most of existing services as well as developing new ones.
- Ask yourself why you want to diversify. Whether to earn more income or provide a better service, be clear about your motivations for diversifying first.
- Timing is important - analyse your trading income for signs of plateauing and get ahead of the curve.
- Make sure you continually understand who is and is not part of your community and what their needs are.
- Assess whether there is a market to address a new social need - differentiate between beneficiaries and customers.
- Understand what you do best and how this can translate to a new activity.
- Include the views of your beneficiaries and partners when developing new ideas for diversification.
- Conduct market research to determine which of your ideas are the best fit - think about your customers, your competitors, and your products/services.
- Undertake a risk analysis for each new idea.

This guidance is inspired by our members' experience of 'staying agile' during the pandemic. It builds on the findings of our accompanying report '[Navigating the storm](#)', including the steps many took to diversify their business models during this period.

The inherent strength of community organisations to remain flexible and adaptable has been essential during this cycle of upheaval. It will no doubt continue to be a vital characteristic. As more community organisations face the reality of working in an increasingly unpredictable environment, where even the best laid plans can come unstuck, we hope this guidance serves as inspiration for taking alternative courses of action. The lessons throughout should also assist those community organisations who are horizon scanning for new market opportunities as part of their natural cycle of strategic planning.<sup>1</sup>

This guide does not explore the various organisational theories available to support business diversification strategies.<sup>2</sup> Neither is it a menu of ready-made ideas ripe for implementation - this would be an impossible task given the unique context of every place and community. However, we believe that the examples from organisations who took part in our research will function as a stimulus for further discussion and potential replication.

The advice is primarily targeted at established organisations who benefit from a proven ability to meet customer needs and have a stable team in place to drive new plans forward. However, newer organisations may still find the advice useful for future reference.

The work involved in diversifying your business model can be complex and time consuming, without any guarantee of success. Therefore, do not discuss whether to create a new initiative, or enter into a new partnership, without first checking if it will help to fulfil your mission. If an activity does not contribute to your mission, do not do it.

## What do we mean by diversification?

There is extensive research available on the topic of business diversification, its relative merits and the experience of different organisations who have attempted, successfully or otherwise, to diversify. However, the subject is usually explored through the lens of for-profit businesses. The unique characteristics of not-for-profits are rarely discussed in this context and importing the ideas from one sector to the other can be inappropriate. For the purposes of this guidance, therefore, we consider diversification as experienced in practice by community organisations. Where there are competing interests around social aims, ownership structures and enterprise.

Diversification does not mean 'throwing the baby out with the bathwater' either. A declining room hire model may be reinvigorated with a renewed marketing and pricing strategy. Therefore, we endorse making the most of existing services as well as developing new ones. With a little imagination, a new refreshment offer may increase income and meet healthy-eating objectives in the community, provide a volunteering/training experience, or function as a new point of service access. The same reasoning applies to maximising established relationships. Make sure you have made the most of your ties to existing donors ahead of creating new associations.

## Why should you diversify?

Diversification for the sake of it is not the goal. The organisations that feature in our research have approached diversification as either an opportunity

or a necessity, and usually both. The Covid-19 pandemic has presented some community organisations with a unique moment to realise their long-standing plans. Others have had to make difficult choices to remain relevant and sustainable.

To put this into context, in our research survey, 95% (79 organisations) said that they had changed the operation and delivery of their services and 74% (61 organisations) said that they were thinking of diversifying their income. The same survey showed they were thinking about diversifying for social impact – 10% (6 organisations) – and financial impact – 16% (10 organisations). But a mixture of the two was by far the most common driver at 74% (45 organisations).

So, the question is not should you or should you not diversify, but rather why are you contemplating diversifying? We believe a balanced approach to generating income, using assets and enterprise to regenerate neighbourhoods, is inherently healthy.<sup>3</sup> We know that Locality members that had majority earned income before Covid-19 were hit particularly hard during lockdown. However, many successfully pivoted and have since continued to be funded for activities which they started in response to the pandemic and were not carrying out before. These include food pantries, cooked meal services, and meals on a budget.

Whether the driver is the need to earn more income or provide a better service, be clear about your motivations for diversifying first. The reasons behind your decisions will help to explain your subsequent actions to stakeholders and galvanise support for transformation. A well-defined basis for initiating change will also help to generate different options and the criteria for their rejection or selection.

## When should you diversify?

Timing is important – chasing funding or entering a major new market in the midst of a staffing crisis is unadvisable and rarely pays off. But if you are continually looking for new opportunities and reflecting on the impact of your organisation, you will be in prime position to react swiftly to changing circumstances. For example, some of the organisations in our research were able to review and reshape their strategies and systems related to communications, digital fundraising, social media, and finance. Others carried out renovation works on their building as a result of getting an unrestricted grant. However, the grant would not have made a lasting difference to those organisations if they had not already got a good understanding of their needs and priorities.

Analyse your trading income for signs of plateauing and get ahead of the curve. Even if co-working space remains popular, tenants are likely to want more flexibility in the future. One of the organisations in our research is intending to move away from insecure ‘hot-desking’ towards more solid anchor tenants as a result of their financial analysis and market research.

Sometimes, however, there is little time for contemplation. The pandemic proved that – when every service provider who had not fully embraced digital decided to switch their operations online overnight, with varying degrees of success. However, the new availability of virtual fundraising software,<sup>4</sup> combined with live-streamed events, offers an exciting alternative to traditional fundraising approaches.

## Who is your community and what do they need?

You should already know who is and who is not part of your community and what their needs are. But make

sure your understanding is up to date. Have there been any significant socio-demographic changes recently? Are there any investment or regeneration plans in prospect that will open up new enterprise opportunities?

Review what is coming out of your regular community engagement work and strategic conversations with partners. Do your findings throw up anything surprising or signal an emerging trend? For instance, some organisations responding to our research noted a new interest in health-related activities such as weight loss programmes and the promotion of 'health champions,' as a post-Covid resilience factor. And following a conversation with their local authority, another organisation was able to increase their tourist information footfall following the closure of similar council run services.

Just because there is a social need, however, it does not automatically follow that there is a market that can address it. In these situations, it is important to differentiate between beneficiaries and the customers who are willing to pay for, or subsidise, the product or service on behalf of the end user.

## What are you good at?

Do not overlook your inherent strengths and assets. This is what makes you different from the competition. You may feel that you already have a competitive advantage and stand out amongst your peers, but when you are entering a new market, it is important to have a defining edge. Your 'USP' (Unique Selling Point or Proposition) could be the launchpad to a new direction for your organisation.

For instance, if you have a building asset, is the outdoor space being maximised? Many organisations responding to our survey noted the importance of access to outdoor space and related activities for

communities during lockdown. In the future, could this be combined with the unique position that many community organisations possess in engaging more clinically vulnerable people safely and comfortably?

Also, do not confuse what you do with what you do better than anyone else. Drill down into your organisation to identify what your organisation's 'special ingredients' are. If you are held in high regard by commissioners or corporate donors, is it because of your creative employees or the way you can establish good community relations?

Even if your current distinctions are unrelated to new markets, you probably have more transferable skills than you think which can be applied in other contexts. One organisation in our research is being paid by smaller local charities to deliver their community events and do their management accounts because they have quality infrastructure already in place.

## Identifying and analysing ideas

The discussion about your community profile and what you currently do will have clarified your priority areas for action. The next step focuses on potential new community enterprise ideas and whether they have the makings of success.

There is no right or wrong way to approach generating ideas but consider the scope of what you are trying to achieve against available time and resources. Adapting an existing service may only require a small group of people who are familiar with the issues to be involved. However, venturing into unfamiliar territory will probably benefit from a diverse range of insights.

People also need to be enthusiastic about innovative ideas, which is difficult to conjure if you have not been involved early on. So, consider how to

include the views of your beneficiaries and partners, such as other community groups or larger collaborators such as your local authority, schools, or universities. They may be your new customers in the future.

There are several ways to analyse and evaluate your ideas. Well established techniques such as SWOT can be useful,<sup>5</sup> but the important thing is to talk through the basics with other people to assess their potential. Depending on the breadth of your list you may need to narrow them down. Aim for three to five opportunities that you think will have the most impact. It can be helpful to score the ideas against key criteria, such as the following:

- People are passionate about working on this idea
- This idea fits with our mission and aims
- There are identifiable customers for this idea
- There is a need for the product/service
- There is no serious competition
- We could make a profit from the idea
- Implementing the idea will have a minimal impact on the rest of the organisation

Do not worry if there are some disagreements within your group about individual scores but do try to come to a consensus. You are looking for first impressions, so encourage people to follow their gut instinct. Even low scoring ideas might be worth exploring with charitable funding or donations.

## Market research

Once you have one or more enterprise ideas you think could work for your organisation, you need to do some market research to work out which ones are the best fit. The organisations in our research identified a range of new ventures,

including weddings, music gigs, pop-up restaurants, and corporate events, but it is important to assess the potential of any new idea for market growth.

The fundamental areas to explore at this stage are your customers, your competitors, and your products/services. The information you accumulate from this work will help you judge the viability of the enterprise idea. You do not have to work through customers, competitors, or products/services in any order. Fill in the detail as it emerges.

### Customers

- What do our customers want?
- How much would our customers be prepared to pay?
- How are we going to sell our product or deliver our service?
- How are we going to market our product or service?

### Competitors

- Who are they?
- How will your products or services compare – on price, quality, etc?
- How do the competitors communicate with their customers?
- How can we compete against them?

### Products/services

- Who would be selling your product/ delivering your service?
- What exactly will they be selling or delivering?
- Where will you sell your product or deliver your service?
- When will you sell your product or deliver your service?
- How will you make your product or deliver your service?

You must assess your assumptions for all three areas. Be precise in your calculations, ask yourself how many times a week/month/year someone would use the service and validate how you know that.

Think broadly about the competition. Direct competitors should be easy to identify, but do not overlook the potential impact of indirect competition on your ideas. These are organisations that offer slightly different products and services or target different clients in the same location.

Remember, when it comes to your customers, they could be from outside your local area. This may easily be the case for online services, so check that you have the necessary knowledge and permissions to extend your geographic reach.

## Risk

Finally, now you have done some detailed research about your community enterprise ideas, you need to make some decisions about which ones to progress. Undertake an analysis of the risks associated with each idea. There is lots of good risk management advice available,<sup>6</sup> and any new venture should be subject to careful analysis.

Depending on the implications of your ideas, e.g., whether to set up a trading company or not, you may need external advice before you can proceed any further. However, community organisations should guard against putting off deciding until every conceivable avenue has been explored. Profits margins are often quite small, particularly in their early phases. If it is a small opportunity a period of test trading might be more revealing than another round of deliberation. A proportionate approach is key to balance risk and reward.

## Endnotes

- 1 NCVO (2021), "The Road Ahead". Available at: [Introduction - The Road Ahead 2021 | NCVO Publications | NCVO](#)
- 2 Organisations with an interest in this are recommended to seek out: [The Other Side of Innovation](#), [Ansoff matrix - Wikipedia](#), and [From Competitive Advantage to Corporate Strategy \(hbr.org\)](#)
- 3 The percentage split between different income sources will be different for individual organisations and may change over time to reflect circumstances, but community enterprises are orientated towards earned income through sales of goods and services. However, voluntary income from grants, gifts and donations are still important. For more information about the value of strong and successful local community organisations, see [Locality's strategic framework \(2020\)](#), Available at: [Our Strategy - Locality](#)
- 4 Charity Digital (7 December 2021), "The best online fundraising platforms". Available at: [Charity Digital - Topics - The best online fundraising platforms for charities](#)
- 5 Business Balls (2017), "SWOT Analysis". Available at: [SWOT Analysis \(businessballs.com\)](#)
- 6 The [PESTLE](#) framework is a good place to start. Also, see: [Risk management - Wikipedia](#)