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Charities find enterprising ways to fill funding gap

By Jonathan Moules, Enterprise Correspondent

Auto22 is a tyre workshop and car repair service created by the charity Catch22 to help young people find jobs

For charities, attempting to embrace unfamiliar practices can be a sensitive issue. And, for the Family Planning Association, in more ways than one.

Last year, the 83-year-old advice service attempted to become more commercially minded in its fundraising activities, and opted for a 21st century take on the traditional high street charity shop: it began an e-commerce operation selling adult sex toys.

Some months, later, however, the charity closed the website, having found that its online offering was attracting a very different sort of client to those who visit its clinics – and potentially undermining its sensitive work supporting families and people with sexual health concerns.

Natika Halil, the FPA's director of health and wellbeing, says the website – which also failed to meet the charity's revenue targets – will be relaunched, but only after a significant rebranding exercise.

Its first version, she explains, had veered a bit too close to the Ann Summers market.

"We would like it to be selling to people who might not otherwise have access to sex toys, or know where to go – for example, people with disabilities or the elderly," Ms Halil says.

But some aspects of the FPA's e-commerce difficulties will resonate across the charitable sector – even at organisations where the ethos is more "mission statement" than missionary position.

For a number of UK charities, private enterprise is both an answer to the problem of fundraising and a source of ethical dilemmas.

Charities' commercial operations – in all forms – have been growing in recent years, helping to offset a drop in donations from the general public.

According to the latest accounts filed by the Charity Commission, trading income contributed the largest boost to charities' incomes in the three months to September 30, rising 14 per cent to £4.9bn.

By contrast, voluntary income – which includes grants – increased by 4.9 per cent to £19.1bn over the period, while the lowest percentage increase was in charitable donations, which increased by just 2.5 per cent, the figures show.

Embracing commercial activity is by no means new: it has been the biggest source of funding for the UK charitable sector for a decade. It is the size of the charities doing so that is changing.

"We have noticed a marked increase in charities interested in entering this space," says David Hopkins, a senior adviser at the Charities Aid Foundation.

"Previously it would have been largely the big boys doing this, often through charity shops. Now, we are seeing it trickle down to much smaller charities, often because the traditional income sources are falling away."

Commercial ventures created by charities are often referred to as social enterprises because they aim to do good work by mirroring a private business approach. An example is Auto22, a tyre workshop and car repair service created by the 220-year-old charity Catch22, to help young people find employment.

Auto22 was started with £400,000 of seed funding, including equity capital from Bridges Ventures, which took a 37 per cent stake in the venture.

This year, it is expected to turnover about £750,000, having provided training for eight apprentices from its three service centres – although this remains a small fraction of Catch22's £60m turnover. "We are fairly ambitious but we need to get both the business model and the social impact right," Chris Wright, Catch22's chief executive, explains.

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>
> - Michelle Wright, chief executive of Cause4

Mr Wright says that one scenario could be a national chain of outlets, competing with purely commercial players, such as Kwik Fit. But the priority is the social goal of helping as many young people as possible to gain skills and a career, he adds. "The issue is scalability, but you have to grow things carefully," Mr Wright says.

"At the end of the day, the numbers are the numbers and you have to take a fairly tough business approach to it. That said we would probably have a greater tolerance to support it than if it was a straightforward venture-capital-backed venture."

Using business activity to diversify income streams is also a good way of balancing funding risks, argues Michelle Wright, chief executive of Cause4, which advises charities on becoming more commercially minded.

"No business would just focus on one or two clients," she points out. "While social enterprise is a relatively new phenomenon among the charitable sector, it would seem that charities are beginning to embrace the very concepts behind this within their day-to-day income generating activities."

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