

# 1. What is a business model?

A business model sets out the costs of an activity - and how those costs will be covered. Whilst there are always going to be real financial costs associated with peer networking a more useful definition in the context of peer networking comes from the book *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*

**“A business model describes the rationale of how an organization creates, delivers, and captures value”**

Considering ‘value’ rather than just ‘income’ may help you to reduce the financial costs associated with peer networking, as well as provide a clearer focus on on the value that network members contribute, create and receive from sharing their time and expertise with their peers.

# 2. Business model building blocks

## So what makes up a good business model?

A business model should be simple, relevant and intuitively understandable, without being overly simplistic about the complexities of how the network functions.

There are a few basic building blocks you should think about when creating or reviewing a network business model.

- **Network member segments:** the groups of people or organisations your network aims to reach or serve.
- **Value propositions:** the products, services or activities that create value for network members.
- **Channels:** how network members engage and communicate with each other.
- **Member relationships:** types of relationships your members develop with each other.
- **Value captured:** financial, but also other value such as knowledge, skills, confidence or connections.
- **Key resources:** the most important assets required to make a business model work (time, meeting space, web platform etc).
- **Key activities:** the most important things a network must do to make its business model work.
- **Key partnerships:** the wider network of suppliers and partners that make the business model work.
- **Cost structure:** all costs incurred to operate the network.

In the social sector, you may want to think about some specifics:

- Customers can be split between people you serve (like your members) and people who pay you (like funders). While in a traditional business these tend to be the same people, in the social sector, income may not come from the people using your service or product.
- Certain legal structures in the social sector will not allow your organisation to have share capital / equity. This means you may need to think about accessing working capital in a different way.

# 3. The cost of running a network

Running a network, you will incur two main types of cost:

- **Operational:** fixed and inescapable, geared at building the network's capacity.
- **Project:** what it takes to fund the network's various collaborative activities.

Initially, operational costs will probably form the bulk of the network's expenses.

These will include:

- **Convening:** e.g. travel expenses, meeting space, food and accommodation, meeting facilitation, materials to bring members together. Members can absorb much, but not necessarily all, of this cost. These costs can get high enough that they become prohibitive for some members. This is especially true during the network's start-up phase, when members can see what the cost of participating will be, but can't be sure what benefits they'll get.
- **Staffing:** e.g. coordination of network logistics, operational and strategic management tasks, accounting and other necessary services. In smaller or more informal networks again these costs may be absorbed by different members with capacity to undertake the roles, however costs are likely to rise as the network becomes bigger and more ambitious. This may require the development of dedicated staff and for the cost to be shared amongst members or found from elsewhere.
- **Communicating:** e.g. conference calls, websites, software and other tools enabling members to engage with each other. There are many free conference calling tools, email services etc. However, as the network grows and becomes more active, money is more likely to have to be spent to ensure effective communications and to prevent jeopardising member-to-member connections.

# 4. Harnessing value

In a **traditional business model** - including a centralised membership organisation or network - the relationship is often:

- transactional (a fee or subscription is paid for the delivery of a service), and
- based primarily on 'extrinsic' motivation (how can I or my organisation benefit from participating?)

The activities, and the infrastructure and resources required to deliver them, are valued and paid for in financial terms. Often the membership body or coordinating organisation will need to seek substantial funding to deliver programmes, as well as charging fees and subscriptions from members.

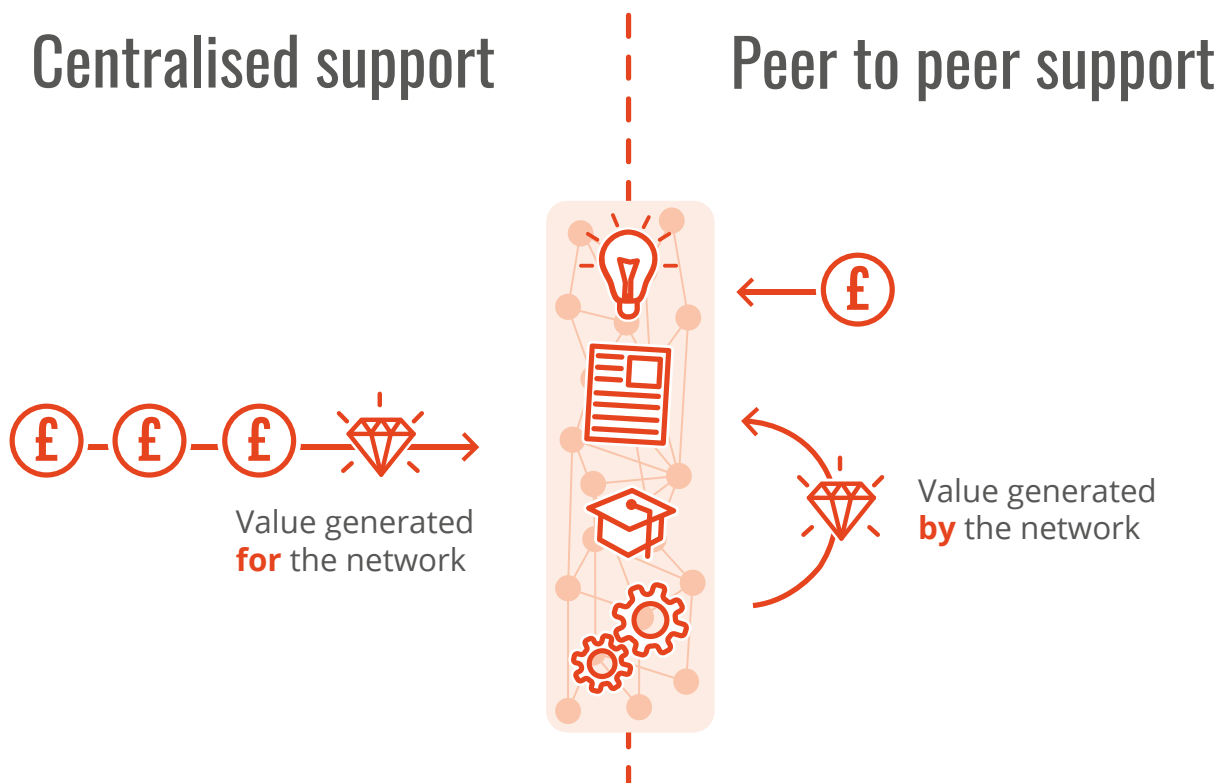
In a **peer networking model** a substantial amount of the infrastructure and resources, as well as the delivery of the services (learning, capacity building, knowledge exchange etc) are provided by and for members of the network.

The relationship is therefore more often:

- collaborative, and
- based on 'intrinsic' motivation (a shared sense of identity and common purpose)

There are still real financial costs which need to be met associated with the infrastructure, coordination and delivery of activities, but often peers will provide things like time, meeting space and resources themselves, reducing the overall cost.

For a peer to peer business model to succeed it is therefore important to understand the motivations (intrinsic and extrinsic) of members to self-organise, participate, and in particular to share their knowledge or experience with others. What value does it create for them? This creation and capture of value needs to be recognised as part of the business model in the same way as the traditional financial costs and income.



# 5. Revenue: models and key issues

Most social impact networks start with a lot of hope - but not much of a budget. There is no magic formula or standard business model for funding a network and it often requires both entrepreneurialism and a degree of opportunism.

Below we set out some options to generate revenue for your network. Over time however the revenue blend needed to support your network might change, according to its aims and activities.

## Grants

Whether from government, trusts or foundations, grants can be a welcome injection of revenue into networks. Most funders will want their funding to achieve impact, however, not just build capacity. It's therefore important to show that networks can produce a collective impact that might be unachievable by single organisations.

## Membership

Asking members to pay dues can test how much importance they place on being in the network. This can be a high hurdle early on, when it's not yet obvious to members that being in the network will generate value for them or their organisation. It makes sense though, that at least a portion of a network's budget should come from its members, instead of relying entirely on outside funding. It can also show external funders that members are committed to and value the network.

## Partnership

Developing projects with other organisations, allows a network to tap the outsiders' expertise and in-kind services. If the project is funded, the network can share in the resources.

## Sponsorship

Some networks turn to outside organisations, particularly corporations, to sponsor some or all of their activities. A potential sponsor will probably be interested in obtaining favourable visibility with network members (and their networks) or enhancing its public brand by associating with the network. For some networks, sponsorships may be problematic because of the potential perception that the network has been co-opted - "bought" - by the sponsor.

## Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the Internet. There are several ways you can crowdfund, including donation or rewards based crowdfunding, equity based [shares] and/or community shares. Any crowdfunding campaign should have its attributes chosen to fit with your network and its stage of development. The success of a crowdfunding appeal is dependant on being able to run a campaign, so you will need to make sure you have the correct skills and resources to be able to do it.

## Information

As a network you will be collecting information or data about your members and developing knowledge about their activities. As well as helping you tailor activities and services for your members, this data could be a valuable product for your network to sell. In order to do this, you would have to carefully consider the ethical issues around providing your members' data (with their consent), and also to be clear about the extent to which your systems and resources would allow you to collect and process data.

### Asset sweating

If your organisation owns assets, generally land and buildings, they could be the basis of another revenue stream e.g. through renting.

### Accreditation

Membership of some networks (particularly professional networks) can act as a way of verifying the member and adding value to them (usually at a cost). Accreditation can generate value for the network, establishing your organisation as a network leader, as well as placing it at the centre of a web of professionals in your sector.

### Selling services

Slightly less common for networks, this revenue stream allows networks to produce value for customers and collect revenue.

There is a risk inherent in this approach that the network finds itself competing with its members to deliver similar services or knowledge.

### Other forms of value exchange

There is a wide range of alternative forms of storing and exchanging value within a closed system. This might include methods such as timebanking or the use of alternative currencies.

Adapted from Connecting to Change the World (2014), Plastrik, Taylor and Cleveland

## 6. Capital

As for other organisations in the social sector, it is important to consider that as well as revenue, your network may need working capital. This can be gathered by bringing together surplus from revenue funding, or, depending on your legal structure, by people investing in your organisation e.g. through issuing community shares, or through crowdfunding amongst members and supporters of the network (see above).

Especially at the beginning of a network, there may be a lot of “sweat equity” involved, i.e. time given by staff and volunteers from amongst the member organisations.

# 7. Case Studies

## Case study: Permaculture Association

It supports a peer network of international permaculture projects and encourages cross-pollination between permaculture and other networks.

Their initial funding came from large donations from supporters. Because permaculture was viewed as quite radical, it was hard to get grant funding. As the association developed, however, they began to diversify their income. They supplemented grant funding with charitable trading activities. These include courses, membership and events.

CEO Andy Goldring shared tips around creating a sustainable business model for the network:

- Be entrepreneurial - grants don't cover everything
- It's easier to get grants when you don't depend on them to survive
- Hire people on the basis of ethics and entrepreneurialism
- Create systems for money and accountability that run across all activities
- Involve everyone in enterprise development
- Regularly reflect on your model: what do we have? What do we develop?

You can find out more about the [Permaculture Association](#) and their business model in their [annual review](#).

## Case study: Community RePaint

Community Repaint is a network of community projects integrating waste paint in their activities. It is funded by the paint company Dulux and coordinated by environmental consultancy Resource Futures.

Its funding model marries commercial with community interest. Dulux is able to bolster its Corporate Social Responsibility activities whilst also pre-empting the

effects of regulations around waste. At the same time, community groups receive support and resources they would not otherwise have access to. The company's ability to provide a steady funding stream has allowed Resource Futures to focus on network coordination and support.

Read more about [Community Repaint](#) and [Resource Futures](#).

# Case study: The Community Action Group Project

The Community Action Group (CAG) is a local authority-funded network supporting the emergence of community social enterprises in Oxfordshire. Initially funded through the Landfill Credit Tax, it is now completely local authority-funded. The council recognises the many ways in which the project helps it achieve waste reduction, community cohesion and healthy eating targets.

Despite the beneficial partnership, local authority money is drying up, and therefore the network is now looking to develop other sources of income. Membership fees would not be ideal: those groups most likely to be able to pay are also those who would need the least support. An alternative could be commercial opportunities e.g. partnerships with local businesses.

Read more about [CAG Oxfordshire](#).

## 8. Useful Resources

Free download: The Social Business Model Canvas from the Young Foundation

[youngfoundation.org/social-innovation-investment/introducing-the-social-business-model-canvas-2/](http://youngfoundation.org/social-innovation-investment/introducing-the-social-business-model-canvas-2/)

Free download: The Business Model Canvas from Strategyzer

[strategyzer.com/canvas/business-model-canvas](http://strategyzer.com/canvas/business-model-canvas)

Free download: The Movement Building Canvas from the Social Change Agency

[thesocialchangeagency.org/movement-building/](http://thesocialchangeagency.org/movement-building/)

Book: Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers (2010)

Book: Connecting to Change the World (2014), Plastrik, Taylor and Cleveland