

Mapping the Social Business Sector in Wales

Executive Summary – April 2017



wavehill

social and economic research
ymchwil cymdeithasol ac economaidd

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Rydym yn croesawu gohebiaeth yn Gymraeg a Saesneg.
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Overview of findings

Social businesses in Wales form a dynamic, growing sector. This research estimates that the sector is worth £2.37 billion to the Welsh economy, supports approximately 40,800 jobs, and offers opportunities to volunteer to approximately 48,000 – 58,000 people. The sector supports growth, jobs, and access to training and employment.

Social businesses are often found in areas of social deprivation, supporting communities, offering jobs and training and often providing services that the public and private sectors would struggle to maintain. They make an important contribution to the drive to fight poverty in Wales.

In 2016, social businesses were diversifying, becoming less reliant on grants, more innovative and more likely to trade directly with other businesses and the general public. Social businesses are working across a wide range of sectors, supplying goods and services as well as making an important contribution to the cohesion of the communities within which they are based.

Social businesses are often formed as a result of issues identified at a grassroots level by a local community. They plug gaps in provision and, in some cases, grow

through innovative delivery and defining services in direct response to their community's needs. In the current environment, which sees uncertainty regarding the effects of Brexit and potential massive investment in large-scale infrastructure projects via City Deals, social businesses offer a 'ground-up', community-led approach to economic and community development, and (crucially) are owned and controlled by the communities they support.

£2.37 bn

Research estimates that the sector is worth £2.37 billion to the Welsh economy

40,800

Approximately 40,800 jobs are supported

58,000

Between 48,000 – 58,000 opportunities are available to volunteers

Approach

This report describes the social business sector¹ in Wales following a survey of almost half of the businesses operating in the sector. The research provides an update on previous research undertaken on the sector in 2014.

The social business sector in Wales was mapped through the provision of contact lists from various organisations serving/supporting businesses operating in the sector. Following the collation and de-duplication of the data, a total of 1,698 organisations were identified as operating in the social business sector in Wales, a 16% increase on the number identified in 2014.

A telephone survey was conducted and attempts were made to contact all businesses listed. The phased survey explored an organisation's background and then, where consent was given, took the form of a follow-up survey which explored business capabilities and recent performance as well as future perspectives on performance and barriers.

The survey took place between September and December 2016. A total of 810 organisations responded to the initial phase, representing 48% of the sector. Of these, 715 (88%) agreed to participate in the follow-up survey.

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1,698

The number of businesses operating in Wales in the social business sector was 1,698

¹“Social business” is an umbrella term that refers to a variety of organisation types, including co-operatives/mutuals, social enterprises, and employee-owned businesses.



Key findings

Scale and Scope of Social Businesses

- + Using turnover data from respondent businesses, the entire sector is worth an estimated £2.37 billion to the Welsh economy, a significant increase on 2014 estimations.
- + The sector supports 40,800 paid jobs and 48,000 – 58,000 volunteers.
- + The typical size of a social business (in turnover) has increased. Growth in the scale of social businesses in Wales has led to a closing of the gap (in terms of size profile) to social businesses throughout the UK.
- + In comparison with the 2014 figures, trade with the general public has leaped (57% vs. 41%) with corresponding declines in trade with the public and private sectors.
- + Social businesses tend to be far younger than private sector businesses.
- + Social businesses are often located in areas of deprivation, with clusters of social businesses found (for example) in Merthyr Tydfil and along the Heads of the Valleys, in Llanelli and in Swansea.

Background of Social Businesses

- + Almost two thirds (65%) of respondents self-identified as social enterprises, whilst 46% self-identified as charities.
- + Social businesses most frequently operate in financial and professional services, retail, creative services, tourism and care service sectors.
- + Seventy-two per cent of social businesses described their main social or environmental objectives as seeking to improve a particular community, whilst almost half seek to improve health and well-being.

Social businesses are often located in areas of deprivation.

£2.37 bn

The entire sector is worth an estimated £2.37 billion to the Welsh economy

57%

In comparison with the 2014 figures, trade with the general public has leaped to 57% vs. 41%

65%

Almost two thirds (65%) of respondents self-identified as social enterprises

Performance of Social Businesses

- + Eighty-four per cent of respondents attracted new customers or clients in the last 12 months, whilst 24% attracted investment to expand during the same period.
- + New products or services were most frequently developed in education/training, leisure/culture or support services. These are all areas to which local authorities/other public sector bodies are typically looking to outsource.
- + When asked about their perceived business capabilities, social businesses reported being most capable of financial management and people management, whilst they are least capable of accessing external finance and marketing.
- + The lack of/poor access to finance/funding was most commonly referred to as a barrier to sustainability/growth; however, the proportion referring to it as a barrier has fallen when compared to 2014. The proportion of social businesses identifying time pressures as a growth constraint on their business has doubled when compared to the 2014 survey.

Looking to the future

- + Sixty-nine per cent of social businesses expect turnover to increase over the next two to three years.
- + The lack of/poor access to funding was the most commonly identified constraint on business growth. Over half of respondents identified additional barriers, particularly insufficient staffing/volunteers, the impact of Brexit, and public sector austerity measures.
- + Social businesses identified the need for support with grant applications, marketing and finance to help grow and sustain their businesses.

The lack of/poor access to finance/funding was most commonly referred to as a barrier to sustainability/growth.

84%

Eighty-four per cent of respondents attracted new customers or clients in the last 12 months

24%

Twenty-four per cent of respondents attracted investment to expand during the last 12 months

69%

Sixty-nine per cent of social businesses expect turnover to increase over the next two to three years

Conclusion

Recent trends

The proportion of businesses earning more of their income through trade continues to grow. Across the survey, 50% of respondent businesses described earning at least 50% of their income through trade. Amongst those businesses who responded to both the 2014 and 2016 surveys there has been an increase in the proportion earning over half of their income from trade (from 57% in 2014 to 66% in 2016). Conversely, the proportion of respondent businesses describing being hindered by the inability to secure appropriate finance has fallen, with a third of respondent businesses describing poor access to funding as a barrier to sustainability/growth of their organisation.

Eighty-four per cent of respondent businesses have attracted new customers or clients in the last 12 months, whilst 24% have attracted investment to expand during the same period. When businesses who responded to both the 2014 and 2016 surveys are compared, there is a large jump in the proportion of the same businesses stating that they had attracted new customers or clients (from 61% to 87%).

Social businesses are becoming very successful in growing the markets that they serve.

Where external investment had been sought, it was most commonly in relation to developmental projects for new schemes, indicating confidence and expansion within the sector. Confidence in the sector is, again, evident where respondent businesses were asked about their expectations of turnover for the next 2-3 years. More than two thirds (69%) expected turnover to increase during that period, whilst just 6% of respondents expected turnover to decrease.

Where external investment had been sought, it was most commonly in relation to developmental projects for new schemes, indicating confidence and expansion within the sector.

50%

Across the survey, 50% of respondent businesses described earning at least 50% of their income through trade

66%

There has been an increase in the proportion earning over half of their income from trade from 57% in 2014 to 66% in 2016

6%

Only 6% of respondents expected turnover to decrease in the next 2-3 years



Conclusion

continued

Expectations

Businesses are seeking to grow through accessing new markets (geographical), serving new customers, and through the development of new products or services. Education/training provision, leisure/culture activity and generic support services were identified as areas in which social businesses were looking to develop new products/services. These are all areas from which the public sector is typically looking to withdraw in response to austerity measures, and suggest that social businesses are actively positioning themselves to respond to these opportunities.

An expanding sector is not without its headaches, however, with the proportion of respondent businesses identifying time pressures as a growth constraint on their business having doubled when compared to the 2014 survey, whilst a further 39 respondents cited staffing/volunteering resources as a constraint on their business.

Similarly, there is a concern about the trading environment for social businesses, with the issues arising from Brexit and, in particular, its impact on European funding alongside public sector cuts identified as likely constraints on social businesses going forward.

Collectively, therefore, there is clear evidence of a growing, increasingly confident and entrepreneurial social business sector that is built upon strengthening foundations. The challenges emerging are primarily those synonymous with a growing sector, particularly in relation to resource (staffing/volunteer) constraints. Interestingly, however, the nature of support desired is largely familiar, with an emphasis on support in applying for finance and on support in relation to marketing and promotional activities for social businesses.

The report suggests that the sector has experienced real growth in the two years since the last in-depth research was carried out. It offers a snapshot of a sector that is dynamic and responsive and is constantly looking to evolve and offer new products and services. The increase in turnover, jobs and volunteer opportunities supported by the sector will have an impact on local economies, community cohesion, and individual people's potential to develop themselves through paid employment, work experience, and training. The social benefits of these businesses have tangible effects which are having a positive impact on communities throughout Wales.

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