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STANFORD SOCIAL INNOVATION *review*

What Works

In Your Face: *The social enterprise that beat city hall.*

By Maia Szalavitz

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what works

Strategies, Approaches, Developments

In Your Face

The social enterprise that beat city hall *by Maia Szalavitz*



Housing Works' elegant Used Book Café, in Manhattan's SoHo district, is a literary hot spot.

In 1998, Housing Works, a nonprofit that provides housing and other services to homeless people with HIV, was an organization in crisis. An angry Rudy Giuliani, then mayor of New York, had yanked \$6.5 million in city contract funding, about half of the group's budget, in retaliation to its leaders branding him an "AIDS criminal" for his policies on dealing with the disease. Giuliani had made broad cuts in health, housing, and welfare services that activists believed unfairly affected people with HIV or AIDS. Then, when they protested, he cracked down further and had people held in jail overnight, even though this meant they might not be able to take their vital medications on time.

Giuliani's cuts were all the more damaging because

bursement contracts rarely pay for the whole cost of the service, whereas fee-for-service contracts are designed to allow profit if a service can be provided efficiently.

"Without our entrepreneurial ventures, we would have very easily gone under," says Charles King, co-founder of Housing Works and, until last year, co-president with his partner, Keith Cylar, who died in April 2004.

Relying on its multiple revenue streams, Housing Works fought its way back from the brink. Today, it is on sound financial footing, with a \$27 million annual budget. Now, only 15 percent of its funding comes from government cost-reimbursement contracts; 30 percent is profit from its businesses, 50 percent comes from fee-for-service government contracts, and the rest from donations.

Housing Works had already started providing the services required by its city contracts, and was therefore out of pocket \$1.5 million in reimbursements that the city now refused to pay.

Profit Can Protect Nonprofits

But the entrepreneurial nonprofit survived this crisis because it had several aces up its sleeve: three highly profitable thrift shops (now four), as well as a used bookstore and café. It had also fought to ensure that many of its other government contracts, mainly with Medicaid, were conducted on a fee-for-service basis, rather than a cost-reimbursement one.

This meant that the group's services – which include advocacy, case management, needle exchange, and housing – could also be a source of profit. Cost-reim-



Serving the Most Stigmatized

King, who is a former Southern Baptist minister, and Cylar, who was an HIV-positive gay activist, met in ACT UP, the pioneering AIDS activist organization whose in-your-face advocacy style Housing Works retains. Founded in 1991, Housing Works in fact grew out of ACT UP's housing committee to become its own separate organization. ACT UP eschewed service provision because its founder, Larry Kramer, had concluded that his first AIDS group had become too cautious because of its service work.

Housing Works stepped in to meet a critical need: Neither drug treatment organizations, nor HIV service providers, nor those who work to house the homeless wanted to deal with HIV-positive drug users who were either unready or unwilling to give up drugs. Housing Works' harm reduction strategy aimed to help this extremely disenfranchised and stigmatized group by not requiring that they be drug-free to get services. By 1996, it had become the city's largest provider of housing for people with AIDS.

Unfortunately, the disenfranchisement of its clients extended into the charity world as well: Active HIV-positive drug users could never compete with medical research or starving children amongst donors and foundations, who tend to prefer giving to far less controversial causes.

One donor, Rhonda Roland Shearer, found this out for herself when she tried to raise money for the group. She had previously brought in large sums to support the National Museum of Racing in Saratoga Springs, N.Y., a shrine to horse racing. While that organization hadn't been a tough sell with her socialite friends, she could find few willing to support Housing Works.

Upscale Upstart

So she proposed an alternative: She told King that they should open an upscale thrift shop, because her friends loved bargains and would shop frequently in a stylish and inviting environment. She offered \$100,000 to cover startup costs. The idea clicked especially well for Housing Works, since it could also provide opportunities for job training and employment for its clients.

By avoiding the moldy, decrepit atmosphere of many charity shops, Housing Works Thrift Shops could attract both upscale donors and high-class customers, which would

also buffer it from the economic downturns that affect lower-end retail. In its planning, the group noticed that other thrifts turned off donors by, as King put it, "pawing through stuff" and only accepting some items. Housing Works decided to accept all donations. By 1998, *W* magazine described the stores as "the place where the city's fashionistas drop off last year's Prada and Comme des Garçons."

Housing Works then opened its Used Book Café when the group found that it was getting more books than it knew what to do with – and that it wasn't able to sell them for maximum value in a thrift shop. While the bookstore struggled at first, its elegant atmosphere with two levels and a spiral staircase eventually attracted authors and publishers, whose book parties and readings soon made it a literary hot spot.

King advises nonprofits to choose business ventures based on what the agency or its staff already knows how to do. "Don't just do a thrift shop," he says. "It's hard work and a lot of risk. I think it's important to inventory what people already do well and ask if there's a market for that."

He instead suggests that other nonprofits push for fee-for-service contracts for services they already provide. "I would say we've probably been the leading voice in advocating and

By avoiding the decrepit atmosphere of many charity shops, Housing Works could attract upscale donors.



Housing Works co-founders Keith Cylar and Charles King. Cylar died in April 2004.



doing it,” he says, “although I would not claim sole credit.”

King notes that many nonprofits fear such contracts, however, because they often rely on meeting performance benchmarks. He says: “We have a contract with the state for job training and we are paid based on a person’s completion of the program, we’re paid based on the person being placed in paid employment, and we’re paid if he stays at least six months. We’re betting that we can keep them in the program, graduate them, give them a job, and keep them on the payroll – and can do it in a way that allows us to more than cover the costs of doing it. That’s the risk for-profit businesses take all the time.”

By resisting such pay-for-performance contracts, King says, “It’s almost a concession that for-profits are more [confident than nonprofits of] their own ability to do what they claim to be experts at doing.”

Being a social enterprise also gives the agency leverage with government that most nonprofits don’t have. “It’s really about changing the relationship nonprofits have with the government,” he says. “‘You want services, I’ll sell them to you,’ as opposed to ‘Pretty please give us some money so that we can help people.’”

Advocacy is a critical part of Housing Works’ mission. It has lobbyists in both Washington and Albany and still frequently organizes demonstrations. Therefore, it needed to minimize the ability of any funder, including the government, to be able to pay for silence. The fee-for-service contracts and business ventures served that goal.

To minimize the risks inherent in entrepreneurship, King advises careful planning and cautious forecasting. When Housing Works opened its first thrift shop, for example, it projected \$25,000 in sales within three months. The store actually sold \$25,000 worth of goods in its first two weeks. Being pleasantly surprised by the upside is better than falling short of income projections for most organizations.

King also advocates developing the capacity to sell services that your organization needs but cannot find. Housing Works got into catering this way. It found that the institutional caterers who were serving its healthcare centers were not only expensive, but the food was low quality. He thought they could do better, and did – providing catering now not only to the health centers but to the Used Book Café for events.

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Who Should Pursue Social Enterprise?

Housing Works may make social enterprise look easy, but according to Edward Skloot, executive director of the Surdna Foundation, it isn’t. Skloot was the founder of New Ventures, the first nonprofit aimed at helping other nonprofits increase earned income. Of the agencies

that look into developing for-profit businesses, he says, only 1 percent will go forward with them, and only about 10 percent of those will succeed.

Surdna has funded Housing Works in the past and Skloot thinks its work “is terrific; the right venture, run superbly.”

Still, he cautions that nonprofits considering similar ventures “have to temper their enthusiasm with realism” and undertake careful planning.

But Michael Shuman, vice president for enterprise development for the Training & Development Corporation in Bucksport, Maine, is more optimistic. He says the biggest danger is for nonprofits to ignore entrepreneurial opportunities and “do business as usual. That is a disaster. There is no way that philanthropists and government can possibly meet the social service burden of the U.S. Without fundamental change, it will remain unmet.” Shuman suggests that nonprofits start slowly, and try to make just 3-4 percent of revenues per year come from for-profit ventures.

By fusing unstinting activism and service provision with well-considered entrepreneurial ventures, Housing Works offers a rare vision of how to do it right. □

