

How To: Social Enterprise Double Bottom Line Accounting



As a social enterprise, we have (at least!) two ‘bottom lines’ to track – mission metrics and business performance. Monthly benchmarking becomes especially important with tight margins and potentially high operational costs of foodservice. Tracking monthly progress will help managers make informed business decisions and encourage steady improvement in both your business and mission performance.

The following pages go into detail about key metrics, the process of double bottom line accounting, and sample training allocations:

- I. **Dashboard Report: Key Business and Mission Metrics**
- II. **Identifying the True Cost of Training: Separating Training Costs from Business Costs**
- III. **Sample Training Allocation Models for Double Bottom Line Accounting**



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I. Dashboard Report: Key Business and Mission Metrics

Catalyst Kitchens recommends **separating your production lines** for reporting to track the variance in costs and revenues between the different lines of business (shelter meals vs. childcare vs. catering vs. café, etc.). This also helps staff responsible for business operations to take ownership of the data collection within their direct control.

At the same time, we recommend **giving all staff regular reports on both business and mission metrics**. Student retention and job placement might not be your kitchen manager’s direct responsibility, but the kitchen manager should be fully aware of program statistics. The kitchen culture, degree of trainee integration, or staff interactions can have an indirect impact on program metrics and the overall success of the program, therefore it is important that programs and operations teams are on the same page.

Similarly, case managers should be aware of the health of the business lines and revenue streams to ensure training quality and to provide support for kitchen staff when food production is suffering. All teams have the same goals for thriving businesses and strong training, so together can determine where resources are best spent based on immediate needs. This helps alleviate any “us versus them” mentality between social services and business operations and reinforces that all staff are responsible for the success of the program.

Key Metrics

Key metrics should be tracked cumulatively and independently for each production line, student population, or phase of training. When available, compare actuals to last year’s performance and this year’s budget forecast.

Operations	
Revenue	All earned income related to foodservice business (contracts, retail, stipends, etc.)
COGS	Cost of Goods Sold (includes food, alcohol costs and other stipends)
Expenses	All other related business expense (production labor, facility, etc.)
Food Cost %	Food costs as a percent of revenue
Labor Cost %	Labor as a percent of revenue
NOI	Net Ordinary Income (the ‘bottom line’, how much we are putting back into the program)
NOI %	Shows the percent of revenues we’re putting back into the program
Mission	
# Enrolled	Individuals participating in foodservice training
Retention %	Percent of eligible students who completed each phase of training
Graduation %	Percent of eligible students who finished all phases of program
Job Placement	Percent of students who found employment due to involvement with program
Job Retention @ 6 months	Percent of students who have retained employment (not necessarily with same employer) six months after initial job placement
Success Outcome Rate	Percent of graduates who significantly gained from participation in the program, via employment, housing upgrade, return to education or other aspect directly contributing to their self-sustainability. Do not double count.
# Meals Served	Meals produced for low-income recipients



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II. Identifying the True Cost of Training

Tough Truth: Foodservice is *not* going to make you a bunch of money.

It **can break-even** and it **can generate donor appeal** (57% of patrons say they are likely to make a restaurant choice based on how much the restaurant supports charitable activities and local community¹). It is, however, important that every program endeavoring to add a foodservice social enterprise program understand that this line of business is unlikely to ever produce a large profit margin. According to the National Restaurant Association, the average for-profit restaurant generates a 5-10% margin annually. And that is after 3-5 years in operation!

If you are merely looking for a large, new revenue source, then it is unlikely that Catalyst Kitchens' model is right for you. That said, even a break-even operation is providing significant value to the community, via both tangible (quality-trained employees, nutritious meals) and intangible (diverse community participation in a long-term solution to poverty) significant benefits to the parent organization.

Understanding this is key to drafting a sound business plan and identifying the true costs of training, i.e. what your targets your fundraising department must meet to support a successful training program, above and beyond the costs of operating and growing the business itself.

Identifying the true cost of training:

Catalyst Kitchens recommends that expenses be segregated between the foodservice and training arms of the organization. To isolate the business bottom line, we recommend establishing business activities as separate departments with directly aligned costs. Furthermore, using allocations to **unburden the business units** from the costs associated with training and support services allows for the most accurate accounting of actual business profitability, with or without training. This is called **double bottom line accounting**.

Within this model, a program can clearly assess the viability of its business operations and derive enough revenue to cover costs to ideally contribute back into the mission.

The Peeler Example

In our example kitchen, a normal level of production without a training component would require four working vegetable peelers in stock at any given time for successful production. However, because it is necessary that all students to train using a peeler, our example kitchen has a stock of 40 peelers, 90% more than a standard production kitchen. Therefore, only 10% of the cost of the peelers should be charged as a business expense and the remaining 90% should be charged as a training expense.

Use this principle within your program's production lines to determine what is necessary for the business's operations and what is for training purposes.

¹ National Restaurant Association, Facts at a Glance. www.restaurant.org/research/facts/
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III. Sample Training Allocation Models

At some Catalyst Kitchen member programs, predetermined allocation models are already built into the program’s accounting software. This means that for every incurred expense a model is applied to automatically divide the expense between the business and training components of the balance sheet. This allows all departments to be independently analyzed for efficiency. When predetermining the processes for the allocation of costs it is advised to use a combination of different methods, a few of which are detailed below.

Finally, while business and training components are subject to frequent change, it is important to maintain a **high level of consistency** in the allocation models applied from year to year for comparison purposes.

Training Allocation Methods

Allocation	Method	Best Used For	Update Frequency
Salaries	Objective and subjective combination of student staff ratios, complexity of work and average hours spent with students on the job. See Chart A.	Determining actual business vs. training labor costs.	Consistency is more important than perfect precision so only every 2 years or if biz changes demand it. This will allow you to compare year-to-year.
Staff and Student Census	Count the number of full time staff and average number of students per day. Students get allocated to Training, not Business. See Chart B.	Costs that are closely correlated to an increase/decrease in the number of people in the building (Maintenance, Janitorial, Utilities, etc.).	Annually
Staff and Square Footage	Count the number of full time staff by dept. and divide by square footage of the building.	Static costs that are not highly variable to changes in the student population (Rent, Taxes, ect).	Annually
Admin	Count number of administrative staff per dept.	Determining administrative cost allocation.	Monthly
Food Costs	Minimal allocation, since the majority of food costs are tied directly to the production line. However,	All food costs – 5% accounts for always having trainees in the kitchen, and the inherent learning curve.	Rarely, if ever

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	a flat 5% training allocation is estimated for all food costs.		
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CHART A: Training Allocation Method for Salaries

Position	% Time with Students per Day	% of Time Spent Training	Training Allocation
Admin			15%
Phase 1 Chef	69%	50%	34%
Phase 2 Chef	75%	100%	75%
Contract Supervisor	31%	100%	31%
Retail Supervisor	31%	100%	31%

% Time with Students: The number of hours per day that each position has students working with them.

% Time Spent Training: A *subjective* number, based on student/staff ratios and complexity of work, i.e. how much actual training occurs versus production by each position.

CHART B: Full Time Employee (FTE) & Student Allocation Method:

	Staff	Students	Total	Cost Allocation
Administration	16		16	12%
Business Operations	38		38	28%
Fund Development	5		5	4%
Training	16	60	76	56%
Total FTE:	75	60	135	100%