

GOING DIGITAL

FIVE LESSONS FOR CHARITIES DEVELOPING
TECHNOLOGY-BASED INNOVATIONS

Nesta Impact Investments



Nesta Impact Investments is a £17.6 million fund investing in life-changing innovations that help tackle the major challenges faced by older people, children and communities in the UK. Our approach is to identify high-quality entrepreneurs that have innovations with the potential to have a meaningful impact in our pre-defined outcome areas, and support them with our networks, knowledge and capital to grow ventures that create social impact that is backed up by evidence. Our goal is to grow and support a portfolio of sustainable ventures that create real and lasting social impact, whilst generating financial returns.

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Nesta...

Nesta is the UK's innovation foundation.

An independent charity, we help people and organisations bring great ideas to life. We do this by providing investments and grants and mobilising research, networks and skills.

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CONTENTS

EXECUTIVE SUMMARY	4
RECOMMENDATIONS	5
INTRODUCTION	6
THE OPPORTUNITY FOR CHARITIES AND IMPACT INVESTMENT	6
ROUNDTABLE PARTICIPANTS	7
1. The importance of strategy and focus	8
2. The need for new skills	9
3. The need for trustee and senior management buy-in	10
4. The role of partnerships and support	11
5. The importance of planning funding and the role of impact investment	12
TOP TIPS FOR CHARITIES DEVELOPING TECHNOLOGY-BASED INNOVATIONS	13
CONCLUSION AND RECOMMENDATIONS	13

EXECUTIVE SUMMARY

Nesta Impact Investments is a £17.6 million fund that invests in life-changing innovations to help older people, children and communities in the UK. We expected the fund to receive plenty of interest from charities that are developing technology-based social innovations because:

- The environment for social innovation is ripe – we need new ways to tackle social problems.
- Charities are well positioned to innovate, with good knowledge, user base and reach.
- Technology is a powerful tool, delivering accessible, affordable and wide-reaching services.
- Impact investment is appropriate, as technology-based innovations can generate revenue.

However, since we launched the fund in November 2012, we have received surprisingly little interest from charities, with only 15 per cent of enquiries coming from them. To explore the reasons behind this, we convened a roundtable of charities that are at the forefront of developing technology-based innovations: The BB Group, Brook, Carers UK, Catch22 and vInspired. The participants identified five key areas that are particularly important to focus on.

- 1. The importance of strategy and focus:** The development of new products needs to link into overall organisational strategy. **Our top tip here is:** Technology is the means and not the end. Do not let technology distract you from developing a product or service that meets the needs of the users.
- 2. The need for new skills:** Charities developing technology-based innovations need digital and marketing skills, either in-house or outsourced. **Our top tip here is:** Make an effort to find a developer who is happy to co-design with users, is affordable, and aligned with the charity's ethos.
- 3. The need for trustee and senior management buy-in:** For innovation to be successful, it must be supported at the highest levels of the charity. **Our top tip here is:** Even if it requires a shift in culture, educate people as much as possible and embed the innovation into the organisation.
- 4. The role of partnerships and support:** Relevant stakeholders can provide valuable support as charities navigate unknown and challenging terrain. **Our top tip here is:** Investigate what external support is available and consider going on an incubator or accelerator programme.
- 5. The importance of planning funding and the role of impact investment:** Technology-based innovations typically require three or four stages of funding. Seed funding is easiest to secure, and impact investment can be appropriate in later stages. **Our top tip here is:** Plan the funding requirements to maintain momentum as the innovation develops.

RECOMMENDATIONS

- The sector should build networks of charities with experience of technology-based innovation.
- The sector should create trustee resources on topics such as technology and impact investment.
- Funders should create new funding sources for charities that are innovating, using technology.
- Grant funders and impact investors should build links so charities do not face funding gaps.

INTRODUCTION

Nesta Impact Investments is a £17.6 million fund that invests in life-changing innovations that help tackle the major challenges faced by older people, children and communities in the UK. We invest capital, knowledge and expertise to take innovations to scale, seeking both financial and social returns.

When we launched the fund in November 2012, we expected to invest in a range of organisations, including charities, CICs and private companies. However, the first 18 months have seen relatively little interest from charities. Of more than 400 expressions of interest in our target areas, only 15 per cent have come from charities. So far, we have only invested in companies and social enterprises with a commitment to creating and demonstrating a social impact.*

To explore why this might be, we convened a roundtable of charities that we had thought might be interested in considering impact investment—charities that are developing technology-based social innovations. This paper presents the findings of the roundtable, exploring the key challenges that these charities face, giving top tips for other charities that want to develop technology-based innovations, and making recommendations for the sector and funders.

THE OPPORTUNITY FOR CHARITIES AND IMPACT INVESTMENT

Many charities are doing excellent work in the sectors we focus on, so we were surprised by the lack of interest in impact investment. We recognise that some of the products and services that charities deliver need to be subsidised by grant funding or donations (and are therefore not suited to impact investment), but other products and services have the potential to make a financial return as well as a social impact.






In particular, we expected demand from charities that are developing technology-based social innovations because:

- **The environment for social innovation is ripe:** Social problems are not going away and there is increasing competition for funding, which is encouraging charities to innovate and develop new approaches to embedded social problems.
- **Charities are well positioned to innovate:** Charities have an extensive knowledge of the social issues they are addressing and can therefore identify areas of unmet need; they have a user base with which to test and develop innovations; and they have sufficient brand and reach to take innovations to market and scale.
- **Technology is a powerful tool:** The increasing uptake and decreasing costs of digital technology open up huge opportunities for charities to deliver accessible, affordable and personalised solutions at scale and at low costs—a particularly attractive proposition in the current economic environment.
- **Impact investment is an appropriate funding source:** Technology-based innovations typically require up-front investment in development, and they have the potential to be monetised in the form of sales to commissioners and customers. Such innovations can therefore be well suited to impact investment, which provides up-front capital investment that is repaid from revenue generation.

Despite these foundations, we received very few applications for investment from charities developing technology-based social innovations. Such charities may therefore be facing challenges when going down this route. To explore and better understand these challenges, we convened a roundtable of representatives from five charities that are at the forefront of developing technology-based innovations to deliver their services in new ways.

* You can read more about our portfolio on our website: www.nestainvestments.org.uk/portfolio

ROUNDTABLE PARTICIPANTS

Charity	Description of provision	Technology-based innovation
	Provides free and confidential sexual health advice, services and education to young people.	Digital BiteSize, web-based delivery of Brook's sexual health workshop for schools.
	Provides expert advice, information and support to carers across the UK.	Jointly, an app that combines group messaging with other useful features to help support and coordinate care
	Provides services that help people in tough situations to turn their lives around.	Plan.Do, a social action app.
	Delivers direct support to young people facing issues surrounding mental health, wellbeing and bullying in the UK and across Europe.	Hosts a suite of online and technology-based products that facilitate service delivery.
	Connects young people with volunteering opportunities.	Task Squad, a web-based platform that facilitates short-term, flexible, part-time work for 18-25 year olds.

KEY FINDINGS

Through the roundtable discussions, participants identified five key areas that are particularly challenging or important to focus on during the innovation process:

1. **The importance of strategy and focus**
2. **The need for new skills**
3. **The need for trustee and senior management buy-in**
4. **The role of partnerships and support**
5. **The importance of planning funding and the role of impact investment**

1. The importance of strategy and focus

Charities face many strategic decisions when they are innovating using technology, whether they are digitalising a tool or service that already exists or developing new models of service delivery. Three considerations are crucial to bear in mind:

- **Within the charity sector, the people using a service are typically not the same people who buy the service.** By being clear about the objectives of each group, charities can ensure that development is both impactful and sustainable, and avoid developing a service that meets the needs of one group but not the other.

“Clearly charities should work with beneficiaries to develop their innovation, but don’t forget to keep buyers in mind from the start if you are expecting to sell it at some point, as it needs to meet their needs too.”

Hannah Mitchell, vInspired

- **The development of new products and services needs to link into overall organisational strategy.** Understanding exactly where the development fits with the organisation will help bring focus to the project, ensure all stakeholders are on the same page, and support better decision making.
- **Technology is a tool.** Charities should stay focused on the design and impact of the product or service they are developing, rather than getting distracted by technology for its own sake. Although the technology is likely to take significant time and resource to get right, innovators should not lose sight of the fact that it is a tool – the means and not the end.

Case study: Catch22



Catch22, a social business that works nationally to transform lives, has developed Plan.Do, a tool to encourage more young people into the world of social action. Motivated by the desire to reach more people as efficiently as possible, the charity opted for the technology route so that social action (and the employability skills developed through social action) would be relevant to a bigger audience than it previously had access to. Catch22’s

head of marketing, Louise Kavanagh, reflects: *“We really had to ensure we weren’t being distracted by the fact we were ‘developing an app’ and stay focused on the impact, reach, and efficiency of Plan.Do, and ultimately the need for it to actually make people’s lives better.”*

2. The need for new skills

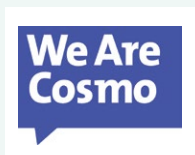
Not all charities have the skills required to develop technology-based innovations in-house, and those that do have such skills need to manage development carefully, as the process can be resource intensive. Charities embarking on this journey need to commit to bringing the necessary skills on board, whether by freeing up staff time, hiring new staff, or working with external agencies. Two main areas for consideration are:

- **Digital skills:** To create new technologies, charities can choose whether to bring digital skills in-house or to outsource to digital agencies. Our participants had a range of experiences, and concluded there are good and bad points of both options. For example, in-house development means having access to a dedicated team of experts who are aligned with the charity's mission for a lower cost, but it does require significant upfront commitment. Outsourcing gives charities the flexibility to get comfortable working with developers while they try out new ideas, but it can be challenging to commission if it involves working with developers who are less aligned with the charity's mission, and it is more expensive.
- **Sales and marketing skills:** Once the technology has been developed, several of the participants had to invest in sales and marketing to take the innovation to scale. Some charities have this expertise in house and can dedicate existing staff time to the task; others need to recruit new staff for the role.

“Having done all the work to bring our app ‘Jointly’ to launch, we quickly realised we needed to get the right sales and marketing skills on board to really drive sales to take it to scale, to avoid it just sitting on the shelf.”

Madeleine Starr, Carers UK

Case study: The BB Group



The BB Group is a charity which seeks to connect young people in need with those that can help them. The charity has digitalised its services over recent years, building up a suite of tools for online public service delivery. Whereas many charities struggle with outsourcing to developers that are expensive and unaccustomed to collaborating with charities and their users, The BB Group has reconfigured its staffing structure to include a dedicated

tech team. CEO Emma-Jane Cross explains *“the high cost of outsourcing meant we had no alternative but to bring technology development in-house. It’s kept us on a quicker, better road to impact, at two-thirds of the cost.”* She added *“what we really need are specialist tech agencies that are dedicated to the Third Sector including charities and their funders.”*

3. The need for trustee and senior management buy-in

For the development to be successful, it needs to be supported by trustees and senior management, particularly given the risks involved. Some participants told us that having someone on the board with a technology background was a huge benefit, particularly in terms of understanding the market and making better, quicker decisions.

Educating colleagues of the benefits of the innovation can help the process, as can making it a key part of the charity's work.

“My biggest tip is to embed the innovation into an organisation, so rather than being a discreet side project, it is something that flows into operations and delivery, and is widely recognised by the senior management team.”

Louise Kavanagh, Catch22

Another way of securing internal buy-in is through securing financial support. Once an organisation invests in the innovation, it has an incentive to support and resource it properly. What is more, trustees and management are more likely to increase their commitment to the innovation if it is attracting external funding, particularly from reputable stakeholders.

Case study: vInspired



vInspired is the youth volunteering charity that developed Task Squad, a web-based platform that helps a community of 100,000 young people find short-term work positions. Of the two members of staff that developed Task Squad, one worked on the product while the other built internal relations, including liaising with trustees and senior management, integrating the product into the charity's strategy, and getting commitment

and buy-in at the right time, from the right people. Hannah Mitchell, head of innovation at vInspired, commented: *“We have been lucky in that our trustees have been supportive from the outset, but they really sat up and listened when we secured funding for Task Squad from Google and Nominet Trust; that external endorsement really helped.”*

4. The role of partnerships and support

While developing a technology-based innovation, charities can find themselves navigating unknown and challenging terrain, and the process can take people and organisations out of their comfort zones. Partnerships with relevant stakeholders can therefore be extremely valuable in providing additional support. Charities might look for support from larger charities or incubators and accelerators:

- **Larger charities** that work in the same field or have created a similar product can be a good source of support. Nevertheless, our panel had difficulty finding other charities innovating using technology.

“There aren’t enough shining stars of charities providing services using technology. We have good examples in the giving sector, but not in service provision.”

Emma-Jane Cross, The BB Group

- **Incubator and accelerator programmes**, traditionally designed for start-up entrepreneurs, can really benefit innovators working in established organisations. All of our roundtable charities had attended this type of programme from Sidekick Studios or The Young Foundation, for example. They found it particularly valuable to have justified and dedicated time away from the office, with the opportunity to learn from experts and peers, to develop the foundations for an idea, and to receive a possible injection of capital. Innovators working in established charities are well suited to accelerators because the charity provides a natural exit, allowing the development to be absorbed once the programme has ended.

Case study: Brook



Brook, a national charity providing free sexual health advice, was accepted by The Young Foundation’s accelerator programme, to develop the charity’s idea of digitalising and increasing access to a workshop that was usually delivered in person. Brook used the three-month programme to test out different ways of approaching the idea, and built a prototype of

the chosen approach. Kai Wooder, Brook’s education lead for innovation and development, commented: *“The accelerator was essential for giving us the physical and mental opportunity to focus on the development. The separation from the office gave us permission not to be interrupted and put 100 per cent of our attention into Digital BiteSize, and we learned a huge amount from being around other people going through the same experiences as us.”*

5. The importance of planning funding and the role of impact investment

Our roundtable participants told us that it is important to map out the funding requirement of each stage of development and identify where the money might come from. This helps to focus the direction and timing of fundraising, and avoid the loss of momentum that comes from having gaps in funding.

The charities' technology-based innovations typically required three to four stages of funding:

1. A relatively small amount of seed funding to get the idea off the ground.
2. Funding for technology development and testing.
3. Investment to launch the innovation and take it to market.
4. Investment to take the product to scale.

Our participants found that the first stage (usually amounting to £25k–£50k) is easiest to secure. Seed funding can come from the charity's reserves, accelerators such as The Young Foundation, grant makers such as Nominet Trust, or strategic partners such as corporates and major donors. Later-stage funding tends to be more difficult to secure, as charities can reach the limit of how much they are able to invest, and the amounts required are too high for many grant funders, particularly given the risks involved. It is at this point in the funding journey that our participants said they would consider impact investment or repayable finance.

Impact investment can be attractive to charities because it provides them with the capital and ongoing non-financial support to grow and develop their innovation while the downside risk is transferred to the investor. However, impact investment can involve a higher cost of capital, selling a share of the ownership of the innovation, or entering into a debt arrangement. Also, because investors are taking a risk, the process for accessing finance can be demanding for charities. Not only do they need to undergo business and financial due diligence, but they also need to consider their governance and legal structures.

“We wanted to use Task Squad to test the social investment landscape, but we quickly realised we needed additional advice on taking on loan finance, the social investment landscape, valuing a business etc. We established an advisory group to inform and develop the strategy, and provide an additional level of rigour, checks and balances to our planning and delivery.”

Hannah Mitchell, vInspired

Accessing social investment therefore involves cultural decisions as well as financial ones. Our group agreed that trustees may need educating in order to feel comfortable taking on social investment, and they may need to spend time building a strong relationship with their investor.

Case study: Carers UK



Carers UK is a national charity dedicated to improving the lives of carers. It has developed Jointly, an app that simplifies the communication and coordination between an individual's carers.

Carers UK has taken Jointly to market, facilitated by grant funding and investment by the charity. Reflecting on the charity's decision not to access impact investment to finance the innovation, Madeleine Starr, Carers UK's director of business development and innovation, commented: *“Staff in the charity are learning about impact investment on the job so it's hard to inform the board confidently. Trustees need accessible, clear and relevant advice that is quick and easy to understand.”*

TOP TIPS FOR CHARITIES DEVELOPING TECHNOLOGY-BASED INNOVATIONS

From our key findings, we have five top tips for charities developing technology-based social innovations:

- 1. Technology is the means and not the end. Do not let technology distract you from developing a product or service that meets the needs of the users.**
- 2. Developing technology requires new digital skills. Be prepared to invest time and effort in finding a developer who is happy to co-design with users, is affordable, and is aligned with the charity's ethos.**
- 3. Getting buy-in from trustees and management is crucial. Even if it requires a shift in culture, it is important to educate people as much as possible and embed the innovation into the fabric of the organisation.**
- 4. Partnerships and support are key. Investigate what external support is available and consider going on an incubator or accelerator programme.**
- 5. Plan the funding requirements to maintain momentum as the innovation develops.**

CONCLUSION AND RECOMMENDATIONS

With society becoming increasingly digitalised, charities need to keep up in order to stay relevant to their beneficiaries and efficient in their delivery. Yet our roundtable revealed that even forward-thinking charities are experiencing challenges that prevent them and others from using technology to its full potential.

To overcome some of these challenges, we have two recommendations for the sector:

- Charities struggle to find examples of best practice in the area of technology-based innovation, so the sector should build networks of charities with this sort of experience in order to collaborate and share knowledge.
- The sector should create more guidance and resources for trustees, educating them about and demystifying topics such as social innovation, technology and impact investment.

We also have two recommendations for funders:

- Charities find it difficult to secure finance to take an innovation from concept stage to scale, so funders should create new funding sources targeted at charities that are innovating using technology.
- Grant funders and impact investors should build better links in order to close the gap between sources and stages of funding for charities developing technology-based social innovations.

Technology is a powerful tool to bring about social change, and charities are in a prime position to harness its benefits. By taking our recommendations on board, charities and funders have the potential to make the most of technology and develop social innovations that have a real impact.

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