

# Lessons in diversifying income - a discussion about developing Arthr

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Diversifying income to create commercial income is a huge area of opportunity for charities. But for many it's new - new ideas, new capabilities, new ways of working. And there aren't enough examples of it having been done successfully. So we therefore hosted a virtual round table to share the journey, challenges and lessons learnt from setting up Arthr.

There's a lot of talk about income diversification. It was a big area that came through as part of our conversation with 60+ Fundraising Directors, and it was again a big theme in the 'Build Back Better' pro bono sessions we held with Exec teams in the early days of lockdown.

Income diversification is a blurry line. Some talk about it being new ways to give - value exchange or subscription products are sometimes quoted as great examples. Whilst these are great, they're diversification of fundraising. They're all based on models of giving.

We believe that diversifying income to create commercial income is a huge area of opportunity. But for many it's new - new ideas, new capabilities, new ways of working. And there aren't enough examples of it having been done successfully.

Therefore, together with Charlotte from Versus Arthritis, we hosted a virtual round table to share the journey, challenges and lessons learnt from setting up Arthr. Charlotte, Income Director at Versus Arthritis, and Andrew, Good Innovation Co-founder, discussed the journey of creating Arthr from an early brief of "we need to create new sources of income" to a startup with a team, new products that have sold thousands, a supply chain, retail partners and two rounds of funding.

They discussed the background to why Versus Arthritis' started this, the overall journey, the testing, the engagement with Trustees, the set backs, the rationale about why to spin it out and what it means for a charity to support a startup. Charlotte also reflects on the lesson's she's learnt along the way and what she now knows that she wishes she knew at the outset.



It was a great session - some of the feedback included:

"Excellent session, thanks so much Charlotte and all at Good Innovation for arranging"

"Thank you Charlotte and Andrew for a great discussion with lots of rich insights"

"Great and inspiring session and a brilliant story of innovation and tenacity!"

"This has been such a great learning. Thanks so much for sharing and inspiring us!"

"Huge congratulations to you, your team and Good Innovation. What a fabulous journey. The sector needs great examples like this"

A video recording of the session is available on our website, or the (rough) transcript is below.

## **(Rough) transcript**

### **Andrew: Why did VA want to look at diversifying income?**

*Charlotte: I think new ways to find and secure sustainable income streams is something that is always on the mind of any Fundraising Director. Every charity has its own context and we certainly had ours.*

*For us it started before we became Versus Arthritis - which was the result of the merger between Arthritis Care and Arthritis Research UK. Back in 2016 when I first starting socialising the idea of income diversification Arthritis Research UK we were a deeply scientific, grant giving organisation that just focused on medical research. We were about as far away from our beneficiaries as you could imagine, despite being there to represent around 18m people in the population with arthritis. But for what ever reason the organisation had a bit of a light bulb moment and realised that we needed to change and that meant transformation across the board - from our charitable activity, our visibility to people with arthritis, our attitude to financial sustainability right through to the culture of the organisation.*

*But all of that costs money and because we'd expanded our charitable remit from just being a grant giving medical research organisation to providing information and support services for people with arthritis that meant increasing our spend from £30m a year to £50m a year. Which sounds laudable - however, that was against a backdrop of an income portfolio that was slowly fizzling out. The charity didn't have a history of successful fundraising, we were over reliant on two income streams, both of which had very low cost bases - one was legacy income and one was royalty payments from a very successful research patent - of which was due to come to an end in 2019.*

*In addition to this the external fundraising environment, certainly in the UK at that time many of you'll remember, was becoming increasingly challenging and GDPR was on the horizon also.*

*So there were no successful income streams in our portfolio that we could just dial up, so when you're faced with that sort of bleak horizon you sort of have no choice but to innovate. So we knew we needed to diversify our income streams and for us that meant looking at commercial or earned income - rather than traditional voluntary income streams.*

*So that was our starting point and the point at which we looked to bring in Good Innovation to help us.*

### **And leaping ahead you've now got a business with a team, products, investment, sales...**

*That's right. Amongst all the darkness that 2020 has brought there were some positive moments to feel good about. In that we did actually manage to launch a new business from scratch that we think has a real opportunity to deliver both money and mission for Versus Arthritis and impact significantly on the 18m people with arthritis in the UK. And I would say has the potential to impact globally as well given the business model.*

### **For those that haven't seen, describe Arthr and what it's achieved already**

*Essentially Arthr exists to give people with arthritis the opportunity to buy brilliant products that are created with them in mind and to make their everyday easier. The premise is as simple as that. I*

*guess what makes it different from any other charity trading subsidiary is the way it's been set up as a social venture with the ethos of delivering both profit and impact for people with arthritis.*

*So it has social values right at the heart - and that translates across all aspects of the business such as our supply chain, how we involve people with arthritis in the product development, and how we work with our partners for example - but we operate like a commercial business, with the bottom line always in our sight.*

*So Arthr designs and makes its own products for people with arthritis - deliberately filling product gaps in the market based on unmet need. But it also has quite an important role in deliberately disrupting those markets too. We want to move away from the concept that if you are unable to function like an able bodied person you can only shop in market places that are for disabled people, or that the products available to you will only look like they come out of your local NHS hospital.*

*The other focus for Arthr is to be a curator of those well designed products that are on the market but aren't widely available or accessible or thought to be good for people for arthritis.*

*And lastly they also play a role in improving the shopping experience because we know that there isn't a retailer out there specifically catering for the needs of people with arthritis, there is no one that understand the condition or what it's like to live with it day in day out and so product choice and the buying experience is also a key factor.*

**It's been a long journey. We kicked off in early 2016 and Arthr was formally set up and first funded in Sep 2019, 3 and a bit years later. What were the stages / big chunks of work?**

*I think the only way to approach this type of work is to do it in stages. Partly because it's a lot of work but also you need to be led by what's coming out of the process. So we chunked it down - we started with an audit - to try and identify all the assets the organisation was sitting on. So a lot of asking questions of what teams were doing day to day, understanding what expertise and know-how was in the organisation. Coming out the end of that with a list of ideas and opportunities - about 25 in total - which the senior leadership team then discussed and narrowed down. And we did this using some helpful criteria - such as - were there any precedents in the market, the pros and cons of doing and not doing and the risk reward profile for each. This got us down to 5 ideas.*

*The second stage was to take that short list and work up business cases for each. Some were easier to do as were quite straight forward, or had been done by others so there was a model that could be followed. A couple of them were new and quite bold commercial concepts (one of which was the product venture concept), so needed quite a lot of further investigation, external validation of markets for example.*

*So all of that bit of the process took about a year and a bit. By the time we had reached the beginning of 2018 we had got the point of having a serious conversation with the Board of Trustees about investing a significant amount of money into a retail business idea that was about as far away from medical research as you could possibly get.*

*So really it was a process of starting broad and gradually whittling down with some clear criteria for decision making along the way.*

## **Why did it take so long?**

*A whole host of reasons - lots of internal sell in which just takes time; the fact that innovation and the process involved in challenging the status quo was a completely new way of thinking to the charity at that time, so taking the time to set it up well was important.*

*In 2017 we went through a merger and for anyone who's been through that knows just how much organisational time and energy it sucks so we probably lost 8 months because of that. And then there's the Trustee and Committee timetable - the reality in many organisations is that they only meet every 3 months and finding the right time to discuss something so new and significant I found also a bit of a challenge.*

**I remember feeling like there was lots of opportunity - I still remember someone giving away free insight to BUPA and McKinsey who then I'm sure weren't giving it away for free. Can you remember what your sense of the opportunity was at this stage?**

*My gut instinct at the start of the process was that we must be sitting on something that was of value to someone and was not being fully exploited. And I think there were a few reasons for that - the first was the size of the population that arthritis impact - 18m is not a small number and I knew back then we weren't even touching the sides of that population so it felt like there was opportunity there. The second was that we didn't (and still don't) have a direct competitor and therefore we had a market advantage of being the only experts. The third was money - we were fortunate enough to have money in reserves that needed spending.*

*So without knowing exactly what the opportunities might be there was enough in our favour that made me feel hopeful that we could translate something into commercial gain.*

**The first stage of a project like this usually involves lots of cross-org working as responsibility for income sits in different places than the assets. How was the cross-org working during this stage? What was the reaction from colleagues and others across the org?**

*Having Good Innovation as an external agency lead, particularly on the audit stage, across the organisation was crucial for us I think. It was really helpful to have an independent expert asking the questions rather than the Fundraising Director or a team from fundraising.*

*My role at that time was really to fuel the narrative of change. To help teams understand the need to think differently about income, to understand the income generation challenge as we just weren't a fundraising organisation at that point.*

*I have to say that my fellow directors were really important in this as well. We were, and still are, a very collaborative team. They were also very open to this and also valued Good Innovation's thoughtful approach, so some of the key decision making points were not just down to me, but to us as a collective.*

**Next we explored a couple of ideas in more detail. What was the plan from this point?**

*So we focused in on the products venture idea and ultimately the plan was to make the business case to trustees for investment. Up to this point it had really been a paper exercise - so predominantly using existing insight from people with arthritis and desk research about the assisted living and disability retail markets.*

So we knew some basic things:

- We knew products on the market weren't good enough – pwa were telling us this
- We knew that there wasn't a specific arthritis only offering – the existing products were being sold through assisted living or disability retail channels, weren't condition specific and therefore the shopping experience for someone with arthritis was awful
- Then thirdly we knew the unmet need was significant – people regardless of age, gender or condition were telling us that not having solutions available to them was fundamentally robbing them of their independence and often their dignity. Once you know that you can't ignore it.

But there was a whole load of stuff that we didn't know and needed to know if we were to figure out if there actually was a legitimate business here and of course to put a business and investment case together. We needed to know things like...

Which products people actually wanted and needed – the range of problems that people with arthritis experience is immense, varied and complex. Depending on where you have arthritis in the body depends on what issues you experience and these can range from dexterity issues through to mobility issues. Lifting, sitting, standing, sleeping, bending, twisting the list goes on. And if you translate those actions into every day tasks you start to build a picture as to just how restricting it can be.

The second thing we needed to know was - what role should Versus Arthritis play, because we had choices here. For example should we just make some money available to some very clever designers to make some better products and take a share of the IP? Or should we be running specific shops that curate and sell some of these products?

And then of course one of the most important things we needed to know was what the cost/return was – we had done some very rough estimates of market size and average purchase value, but that was it. So at this point we certainly didn't know the level of investment that might be needed as we hadn't fully determined the business model.

### **What was the appetite for big ideas such as this?**

The appetite was good. The scale of this possibility had certainly ignited something in the organisation. In fact I remember the Trustees saying to us as a leadership team at the beginning of the income diversification process - be bold and unafraid. Which is a gift if you're trying to innovate right?

With hindsight, I would have checked in on exactly what they meant by that. Because through this process I definitely learnt the hard way that my bold and unafraid was possibly not the same as the majority of the Trustees and that their risk appetite was a little lower than mine!

**I remember we did a lot of work finding just how broken the market was and exploring so many different roles VA could take. It was pretty complex looking at the different roles in the value chain and seeing the detail. We looked at all the options across that chain and considered aspects such as what exactly it would entail, who the audience/customer would be, what would we need to do to make it work, cost, revenue, time to revenue, ownership, beneficiary impact, risk etc...**

**It became clear that the opportunity was big - but had to take a role in the whole value chain, not just reselling. Was this daunting?**

*Yes and no I think.*

*No, because the analysis process of the value chain was so thorough it was really clear in my mind that we had to pursue solving the whole problem. Because if we'd just fiddled around with one element of that chain - so say for example just the design element, or just the selling element, we wouldn't have made enough of an impact because there were so many dysfunctions across the piece. So any effort would be lost and therefore we wouldn't realise enough cost/benefit.*

*On the flip side of that there was a moment when I realise I was going to have to pull off the biggest pitch of my life to try to convince a bunch of deeply conservative scientists that they might want to invest millions of pounds in setting up a design, manufacturing and retail business that was about as far away from medical research as we could possibly get. And that was utterly daunting.*

**So then we built a very detailed business and investment case. What did the rest of your exec team think?**

*I mean still supportive. I think we all felt that we'd done such a great job on showing the gap in the market, showing the unmet need from the audience and why it was obvious for us as the expert charity to step in. Plus we were feeling quite smug because we felt we'd absolutely answered the Trustees challenge to 'be bold'.*

*So perhaps a take out from that would be - watch out for group think?*

**So, you took the biz case to Trustees. How did it go?**

*Well - they didn't commit. It was a brutal meeting and my ego took a massive bashing!*

**Why?**

*Two reasons I think.*

*The first was I hadn't properly checked their risk appetite. I had assumed that by saying 'be bold' we were all, as a collective, on the same page. Just not the case and those differences around comfort levels just hijacked the meeting, took us down unhelpful rabbit holes.*

*The second was I just hadn't done enough pre meeting engagement. And it might seem obvious but the relationship between Exec and Board at that time was quite a distant one. We didn't interact much in between meetings and in fact it was sought of frowned upon to burden them outside of the very formal meeting structure. I had managed to warm up a couple of key Trustees who I thought would help sway the argument but it just wasn't enough. So putting in that ground work ahead of the meeting is just so important I think, particularly when there is so much content and detail that needs to be digested.*

*But, despite it being a hard meeting the Trustees didn't shut the door on the idea completely and I think we ended up in a better place because of that.*

*So they said go away and do some more work, which at the time felt daunting and impossible and to me a bit of a cop out of making a difficult decision. But actually it gave us and me an opportunity to do a couple of things:*

- *test and proof some of the assumptions in our business model*
- *And some time for me to engage with the Trustees as individuals rather than a group*

**So we decided to change tack and prove that this was a good idea in the real world. This was quite an undertaking as we needed products, a shop, marketing and customers. We designed a great approach over a couple of design sprints with various teams of industrial designers co-creating with people with arthritis.**

**We had a suite of products designed up to the CAD stage and then we built a couple of fake online shops. We filled one with our new products and one with existing products, and ran two identical facebook marketing campaigns to see how they compared.**

**How did this stage feel?**

*Actually quite invigorating. It felt really positive to be moving forward in a way that was pacey and low cost. And proving that we could design products with pwa as such an integral part of the process was I think fundamental to the Trustees nervousness. Partly because it was such a new area for us and therefore being able to prove this was critical.*

**Many would balk at the risk, but you seemed to have good alignment, even getting CEO and medical experts along. How did you communicate and manage this internally?**

*Surprisingly it wasn't a difficult sell. Again the evidence was so compelling that this type of business was so needed that by that point everyone was an advocate in the charity and I think this excitement just bubbled over to some of our other expert and supporters. So we had an occupational health expert offer to get involved and support which was lovely.*

**The results were amazings. Compared to the shop with existing products, we sold significantly more new products, and at a higher average price. Facebook acquisition costs were also lower, meaning the ROI of our products was about 4.5x higher than the existing products. What were you expecting?**

*I honestly didn't know what the outcome would be. I am a glass half full person so I was hopeful but I think I also knew that this data was going to be really critical in the next stage of making this venture a reality - whatever form that was going to take.*

**How did you take this and re-approach the Trustees?**

*The first thing I did was convince the CEO and Board that Finance Committee should take the responsibility of oversight of income generation. That meant I had a smaller group of people to engage with and to influence and I hoped that this would make the investment decision process easier.*

*Then I went to work on who needed what to be convinced. So that meant lots of emails, calls and meetings. But also I wanted the FC to feel the excitement that we all felt in the organisation and to feel part of this innovation journey and decision making. And for that I used a few different methods - including a video that we'd made of the whole process which was a genius idea of yours. And yes some of them were hard work but I really persevered as I just wasn't willing to let this fail - I felt that strongly that this venture was the right thing to do and that the data had shown us this loud and clear. By the time it came to the FC meeting where they actually had to make a decision all of them had digested the detail, understood the risks and felt more confident to have a better discussion.*

### **I remember you structured the ask different in this second meeting...**

*Yes I did that's true. I took a bit of a risk looking back and I think that's probably because I felt like this was probably the last chance saloon.*

*So instead of explaining why we should do it I flipped the pitch and asked the FC to explain why we shouldn't do it. Amazingly it worked and having the data from the test to back it up was key, because that also gave more validity to the financial model.*

### **How was it getting the Trustees to agree to fund something that they had no experience of?**

*It's worth investing time in how you explain things. What we were working towards was something that the organisation had had no exposure to, no experience of and no understanding of, so there's an education process that needs to happen alongside the sell in.*

*I really think creating moments for them to be a part of the process helped – even if they don't want to you got to try and make them. All of us who were involved in this project – from designers, people with arthritis, the project team – felt passionate about it. I suppose I would say don't underestimate how infectious that can be.*

### **I also remember that we created a great way of communicating both the mission and money impact. Sounds obvious in hindsight, but we started talking about the cost per impact and then comparing this to other activities across VA. When profit's being generated it creates a very attractive cost per impact. Did this make a difference?**

*Yes it did. One of the ways to manage the risk appetite issue was to compare the venture investment to other levels of investment that were currently being made as part of our charitable activity. So we're a scientific research charity so are used to signing off significant sums of money as grants, often with little information about the actual impact - as is the nature of some research. But the comfort levels around the Board were OK with that because that's the business they're in, that's what they know. Likewise with our recent marketing investment to increase the understanding and awareness of arthritis, where again the return on investment isn't always easy to measure. We deliberately calculated a cost per impact in the venture model - which was very favourable and under £100. So when you lay that along side other investment it compared very favourably.*

### **We explored several different options for how to take this forward, ranging from an internal VA team to spinning it out and giving equity away. The decision was made to treat this as a VA fully funded but stand alone separate venture, rather than just set it up as an internal department. Why?**

*That's right we considered lots of options and all of us in the exec team felt strongly that this needed to sit as a stand alone business. And there were a few reasons for that. Primarily we just didn't think that if it was set up as just another internal department it would be able to operate like a start up - to be agile, to be nimble and to be commercial. And so in order to protect it and to give it the best chance of success we wanted it at arms length.*

*Alongside that though we were also keen to ensure it has the right support recognising that we at VA don't have any expertise in retail start ups so working alongside Good Innovation as a start up studio was also key.*

### **How's it been set up and work in practice?**

*So it is a company limited by guarantee, it is 100% owned by VA and therefore it is part of our group in the same way our other trading company is.*

*It has its own board - with 5 Directors (1 exec and 4 non execs). I sit on the Board as shareholder representative and Finance Committee essentially act as the shareholder. Their role is to have oversight of the investment on behalf of the Trustee Board but they do not get involved in day to day operations - that is the role of the Arthr Board.*

### **How does the governance work?**

*On paper it looks quite straight forward. The oversight and reporting structures are clear between the various boards and committees. Arthr has a set of business control documents - so P&L, risks etc that we review as an Arthr Board each month and this is also shared with the FC. Alongside this is a plethora of legal documents that support the partnership between Good Innovation, VA and Arthr, the loan, any cost sharing etc.*

*The venture board itself is made up of 5 Directors - the MD and 4 non execs that all have different but relevant experience. My role as Chair provides the jam in the sandwich between FC and Arthr and is at times very tricky to navigate because I have a conflict of interests.*

*The challenge is managing the collision of two worlds - the start up commercial world and the not for profit world. Even though Arthr is arms length and separate, because it is owned by VA the Charity Commission views it as any other subsidiary and therefore it is 'caught' under all the not for profit regulation. That doesn't always enable entrepreneurial behaviour or independence.*

### **We agreed to enter into a risk - reward contract to support Arthr for the first round of funding as it felt fair for us to have skin in the game too. How was developing this?**

*It was a real challenge because that's not how our procurement & contract process works in the charity. It's just not a scenario that we have been used to. Plus having a set up between a charity, a start up and a venture studio is also quite new and the first lawyers we used just didn't fully understand what we were trying to do and wanted to overlay a standard charity subsid agreement. So my first advice would be choose your lawyers carefully. We are now working with Bates Wells who have been excellent.*

### **We had to hire an MD. Great and nervous part of the process. Remember being amazed by the quality of people that were applying. What were your reflections?**

*Yes we were really surprised with the quality and experience of candidates coming forward. Even though we were offering below market salary there was a real appetite from really senior people who were running very successful commercial brands. I think the type of social venture we were trying to create really resonated with senior execs who were perhaps slightly disillusioned with the corporate world and were looking to get involved in a new type of business that had more of a social ethos.*

### **Use of brand is always an issue, potentially even more when it's a separate company. We settled on 'powered by VA', can you share the rationale behind this?**

*This was a really important subject for both sides. We needed to create a brand and identify for Arthr that could stand alone and was separate to VA, partly in order to protect the charity, but we also wanted Arthr to benefit from the trust and independence that VA has.*

*So we worked through the options and landed somewhere in the middle where Arthr has its own identity that looks quite different from VA but has a clear link using the language powered by Versus Arthritis.*

### **The last 12ish months have been about incubating Arthr as it starts up. What have been the biggest surprises or challenges?**

*The first thing to say is that I'm super proud of the Arthr team for getting a new business off the ground over the last few months against a backdrop of so much difficulty. So I've been pleasantly surprised by that.*

*The challenges are mainly around the governance and trying to find the sweet spot between protecting Arthr from the organisation but letting just enough of VA in to be able to promote it and support it. From a personal perspective wearing two hats is way harder than I thought it was going to be. I don't have a huge team of people supporting me on the Arthr part of my job, it's predominantly me, some of my business support managers time and Bates Wells. And trying to balance the demands of being responsible for oversight of a new business and embedding it into a charity governance structure that at times seems to actively want to prevent it from thriving - alongside running a fundraising function is way more than a full time job. And I think that's only going to get tougher as Arthr grows and expands because that will test the charity's natural desire to control and contain.*

### **What's the reaction to Arthr been from staff at VA?**

*Overall really positive, particularly from colleagues who have arthritis and are seeing first hand the deficiencies in the market and the lack of good products available to them - so that's really heartening. I think our people feel proud to be part of a charity that is willing to take such a brave step and do something so new.*

### **Trustees had the decision to make over the next stage of funding. How was this process?**

*Yes so that happened in September this year. We set the funding rounds up in stages, as might be the case with a normal start up. So the first round of funding was for around 12 months and Arthr had success metrics that it needed to meet in order to secure its second round funding at the end of that period.*

*The Arthr team put together a pitch, Bobby (MD) had pre meets with each of the finance committee and I spelt out exactly what the FC needed to consider when making a decision on a social investment - of which the loan to Arthr is because it's achieving both money and impact. The Charity Commission and HMRC provide very clear guidance on this.*

*I would say there was mixed engagement from the FC and that is just a reality of the individuals within that committee and is probably common to a number of charities, but they did approve the 2nd round funding so the outcome was good.*

**Given everything been through, if you had to turn it into three things you know now that you'd have done differently, what would they have been?**

1. *Not to under-estimate the time and effort needed to prepare the organisation to think differently in order to get to saying yes to Arthr. There were a lot of mindset shifts needed in relation to income generation and risk within the charity before we even got to the point of pitching the venture idea.*
2. *I might have bought the assumption testing forward. So, done the design sprint and the online shop head to head test before I made the first pitch. Having real world data to share with the Board to support the assumptions in the business model took the conversation and decision making to a different place and made the proposition less conceptual.*
3. *I wish someone had said to me - before you start implementing anything get the right legal partner on board. Faffing about between internal and external lawyers, who just didn't have the expertise, added about 6 months of wasted time - which was stressful and costly*
4. *And lastly just a personal reflection - it's easy to get swept up in the innovation aspect and all the challenges that come with that and I personally like that - I like disrupting and I like change. But I don't think I really gave enough thought to the impact on my role in landing this. The responsibility of holding it all, of navigating the regulatory framework, of doing something so new, is a great learning experience but it can also be quite lonely. So I would have spent more time on thinking that through and ensuring I had the right support network around me to share the load and the responsibility.*