Thinking about a *Revenue Generating Venture* as a Sustainability Strategy for your Nonprofit Organization

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A revenue generating venture (also called a social enterprise) can be one way to help your organization offset the unreliable grants you use to pay for programs. What follows are some questions and answers designed to help you think about the desirability of using this strategy.

Can my nonprofit really operate a revenue generating venture?

Absolutely! Many nonprofits survive today because years ago one of their board members or staff figured out how to generate a steady stream of earned income. One lasting example has been Goodwill. Their thrift stores generate substantial sums of revenue to pay for a variety of services and often also employ the organization's clients.

As an added note, understand that nonprofit tax status does not mean that a nonprofit can't make a profit. Nonprofit tax status means that in the beginning, middle and end, the organization's staff, board and immediate friends cannot gain financially from a nonprofit's work. The community (that part of the community that is within your nonprofit's mission) must be the sole beneficiary of all your nonprofit's efforts, especially earnings from products or services.

From a taxation and tax status perspective, does a nonprofit have to run a venture that is related to its mission and if no, what happens to its tax status as a nonprofit?

A nonprofit can operate any type of venture it would like: related and unrelated to its mission. A related venture could still require that income taxes be paid. And, an unrelated venture could result in a corporate income tax for the nonprofit or could conceivably threaten the nonprofit's tax status if enough income was earned. This is a problem that some nonprofits would celebrate. Consultation with an accountant or attorney is certainly recommended to address any possible challenges.

What are drivers that make or break a venture's success?

Management, Market, and Commitment. Managing is the key element that can make or break a venture. Great management understands and fully anticipates the operational demands of the business. Management also recognizes and addresses the cultural demands and nuances that a venture can place on a nonprofit. Cultural demands include how to satisfy customers not traditionally served by the nonprofit; managing and/or integrating staff and making financial ends meet without grants or donations.

A second equally important element is market. Without a complete understanding of the characteristics, needs and/or wants of the potential "buyer" of your product or service, your business will prove unsuccessful.

Commitment is an important responsibility of a nonprofit's board of directors and managers. A revenue generating venture often requires patience and money until "success" occurs. The board is the "owner" of the nonprofit and that nonprofit's venture.

As the owner, the board must ask the hard questions, especially about the goal of the venture(make money, training, other). If the goal is to generate monies for the nonprofit, the board must determine the soundness of the business plan. Note that it takes most small businesses 3-5 years to break even. And, more than 80% of small businesses fail in their first year.

Is a business plan really necessary?

Absolutely! But there are nonprofits that without a business plan thought they had a product or service idea, decided to test it and found they had a market.

Business plans are meant to reduce the guesswork and risk that come with undertaking an activity that has risk - i.e. a business venture. And the riskiest element to a venture is the loss of money from either a loan grant or reserves. Business plans are also sales tools to help secure money that may be needed to help start the business. And, like all plans, business plans can also serve as a reference tool for those responsible for implementing and evaluating the business.

What does it take to write a business plan? Homework and time!

Homework: A strong, sellable plan is one which answers six central questions:

- who is the prospective customer and what do they need or want;
- what is the product or service you will be offering;
- how will you produce and deliver your offering;
- how much and where will you get the money to start-up and sustain operations;
- how much will you make and
- what could go wrong and what will you do then.

Time: There is a lot of off-the-shelf software available to help organize and simplify writing a plan, so the real time should be put into thinking. Even with the software, plan on spending between 20 and 60 hours to do your homework. And add in the time of others who will be part of your research and thinking crew, plus advisors, managers and the board.

What's in a business plan?

A business plan has the following parts:

- A summary that tells the essence of each of the parts of the plan.
- An overview that describes the business and the goals for the business.
- An in-depth review of the market - the prospective customer; the customer's wants, needs or interests and demographics; other providers of this service or products and other external factors (like economy shifts or public policy) that could affect demand.
- A marketing plan that describes the benefits and features of the service or product; pricing (how much customers will pay); distribution (how prospective customers will receive their product or how the organization will get the product or service to the customer); and, communications (how the customer will learn about the product or service).
- An operations plan that describes who will manage (operations and finance), the personnel and non-personnel resources that will be needed; operating hours or logistics; the relationship of the venture to

the nonprofit including the governance aspects.

- A finance plan and budget that are based in the customer demand projections and operational costs.
- A risk analysis and plan that describes what could go wrong with any parts of the plan and the methods for addressing these risks.

What are some of the sources for financing a venture?

- Borrow from the organization's assets
- Borrow from a funder (a program related investment)
- Get a grant
- Get a gift or below-market loan from a friend of the organization (an angel)
- Go to a commercial bank or lender
- Use credit cards
- Borrow from a venture capitalist at some cost or a social venture investor (noting that these folks want to be involved in and advise you on the operations of your venture)

How do I get started?

Talk among staff and board about why a venture is right for your organization: to train consumers, to develop an alternative to grants and donations or to reach new audiences. This understanding will help determine the right type of venture and begin the business planning process.

Brainstorm with your team to identify one, two or three venture options. Conduct quick research to determine if there is a market demand and what the experience of other nonprofits has been with this type of venture.

Once the potential market demand is identified and there is agreement that one of your opportunities is a good direction for the organization, more complete business planning can begin, starting with the identification of a project manager to guide the process. You may at this point recruit a paid consultant or volunteer to help with the homework and thinking. And be sure to include one or more board members to ensure board commitment.

BRODY • WEISER • BURNS provides the research, analysis and experience needed to

- identify promising ventures,
- determine market potential,
- develop market and operational models,
- construct financial projections and
- identify risks and methods to address them.

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