



How to Create Jobs, Save the Planet and Make Money for Your Nonprofit: A Lesson in Developing a Business Plan

by Michael Burns

A business becomes successful by seizing opportunity. A business plan can make that happen.

Nonprofit organizations can benefit from knowledge about business planning, because a profit-making business can be a source of revenue for a nonprofit's services. Business plans give nonprofits and lenders of start-up money the confidence that a profit-making business idea can help a nonprofit organization do its work. The business plan, therefore, should be a nonprofit's first step toward starting a business.

BWB SOLUTIONS helps nonprofits seize opportunity by helping them plan their business strategies. The following case study illustrates the business planning process that **BWB SOLUTIONS** has shown to be effective.

A Solid Waste Diversion Business

This case begins in a landfill in Eugene, Oregon. Landfills are wondrous places filled with a variety of opportunities. They attract the interest of many people, including the executive director of Eugene's Saint Vincent DePaul Society [SVDP], who likes to explore the hills and valleys of his city's landfill.

Nationwide and in Eugene, the Saint Vincent DePaul Society is well known as a provider of various services for the poorest of the poor. Saint Vincent DePaul re-sell stores are a familiar sight in cities throughout the country. The profits from these stores pay for many of the services the organization provides.

The executive director of Eugene's Saint Vincent DePaul has learned that with time, creativity and energy, a landfill can be a source of supplies for the store and jobs for people in need.

The Eugene landfill has, indeed, become an unusually fruitful source of income for the Saint Vincent society. Included among its discarded items are propane tanks (valuable scrap metal), old mattresses (to be rebuilt and recovered) and torn and shredded clothing (to be made into bundles of rags).

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One particular landfill finding caught the attention of the Enterprise Foundation, a **BWB SOLUTIONS** client. The foundation is a national nonprofit housing and community development organization that fosters neighborhood revitalization. Enterprise works with more than 1400 organizations in 400 locations. The Enterprise Foundation continually seeks new revenue-generating activities for itself and its affiliates. Since one of the Enterprise Foundation's offices is in Oregon, it wasn't long before two opportunities met.

The Business Plan

A Starting Plan

Unwanted refrigerators were an item our Eugene executive saw frequently in the landfill. By doing a little research, the executive learned the following:

- Refrigerators are common landfill items, deposited throughout the year;
- About 16 % of unwanted refrigerators are still in working condition; Many have been discarded by owners who don't like the way the refrigerators look or run; and
- Refrigerators still have value even if they cannot be refurbished or repaired. First, they are made of ferrous metal (all or part iron) that can be melted and made into other products. Second, refrigerators manufactured prior to 1995 contain freon, a gas whose production is now outlawed. Recycling freon is legal and helps fuel the demand for use in older car air conditioners.

Our Saint Vincent executive learned enough about the value of refrigerators to move him to further study their business potential. The investigation resulted in St. Vincent DePaul's establishing a workshop and storefront where refrigerators could be refurbished and sold. Other appliances soon were being recycled as well. The business caught the attention of the local Enterprise Foundation office, which in turn raised the possibility of replicating it in other Enterprise cities. A principal in the national Enterprise Foundation office contacted **BWB SOLUTIONS** to investigate the potential for establishing an appliance resell store in the Baltimore, Maryland area (an Enterprise "focus" city).

The Planning Process

Through business planning, a nonprofit identifies possible market opportunities and the types of businesses that will satisfy those opportunities. A business plan describes the customer and competition; the mar-

keting strategy (product or service, prices, distribution, communication); the operations plan; and the cost and financing details.

In Baltimore, **BWB SOLUTIONS** began the planning process by conducting extensive research on solid waste diversion in Baltimore. The research included Internet searches, interviews with key experts and a site tour of Baltimore’s resell vendors, landfills and junkyards. Once the need and opportunities were identified, the Enterprise Foundation, in partnership with the Saint Vincent DePaul Society, began to develop a business plan for generating jobs and revenue in Baltimore. The idea was to sell reconditioned refrigerators and other durable consumer goods diverted from the city’s waste systems.

Four particular circumstances made this an attractive option:

1. Each year a large number of unwanted but useable refrigerators were discarded into Baltimore’s landfills;
2. Baltimore’s low-to-moderate income residents needed, but had a hard time finding, dependable and affordable refrigerators;
3. Reconditioned refrigerators were in short supply in the city; and
4. The Saint Vincent De Paul Society already had pioneered a business model that reclaimed unwanted refrigerators, addressed the needs of residents and generated a modest profit.

Components of the Plan

Customer:

According to **BWB SOLUTIONS’** research, Baltimore’s 373,000 low-to-moderate income households needed to replace, annually, an estimated 53, 000 refrigerators. Yet fewer than 6200 used refrigerators were being sold in Baltimore each year. This indicated a large, untapped demand for affordable, working refrigerators to meet the needs of low-income households. Also, The Saint Vincent De Paul Society’s experience in Oregon indicated that middle-income households - especially those in transition - would need several thousand additional units.

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Using the average Section 8 subsidy for refrigerator replacement as a guide, **BWB SOLUTIONS** was able to reasonably conclude that low-income households would be able and willing to pay a minimum average sales price of \$151 per refrigerator. Factoring in the middle-income households, **BWB SOLUTIONS** determined that a pent-up demand existed for thousands of used refrigerators in Baltimore, providing that the refrigerators were of suitable quality and priced at \$150 - \$300 – approximately 20% to 40% of the cost of a new unit.

Competition:

Baltimore County had fewer than 10 used-refrigerator dealers, and only a few of those dealers reconditioned or provided warranties on the refrigerators they sold. The principal purveyor of used refrigerators in Baltimore operated four stores that sold an estimated 2500 to 3500 “scratch and dent” units (appliances sold new by Baltimore Gas and Electric and other larger retailers but returned shortly after purchase due to some aesthetic or other flaw) a year at approximately 25% - 35% of the price of a new unit. Two other competitors offered used merchandise at similar pricing levels, selling a combined average of 900-to-1800 units a year. The remaining three vendors of used refrigerators carried only a few units at a time, most of them older than 15 years and priced at about 15% - 20 % of the cost of a new unit. **BWB SOLUTIONS** estimated that these three vendors together sold fewer than 900 units a year.

Marketing Strategy:

To begin an appliance reconditioning and sale venture, the Enterprise Foundation needed first to acquire refrigerators to refurbish and sell. **BWB SOLUTIONS** determined that this could be accomplished in two ways: individuals and dealers would drop off unwanted refrigerators; and Enterprise would contract with the city of Baltimore to divert all “white goods” from the metropolitan waste stream. Then skilled refurbishing technicians hired by Enterprise would determine which refrigerators could profitably be reconditioned and which would instead be disassembled for sale as scrap and used refrigerant gas.

With **BWB SOLUTIONS’** help, the Enterprise Foundation determined that the technicians would be paid on a piecework basis for successfully refurbished machines that could be sold and maintained in the field. Each technician who refurbished a refrigerator would also be responsible for maintaining it at no extra fee, thus motivating the technician to ensure that every unit leaving the store would work for the foreseeable future. Experienced and skilled refurbishing technicians could thus earn more than \$50,000 per year, which would be an incentive for attracting and retaining good technicians.

Once the refrigerators were repaired, cleaned and painted, they would be transported to the showroom for sale. Based on what **BWB SOLUTIONS** had learned from the experience of SVDP in Oregon, the Baltimore showroom could draw steady foot traffic to the store by maintaining a display of at least 50 units of varying models, colors and prices at all times. The units would be priced at one-third of the initial retail cost and carry a 90-day in-home service guarantee as part of the fixed price.

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Operations Plan:

Based on **BWB SOLUTIONS'** research, the Enterprise Foundation decided to begin by locating a storefront and warehouse either within or adjacent to an area known to have few opportunities for residents to purchase appliances and other requisite durable and consumable goods. The area also would provide job opportunities within reasonable commuting distance for the area's residents.

Next, with **BWB SOLUTIONS** help, Enterprise would negotiate agreements for acquiring unwanted refrigerators from the City of Baltimore's "Clean Sweep" program and waste transfer station; the city's public housing authority; and Baltimore Gas & Electric Company. **BWB SOLUTIONS** had determined that each of these sources generated thousands of unwanted refrigerators each year.

In the Clean Sweep program alone, refrigerators comprised an estimated 40 percent of all retrieved white goods. Without a refurbishing program, however, the appliances, regardless of condition, were being crushed and sold as scrap metal. **BWB SOLUTIONS** estimated that rescuing repairable refrigerators from Clean Sweep could single-handedly meet the refurbishing operation's needs for its first three years.

Step three of the operations plan would be the hiring and training of personnel for the operation. **BWB SOLUTIONS** offered advice for identifying the criteria of expertise for the management team, which would include an experienced waste management consultant and one of SVDP's managers familiar with the specifics of reconditioning and selling refrigerators.

The business was to open with five additional staff: refrigerator scrapper, refrigerator cleaner, refurbishing technician, general manager and retail manager. Training would be three-pronged: on-the-job, on-site and at the SVDP plant in Eugene, Oregon. Staffing would increase proportionately as an increasing volume of refrigerators were diverted, scrapped and resold. With **BWB SOLUTIONS'** input, Enterprise projected that, with a steady growth in sales, an administrative person could be added after six months and a warehouse manager after one year. The goal after three years was a total of 32 personnel.

The refrigerator refurbishing business opened its doors in Baltimore in 1998. The demand for refrigerators proved true, and the operation has expanded its inventory to include other white goods and televisions.

The operation experienced two challenges that have added to the lessons for increasing future business planning:



- * The operation's first management team considered **BWB SOLUTIONS'** income projections too conservative and expanded the operation (inventory and staffing) quickly. The operation learned that it had the demand but not much capacity. It had to reduce expenses significantly after its first year, modify its expectations and re-initiate.
- * The cost of the recruiting, training and retraining of maintenance and refurbishing employees proved to be much higher than anticipated. A new plan to address this situation was implemented within 15 months of the store's opening.

Three important lessons about business planning emerged from this case:

1. Good planning is based on good research;
2. A successful business relies on good planning; and
3. No matter how good the planning and research are, management skills ultimately determine the success of a business.

Postscript

In less than two years following its opening, the retail operation was at break even (income equals expense). The retail operation then began contracting with a partner to do the refurbishing. Later, the partner acquired the business lock, stock and barrel and now operates independently and successfully to achieve the initial goals of saving the planet, establishing jobs and generating income.



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BWB SOLUTIONS helps complex nonprofits develop strategic and business venture plans, assists foundations with structuring and managing program-related investments and facilitates partnerships between businesses and nonprofits.

Mike joined **BWB SOLUTIONS** in 1994, following 15 years as executive director of the Development and Technical Assistance Research & Resource Center (DATA), a nonprofit management support organization that provided information, training and consulting services in planning and organization development.

Mike has a BA in business administration from Marquette University and a Masters in Nonprofit Management from Lesley College. He has written several books and articles on nonprofit governance, planning, budgeting and proposal writing. Mike has had winning clients in year one and two of the Yale-Goldman-Sachs Business Plan Competition and two of the four finalists in the recently conducted Conference on Social Impact Exchange 2010 Conference.