

## Business Planning for Nonprofits: Why, When – and How It Compares to Strategic Planning

By Brigette Rouson

**I**n today's nonprofit sector, with a growing emphasis on an entrepreneurial mindset and investment thinking, business planning is a topic for capacity builders and nonprofit organization leaders alike. Often, business planning comes up when a nonprofit organization has a distinct earned income venture. This enterprise may be simply to generate profits for nonprofit activity, or could be central to the organization's agenda—for instance, providing workforce training and placement, a business incubator, or housing and economic development. Less attention seems to be focused on applying principles of sound business planning for the nonprofit as a whole.

Yet, nonprofits in a sense are social enterprises in their own right, so why not use business planning as part of the toolkit? In fact, "nonprofit" is a misnomer; tax-exempt organizations need not avoid showing a profit over expenses. Any profit must be reinvested for the organization's purposes, and not distributed to shareholders. Granted, most nonprofits do not identify their main work as a business, nor do they set up product lines and services with the main intention of bringing in revenue. Even so, many nonprofits are fee-based, donation or grant-based providers of services and products. They carry on important work (such as human services, consulting or training, community organizing, policy research and reports, publishing), which they are able to offer based on what individual constituents, clients, funders, contracting agencies, or other supporters will pay to support their efforts.

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*“Business planning is a lot cheaper and more cost effective than trial and error.”*

This ENHANCE news feature offers perspectives about why and when business planning makes sense for a nonprofit organization overall, not just for the business enterprise that represents part of what a nonprofit does. We offer comparisons of business planning to strategic planning, examples illustrating the value of planning that uses a business approach, and resources for capacity-building practice.

## WHEN IS BUSINESS PLANNING NEEDED?

### Money, money, money

Venture philanthropy shines a spotlight on business planning approaches by making it clear that grantmakers are investors looking for a kind of payoff. Indeed, generating revenues tends to be at the top of the list when capacity builders talk about the use of business planning. Omowale Satterwhite, of the National Community Development Institute, suggests, “If a nonprofit earns income from a revenue-generating activity, then it should develop a business plan” for the organization. Another view is that business planning overall is warranted whenever a nonprofit is paying closer attention to attracting funds from diversified sources—traditional foundation grants, individual donors, service contracts, or others.

Beth Hagan, one of the trainers for the Ewing Marion Kauffman Foundation’s FastTrac program for entrepreneurs, adapts the training for nonprofits and offered a course to executives through the Community Foundation of Collier County (Naples, FL). Her take is that a nonprofit might develop multiple business plans, including one overall and one for a more specific revenue activity—a capital campaign or grassroots efforts to attract a large number of gifts.

And numerous people from the Social Enterprise Alliance’s online npEnterprise Forum point to money as the key factor. For instance, the firm Strategeries in describing its efforts to help nonprofits develop business plans, explains, “A business plan is about money...It outlines the strategies that the organization will use to move others to spend money—donations,

contracts, memberships, product sales. Successful nonprofits in the future need to determine how their own abilities will generate sufficient money.”

Not only the revenue side, but the expense side as well, can suggest a business planning approach. Alfredo Vergara-Lobo of CompassPoint Nonprofit Services, recounts a situation where business planning was hugely helpful. A social service nonprofit became clear that its executive director—who had become stretched by her work away from the office—needed to continue devoting a great deal of time to external relations, including funder relations. The operational response was to hire an executive assistant. “That could free up her time to do more effective fundraising. That’s a business decision,” according to Vergara-Lobo. “It’s focusing on the money side.”

### Managing for success

Reasons for nonprofits to do business planning abound. Carter McNamara, consultant and author of numerous online resources, finds it useful for particular situations such as expanding an organization—whether by merger or adding programs—but also the larger endeavor of improving organizational management. The Bridgespan Group suggests that in-depth business plans are beneficial for a nonprofit seeking to clarify its mission and goals, achieve a “stretch goal” in one year, examine how a range of activities contribute to goals, or experience growth in operations in the next few years.

Specific aspects of nonprofit activity also may prompt business planning. Lynn Labieniec, a consultant, relies on business planning in her consulting to nonprofits “to support a significant investment in technology,” for example an enterprise web portal. In her experience, this approach has been “very successful at building buy-in within the organization staff and leadership, as well as making the case to Boards and other decision-makers.”

Paul Yelder of The Enterprise Foundation travels to do business and strategic planning with nonprofits involved in community development. “Business planning provides a nice format for an organization to do project and program planning,” he says. Indeed,

*“All decisions have to be targeted by how they weigh into that tension between mission and what we call viability.”*

many capacity builders mention program as a classic area for business planning techniques. Development, evaluation, and planning all can benefit. Vergara-Lobo advises that “Business planning relates to how you structure your operation so that enough resources keep coming in the door.”

### Mission and viability

CompassPoint often consults with groups for just this purpose, using a tool that facilitates both businesslike and “nonprofitlike” considerations. “All decisions have to be targeted by how they weigh into that tension between mission and what we call viability,” explains Vergara-Lobo. “For business planning, specifically, you can say that you plan essentially in a deliberate way to the viability side of the equation. CompassPoint’s Dual Bottom Line Matrix is essentially a way of showing how this tension plays out.” For instance, a heart symbol in one quadrant shows “all those programs we love in a nonprofit, but there’s no money for them, no viability. Then you have those that have high mission impact *and* viability”—symbolized by a star. Other quadrants denote a money-maker—“high viability, low mission impact”—or programs low on both considerations. (The tool is available to *Alliance* members at [www.allianceonline.org/Members/Library/strategic\\_planning\\_business](http://www.allianceonline.org/Members/Library/strategic_planning_business).)

Assessing viability is fundamental even to the decision to use a business planning approach. Readiness factors include scale and staffing patterns. The Bridgespan Group advises that an existing nonprofit is in better shape to do this work in-depth if it has a financial track record, a good understanding of cost for each element of operations, and administrative staffing that allows for 10 to 20% of work time to be devoted to planning—without hampering operations. A prime candidate is a large-scale organization whose ambitious goal requires a range of programs, so that

the group has to determine how much to invest in each activity.

### Planning ... period

Most experts consulted for this story find business planning beneficial because a nonprofit begins more consciously to match practices with desired results. Gisele McAuliffe, a consultant specializing in communications for socially responsible organizations, says, “There is not one successful business that doesn’t plan and work strategically purely as a matter of course. Surely it should be no different for nonprofit organizations.” She emphasizes that nonprofits, like their business counterparts, should be well positioned to succeed in their agenda—which means having “absolutely clear goals and quantifiable outcomes . . . for all of the communities, environment, individuals, animals, etc. that such nonprofits seek to assist.”

## PLANNING LOGIC

A discussion we initiated for ENHANCE in the online npEnterprise Forum generated several important reasons to use a business planning process. They include:

- 1) To determine if the organization’s direction makes sense based on mission and money – a “sanity check;”
- 2) To arrange strategic alliances, mergers, or other restructuring;
- 3) To obtain bank financing – perhaps for cash flow;
- 4) To obtain investment funds – such as venture philanthropy grants;
- 5) To obtain large contracts – particularly for services, but also for training or organizing;
- 6) To attract key employees; and,
- 7) To motivate and focus your leadership/management team.

Kay Plantes, a consultant, says: “I find the division between for-profit and non-profit to be very artificial when it comes to strategy and planning requirements. A strategy is merely a trip plan—

- What is the purpose/mission, the reason for the trip?
- What is the destination/vision, where you want to end up?
- What are the rules for the trip (guiding principles or values)?
- What is the route and what are the means—what is the business model for getting to your destination?”

She concludes, “Strategy and business planning are just logic applied to the art of running an organization.”

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Indeed, nonprofits have more to gain than simply having in hand a business plan for generating revenue. Research for the Yale-Goldman Sachs Partnership on Nonprofit Ventures found that developing plans specifically for an earned income stream affects the whole organization. The Partnership holds an annual competition to spotlight planning for business ventures and provides resources—including online information. The completed business plans can help attract funds, for award winners and others.

## PROGRAMS

The Ewing Marion Kauffman Foundation’s **FastTrac** program, intended for small entrepreneurs, has been adapted successfully for nonprofits. ([www.fasttrac.org](http://www.fasttrac.org))

The Morino Institute was the genesis of **Venture Philanthropy Partners**, and provides information for nonprofits as well as funders. Its [netpreneur.org](http://netpreneur.org) site offers news, research, peer exchange for nonprofit entrepreneurs and other supports. ([www.morino.org](http://www.morino.org) and [www.netpreneur.org](http://www.netpreneur.org))

The **Yale-Goldman Sachs’ Partnership on Nonprofit Ventures** provides educational and financial support for nonprofit enterprise. Partnership programs include business planning assistance, cash awards, and access to the investment community through its National Business Plan Competition for Nonprofit Organizations; information and guidance on launching nonprofit ventures through an Online Resource Center; and an annual conference with awards, networking and training. ([www.ventures.yale.edu](http://www.ventures.yale.edu))

“We’re hearing that so many nonprofits who move through our competition find the experience has a ‘halo effect,’” says Samantha Beinhacker, deputy director of the Partnership and author of a new book released last April, *Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies* (Jossey-Bass). “They’ve learned something about the structure of a business plan that strengthens their nonprofit” overall. Beinhacker and her colleague Cynthia Massarsky quantified the impact. A survey of 519 nonprofits, more than half having never before operated a revenue-generating enterprise, found that “business planning can have a significant impact on the success and mission of a nonprofit organization. 81 percent of the organizations that have written a business plan say that their ventures have a positive impact on the mission of their organization, as compared to 69 percent without plans.”\*

Pam Becker, immediate past director of the Community Foundation of Collier County’s Leadership Center (Florida) found great demand for an 11-week training based on the Ewing Marion Kauffman Foundation’s FastTrac program, and the Center will offer the training again this year. FastTrac, intended for small entrepreneurs, has been adapted successfully for nonprofits. One graduate from the training, held in the spring of 2004, shared that it was at that point more valuable than her studies for a Master’s of Business Administration degree; it accelerated her understanding and ability to apply key concepts.

Though nonprofit business planning is beneficial, it is not necessarily simple. Just consider the intended audience for documents coming out of the process. In Bridgespan’s online introduction to business planning, former manager Zoe Brookes makes the point that “In the for-profit sector, business plans typically have one (and only one) real audience: potential investors. ... In the nonprofit sector, the situation is considerably more complicated and complex, according to its online introduction to business planning.” For nonprofits, the audience includes funders, board members, staff, program constituents, partner organizations and the larger community. “For this reason, the story [a nonprofit] has to tell will hinge as much (or more) on matters of human behavior, motivation, and social change as it does on financial figures and economic analyses.”

Though not a simple matter, nonprofit business planning makes sense as a way of designing the future. Mike Burns of Brody · Weiser · Burns, advises, tongue-in-cheek, “Business planning is a lot cheaper and more cost effective than trial and error.”

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### Footnote

\* Cynthia W. Massarsky and Samantha L. Beinhacker, “Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector,” [www.ventures.yale.edu/factsfigures.asp](http://www.ventures.yale.edu/factsfigures.asp). Survey respondents represented organizations in a cross-section of fields, including 31 percent human services, 18 percent public society/benefit, 14 percent education, 11 percent health, 9 percent arts and culture, 5 percent environmental, and 4 percent religious.

## STRATEGIC PLANNING VS. BUSINESS PLANNING

One question that nonprofit executives may have is how business planning relates to strategic planning. Does one replace the other? Does it provide a component, or a supplement? Though views are not unanimous, a prevalent idea is that strategic and business planning both involve thinking every nonprofit can benefit from charting a path for success. What is important is to have processes—and people—to make plans using a full range of success factors, from most visionary to most detailed. Three approaches include selection (opting for one over the other), synthesis (bringing elements of both approaches together), and sequencing (ordering one before the other).

Richard Mittenthal of TCC Group explains that a strategic plan guides mission fulfillment by articulating goals, action steps, and resources. In contrast, “A business plan is typically focused on the actions and investment necessary to generate income from a specific program or service.” An operating plan, by comparison, shows how an organization will coordinate tasks to deliver on its goals and include great detail about time frames and roles, usually for a one-year period. It is equivalent to what many nonprofit capacity builders would identify as a “work plan.”

According to Burns, “Strategic planning is indeed different from business planning. Strategic plans are the road maps that guide an organization forward, answer[ing] questions about mission and values as well as what results the organization wants to achieve in the area of program, management/operations, sustainability and governance. Strategic plans set the course.” By contrast, in their typical form, “Business plans are specific to a particular customer (beneficiary) and determine the nature of the product and service, operational details, financial projections, and of course, risk analysis. Research can ... provide a nonprofit with the understanding of the wants, needs or interests of a customer, the pricing options, the delivery methods, and the communications strategies.”

### Selection

Patricia Caesar of the Marks Paneth Strategy Group, advocates a single comprehensive process. Caesar says “business planning is a more effective tool than traditional strategic planning because it focuses an organization more powerfully on the factors that translate into measurable results and success. A good business plan forces the organization to synthesize, prioritize, and synchronize these critical components, so that the plan has a greater likelihood of being successfully implemented.”

### PUBLICATIONS

#### **An Introduction to Business Planning for Nonprofits**

[www.bridgespangroup.org/PDF/IntrotoBusPlanning.pdf?id=302090](http://www.bridgespangroup.org/PDF/IntrotoBusPlanning.pdf?id=302090)

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

[www.brodyweiser.com/aboutus\\_detail.php?id=-1](http://www.brodyweiser.com/aboutus_detail.php?id=-1)

#### **Nonprofit Incorporating—The Business Plan** (See pages 7-10)

[www.nonprofits.org/npofaq/misc/010708NP\\_Biz\\_Plan.pdf](http://www.nonprofits.org/npofaq/misc/010708NP_Biz_Plan.pdf)

### Synthesis

Many capacity builders we consulted have an approach that includes the best of both planning modes simultaneously. Carter McNamara, a consultant who developed an online nonprofit management library with MAP for Nonprofits, suggests that a business plan combines elements of a marketing plan, financial plan, strategic plan, and operational/management plan. In other words, a nonprofit would draw from and contribute to each of those specific documents through business planning. Consultant Ed Robinson offers that “Lately, I’ve been combining elements of strategic and business planning into what I am calling a sustainability plan and it seems to be working well.” The point is to determine not simply a nonprofit’s direction but how it will get there—bringing into view matters of building a customer base or constituency, ensuring that sufficient revenue is generated and handled well, being mindful of vision and goals in translating mission to practice.

*“Often, and ideally, business planning will follow strategic planning. A strategic plan should determine organizational priorities, set direction and establish goals. A business plan will contain program operating details.”*

## WHAT'S IN A PLAN?

### Strategic plans include:

Big picture thinking about the social and organizational future, and decisions about how to realize an organization's mission with specific goals, objectives, strategies, and resources — and involve stakeholders in the process

### Components

1. **Vision and Mission**—or desired future state and organizational purpose (external and internal future may be articulated)
2. **Definition of current situation** (needs analysis, scan of external environment stakeholder engagement)
3. **Goals, objectives, theory of change** (long-range outcomes, intermediate outcomes, and intentions for the impact these actions will have in advancing a desired future)
4. **Values or philosophy** (principles or beliefs that guide—and embody—mission fulfillment, showing organizational character)
5. **Program plans** (action strategies that are likely to be effective and are well-suited for the organization to advance vision/mission)
6. **Resource development** (policies, principles, and practices for generating revenue that are well-matched to the goals and values)
7. **Partnerships, alliances** (often included with definition of situation, program plans, resource development)
8. **Success measures** (broadest level)

### Business plans include:

Operationalization with the purpose to ensure financial success, guide performance, and ensure sustainability of the organization/venture as a vehicle for achieving larger goals

### Components

1. **Definition of the venture** (identifying programs, products, operational activities—and the impact)
2. **Market analysis** (planned customers, constituents or beneficiaries; needs and opportunities; scale; reach or absorption; competitive environment, collaborations)
3. **Staffing and management** structure, roles and responsibilities (including relevant experience, skills, and accomplishments)
4. **Time frames, benchmarks** for performing and evaluating the work
5. **Financial requirements** (initial capital, cash flow, restricted revenue, recordkeeping for different sources)
6. **Revenue projections** (break-even point, profitability, reinvestment or reserves)
7. **Marketing plans** (customer/constituent relations, pricing, distribution, public affairs, media relations, branding)
8. **Analysis of risks**—current and potential—and mitigation strategies

*“Business planning can have a significant impact on the success and mission of a nonprofit organization.”*

## Sequencing

Conventional wisdom is that consultants add value by helping nonprofits determine in what stages, or what order, to do organizational development. Michela Perrone, independent consultant, believes that strategic planning sets the foundation, followed by business planning to spell out the operational aspects. “[For] the majority of nonprofits that tell you ‘we need a business plan,’ what they’re telling you is ‘we have to have an operational plan.’” Only after an organization has identified the strategies or methods it can best use to advance its mission, she counsels, should it engage in working out implementation details through business planning. “I don’t want people to think they can develop a business plan if they don’t have clarity about who they are and what are going to be the smartest, most efficient, effective approaches. I don’t want people to jump into operationalizing ideas without having done the hard work of really thinking through what the strategies are.”

As an example, Perrone says, a business plan for the technology group NPower Greater DC Region was timely once the leadership had decided through strategic planning to have most of its activity take the form of a consulting firm. This model for providing technology services to the nonprofit community involved increasing on-site training at client organizations, and minimizing training that had a general audience. As a result, the business considerations come to the fore—who will pay how much and for what services, cycles of demand for the training, and the like.

Yelder of The Enterprise Foundation agrees. “Often, and ideally, business planning will follow strategic planning. A strategic plan should determine organizational priorities, set direction and establish goals. A business plan will contain program operating details. Service delivery, production or activity goals contained in the business plan should come from a strategic planning process involving the organization’s leadership.”

What practical value have nonprofits found from business planning? As a case in point, Patricia Caesar mentioned Asian Americans for Equality (AAFE), which works to advance the quality of life for New York City

residents of Asian ancestry. AAFE’s core program includes capital access and financial empowerment, community building and neighborhood transformation, social justice and public policy and advocacy. When Caesar’s firm worked with the organization, it was 30 years old and successful, with “growing pains” and a need to bring its governance, structure, and management functions up to date. “Using a business planning approach,” she says, “AAFE was able to quickly assess its shortcomings, develop a plan to bring the organization to its next level of development and success, and identify strategic priorities for immediate action.”

CompuMentor—a nonprofit that is a capacity builder to other nonprofits—found its experience positive. Rebecca Masisak is general manager of its “TechSoup Stock,” an online service that distributes donated and discounted technology products, services, and support to organizations across the nation. She recalls, “It wasn’t that we set out to have a business plan.

## RESOURCES

Mark Friedman’s **Fiscal Policy Studies Institute**, with support from the Annie E. Casey Foundation, explains a results-based approach to community conditions and organizational performance alike, and offers a wealth of online resources including tools and exercises. ([www.resultsaccountability.com](http://www.resultsaccountability.com))

**Venture Philanthropy Partners** is a leader in venture-capitalist style support for nonprofits. VPP funds a group of nonprofits it has selected as “investment partners,” listed on its website, which also offers publications and links to additional resources. ([www.venturephilanthropypartners.org](http://www.venturephilanthropypartners.org))

**MAP for Nonprofits** in St. Paul, Minnesota, includes a section on business planning for nonprofits in the **Free Management Library**, a joint effort with **Authenticity Consulting, LLC**, which offers online resources for about 675 indexed topics. ([www.mapnp.org](http://www.mapnp.org))

The **Social Enterprise Alliance** and its **npEnterprise Forum** work to increase nonprofit sustainability through earned income ventures. The SEA website includes events, profiles, and other information. Its online discussion forum is open to the public and provides a way of reaching others interested in nonprofit enterprise. ([www.se-alliance.org](http://www.se-alliance.org) and [www.npenterprise.net](http://www.npenterprise.net))

An online research directory is provided by **Olszak Consulting** as a joint venture and service of the **Social Enterprise Alliance**. ([www.db.olszak.com](http://www.db.olszak.com))

*“The objective of any nonprofit should be to achieve the maximum social impact, not just to have some social impact.”*

It was more that the opportunity came up” with the annual Yale-Goldman Sachs Partnership competition. In fact, having come to CompuMentor three years ago with an extensive for-profit and nonprofit background, Masisak says, “I came into an organization that’s very innovative and has a lot of energy and vision,” but did not have detailed business plans. For example, CompuMentor’s main idea was to offer leading manufacturers’ hardware and software at low rates, expecting that nonprofits would scoop up all the available supply.

As a result of business planning, the organization has a keener sense of what nonprofits most need and how to meet those needs, while allowing donating organizations to contribute in ways that work for them. Following the technical support and cash award from the competition, CompuMentor secured a \$750,000 grant from Surdna Foundation. A bonus is that the business plans offer a pre-evaluation blueprint and process; staff now routinely take a longer view about their work and ideas, and document their thinking, on a day-to-day basis.

of which won an award. Before the competition, she recalls, “We had done a lot of business planning. The difference is style. The whole process is rich. Everybody in the organization participated in the process, and for us it was an important learning experience.”

## POINTERS FOR PRACTICE

### Overview

To assess whether a business plan is effective, Lynn Labieniec recommends, consider whether it is:

- Clearly articulating objectives and linking them to organizational goals;
- Identifying and quantifying the opportunities;
- Addressing potential roadblocks and mitigation strategies;
- Analyzing the organization’s ability to meet the opportunities;
- Identifying the gaps and what’s needed to bridge those gaps; and,
- Outlining projects and next steps needed.

For a sample business plan that details the work of an organization providing services, view Pro Bono Net, Inc.’s at [www.ventures.yale.edu/docs/Pro\\_Bono\\_Plan.pdf](http://www.ventures.yale.edu/docs/Pro_Bono_Plan.pdf)

### Research angle

Few nonprofits can count on a ready base of measures and projections to plug into business plans, notes Mario Morino, pioneering leader of The Marino Institute and Venture Philanthropy Partners. “Unlike in the business sector, the information about most nonprofit sectors is not as readily available as it is from security analysts and researchers on the business side.” Often, it will be important to talk with other organizations—nonprofit and in some cases for-profit—that do similar or related work, and be attentive to various approaches used to change conditions that a nonprofit seeks to influence, as well as to determine what difference has been made. While time-consuming, taking action to expand information sources, and data, may alone be worth the time and cost of adding a business lens to the planning process.

### Recommended by the npEnterprise Forum

The US Small Business Administration’s *Business Plan Basics* page - includes tips and a suggested plan format, as well as *151 complete sample business plans*.

Entrepreneur.com’s *How to Build a Business Plan* web resource - a five-part guide, that includes: an introduction to business plans; plan your plan; elements of a business plan; getting help with your plan; and, a sample business plan. Many good tips and links to other resources.

“Business planning is part of El Puente’s birth practically,” explains Maria L. Picard-Ami, an executive with the El Puente Community Development Corporation (El Paso, Texas). El Puente, a Yale-Goldman Sachs award winner, is dedicated to empowerment of low-income Mexican immigrant women and their families who have been adversely affected by “free trade” agreements and other global restructuring. Its focus is on strengthening social purpose businesses that make a difference for Spanish-speaking residents. “We have incubated businesses, and we have created our own social purpose businesses”—including a day care center, restaurant, handicraft market, low-income housing and a sewing/manufacturing venture called Diseños Mayapán—the last

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### Business mindset

Concerns that the business model or mindset could prove to be a distraction—even a danger—bear consideration. If the world is going to be a different place, it will require breaking out of “business as usual,” quite literally. Paul Light of the Brookings Institution has challenged capacity builders to imagine what it is to be “nonprofitlike,” then develop models and standards that advance this quality. Growing recognition that the sectors are blending brings, along with this challenge of clarifying the nonprofit sector’s identity, an imperative to seek partnerships with business—certainly to generate resources and collaborations, but also to influence change in the business world. For these purposes, shared language, concepts, and structures—including business plans and approaches to planning—can make a real contribution on all sides.

In the Ford Foundation-sponsored [grantcraft.org](http://grantcraft.org) guide *Working with the Business Sector*, about foundations engaging with business, a grantmaker observes that “It’s hard to ignore a sector of society that has such a pervasive influence” as the business sector. Indeed, the guide notes that “the goals [of philanthropy and of business] are not identical but can be powerfully complementary.” As a result, considering nonprofit plans inside of a private sector framework can not only help build organizational relationships but also open up more ways for a nonprofit to be effective in its own right.

Naomi Takeuchi, a consultant, teaches business plan writing for nonprofits with Duke University’s Non-Profit Management Program. In her experience, course participants “have consistently told me that the business plan concepts have helped them look at their organization in a holistic manner. When nonprofits make the effort to write a business plan, they begin to see where their resources are allocated and what services are providing the greatest benefit to the community.”

Morino, as a leading venture philanthropist, declares, “The objective of any nonprofit should be to achieve the maximum social impact, not just to have some social impact.” If the commitment is to maximum social impact, the question becomes not whether, but how, a nonprofit uses business-minded planning to position itself to make a difference. For instance, among the

cases documented by Venture Philanthropy Partners is that of Samaritan Inns, which did serious soul searching after major government funding cuts. The organization, which offers drug rehabilitation, concluded that it should expand by “insourcing” with clients—no longer relying on hospitals or other sources to refer individuals, but rather providing a comprehensive program. Samaritan Inns more than doubled its treatment capacity to 600 people a year, went to a \$2 million annual budget, and raised \$6.5 million for new facilities. The group is now ready to consider bringing this successful approach to other communities.

## GETTING INTO GEAR

Business planning for nonprofits is an idea whose time has come, as the views and experiences of many capacity builders and organizations are beginning to show. Frameworks and resources are available, and with creative thought will continue to be infused with a “nonprofitlike” character. The challenge and opportunity is to bring fresh perspective to nonprofits—strengthening the base to increase impact.

## Key Concepts

Key business concepts are being renamed, redefined or applied differently to inform nonprofit business planning. Carter McNamara's nonprofit library on the website of MAP for Nonprofits (see Resources on page 7) offers a translation of terms so that nonprofits can use for-profit business planning materials and guidance. As examples, a nonprofit would use "program" or "services" in place of "product," use "funder" in place of "investor," and use "client" (or "constituent") instead of "customer."

### **Social enterprise –**

As a generic concept, social enterprise describes ventures that are pursued in the manner of a business (i.e., selling goods or services), but specifically designed to achieve a social impact rather than simply return a profit for owners or shareholders. The Social Enterprise Alliance defines it as "Any earned-income business or strategy undertaken by a nonprofit to generate revenue in support of its charitable mission," and specifies that " 'Earned income' consists of payments received in direct exchange for a product, service or privilege."

### **Competitive/comparative advantage –**

Comparison of strengths and weaknesses of other organizations engaged in similar activities and content areas. Kennard Wing, a consultant, says that business planning by nonprofits ideally should bring in the element of competitive advantage, which many nonprofits have dropped from the strategic planning process. Morino urges nonprofits to "Be clear about the competencies and distinct advantages of your organization," not based on the cause alone but also the people and means of advancing it—including "tangible, meaningful accomplishments," experience, methods and innovations.

### **Market conditions –**

For nonprofits, the current and projected need, availability of similar programs, funding and policy climate are the usual conditions being assessed in a business plan.

### **Product lines –**

This element of business plans can and should be uncomplicated. For instance, Bill Dessingue of Charitable Venture Foundation in his article "Business Plans ABCs," recommends defining products or services as "the actual thing for which people are paying." Yelder explains, "Usually, when dealing with a nonprofit that has several program areas, I treat each one as a 'product line,' detailing a description of the program (mission relevance, outcomes, goals, etc.), defining the market (or planned recipients or beneficiaries, size, absorption, and/or competition), detailing staffing and management structure, defining financial projections and capital requirements, and describing potential risks and mitigation strategies."

### **Risk –**

Morino suggests asking "What keeps you up at night?" or "What can stop you?" For instance, a nonprofit may address risks related to funding, changes in the community or area of interest, government policy and practice, and/or partnering relationships. Whether or not it goes into a document, among the risks may be "a fear of one's own ability to stay focused and execute." Morino advises honesty in the business planning process.

## A PLANNING PERSPECTIVE: Bayer Center for Nonprofit Management

*“We have a very strong goal to have the right balance of philanthropy versus earned [income]. ... If you aren’t able to sell yourself, then you’ve got a mission problem as well as a money problem.”*

-Peggy Morrison Outon

Nonprofit business planning starts, like all efforts by capacity builders, to increase their own capacity. One account by Peggy Morrison Outon, executive director of the Bayer Center for Nonprofit Management in Pittsburgh, illustrates the process, consideration, and results that are possible for a management support organization (MSO) through this effort. For a sample from the center’s business planning, *Alliance* members can go to the online document library at [www.allianceonline.org/Members/Library/strategic\\_planning\\_business](http://www.allianceonline.org/Members/Library/strategic_planning_business).

“We did an extensive business planning process when we got started almost 5 years ago. We did a lot of competitive analysis for MSO-like organizations—what they offered, what they charged, who were their customers. When I moved to Pittsburgh, nobody else was calling themselves an MSO. There were 18 or 19 organizations that offered nonprofit management–training mostly, or graduate education. And then there were things like the Executive Service Corps.

“I made a map of the groups, and did 166 interviews in six months’ time, and those were funders, consultants, and others. We did a lot of customer research; we were very externally focused. We did a lot of work around our balance of earned and philanthropy revenues. CompassPoint is the one I most aspired to be like. I also visited and chatted with people like the IT Resource Center in Chicago. Because of the *Alliance* that part was easy for me. We looked at the way that MSOs funded themselves.

“We were 31 percent earned income in our first year, and last year we did 57 percent. In that first year, we had three different revenue streams, and last year we had nine. The three in that first year were training programs, consulting fees, and some contracted work for grantmakers. And from last year, we have a nice contract with United Way, a graduate education program that puts some money back into our coffers. We did 180 days of instruction. We have consulting fees not only from OD [organizational development] but now technology consulting that we offer as well. We had Executive Service Corps join with us, and have training and consulting income from that.

“We analyze ourselves every year, and last year we updated our plan and added lots to it. We actually monitor it every month. One of the things we look at, in addition to obviously client and student evaluation of the quality is [source of income]. We have a very strong goal to have the right balance of philanthropy versus earned. Of course, the issue is if you’re too driven by the dollars, then you don’t meet your charitable mission. We struggle with that because the board of course is very interested in earned revenues. That’s important. If you aren’t able to sell yourself, then you’ve got a mission problem as well as a money problem. Different communities have different capacities to pay. Pittsburgh has capacity to pay because there are a lot of foundations. But you need to be looking at whether people value you.

" Our budget has quadrupled from \$450,000 in four years to almost \$1.8 million. There's a big social venture movement here in Pittsburgh. [Consulting Director] Lisa Kuzma came with 20 years banking experience, so she has really good financial management, and financial analysis skills. So she is really our business plan expert and does the bulk of the business planning. And we have some people from Executive Service Corps who do business planning. I'm more about the revenue side, because I've been a fundraiser all these years. People find us credible in that role because they've watched us grow, and have been able to see us succeed.

" There still is quite a bit of confusion over what is a business plan, what is a strategic plan. The business plan is much more money driven. When I'm doing a strategic plan, we're doing a lot more about the community, vision, and definitely about how to bring in funds. But in the business plan, the market research is quite different and much more focused on specific products, and specific services. It's in some ways more general, in some ways more comprehensive.

" I ran a museum store in my first job. It's sort of tickled me, this whole social venture movement. This has been going on for a while. We just didn't have a name for it. I have always been on the side of seeing that there are sufficient funds to make a go of what you're doing. When you're in a nonprofit, you're very aware that the lights have to be turned on. I worked in arts organizations, which often didn't have government money available to them. So they had to figure out how to earn it."

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