

Nonprofit Economic Models?



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Nonprofit Economic Models?

Definitions:

- “The economic logic that sustains an enterprise”
- How the nonprofit is funded
- What the organization does and how it funds its work
- Holistic approach: mission and vision; the work; how the work is done; how the work is financed

Nonprofit Economic Models?

- What about “model?”
 - Activities (= cost structure)
 - Value propositions
 - 'Client segment'
 - Income streams



- Activities

Nonprofit Finance: Forms of Support

Contributions	Government Funds	Earned (Fee) Income	In-Kind Support	Investment Income
Individual giving; some memberships	Grants	Fees for service, some memberships	Volunteer & pro bono work	Returns on endowment
Bequests	Contracts	Sales/ commercial venture income	Gifts of real estate	Interest on operating funds
Corporate and Foundation grants	Reimbursements	Royalties and license fees	Art and other collections	Program-related investments
Special events	Credits & vouchers	Rental income	Supplies & equipment	

Nonprofit Economic Models?

- Foster, Kim and Christiansen: 10 Funding Model Types, e.g.:
 - Heartfelt Connector: Susan G. Komen
 - Beneficiary builder: Princeton
 - Public Provider: Success for All Foundation
 - Local Nationalizer: Teach for America

Nonprofit Economic Models?

- Jim Collins: Good to Great and the Social Sectors:
 - Hedgehog Concept: Passion; Best at; Resource Engine
 - Resource Engine: create a way to tie your resource engine to Passion and Best at: Center for the Homeless, South Bend, Indiana

Nonprofit Economic Models?

- Bell, Masaoka and Zimmerman: Economic Drivers

- Business Model Statement:

"We provide high quality child care for children with diverse racial, cultural and economic backgrounds, by combining government subsidies for low-income children with full-pay tuitions, supplemented with some parent fundraising."

Nonprofit Economic Models?

- David La Piana: Holistic Approach
 - Mission and philosophy
 - Programs – what is done to achieve the mission
 - How the work is done: structure, operations, policies and procedures.
 - How the organization is funded

Nonprofit Economic Models?

- A Really Holistic Model:
 - Program method, approach and style
 - Financing types and sources
 - Governance:
 - Elected or appointed
 - Representation
 - Decision-making methods
 - Management:
 - How work is organized
 - How decisions are made

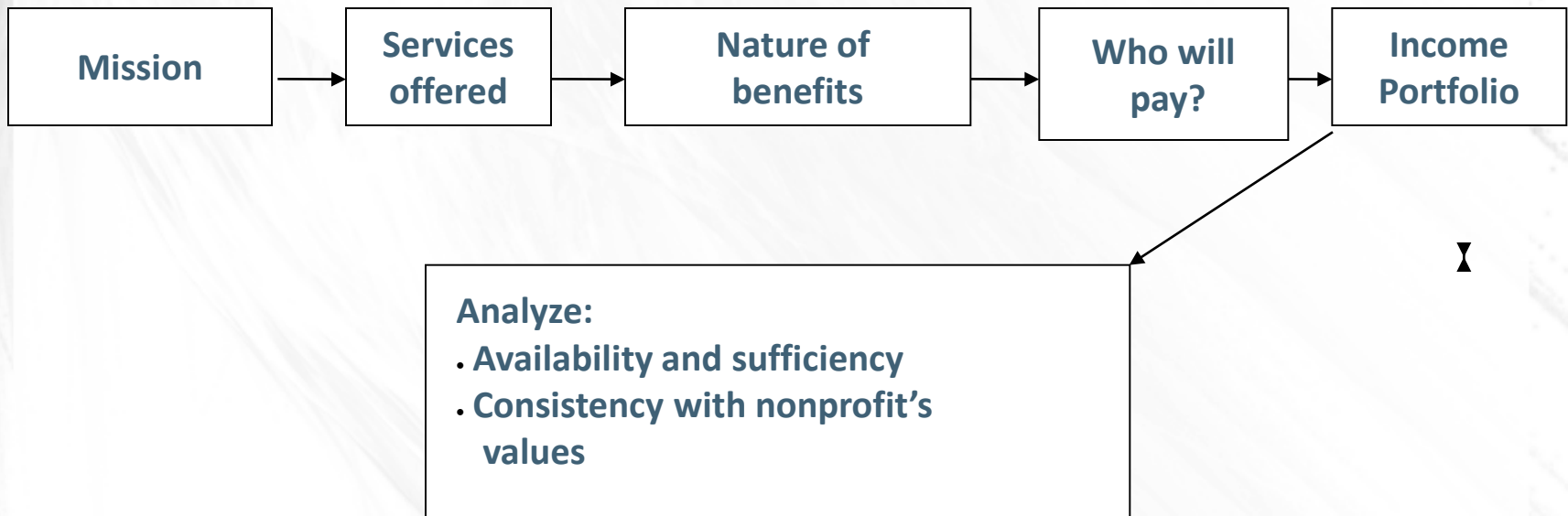
Nonprofit Economic Models?

- Really holistic (cont.):
 - Multiple models: what some nonprofits do:
 - Program: prevention and treatment
 - Financing: different combinations of sources
 - Governance: hybrid boards; subsidiaries
 - Management: command and control; collectivism

Nonprofit Finance: Forms of Support

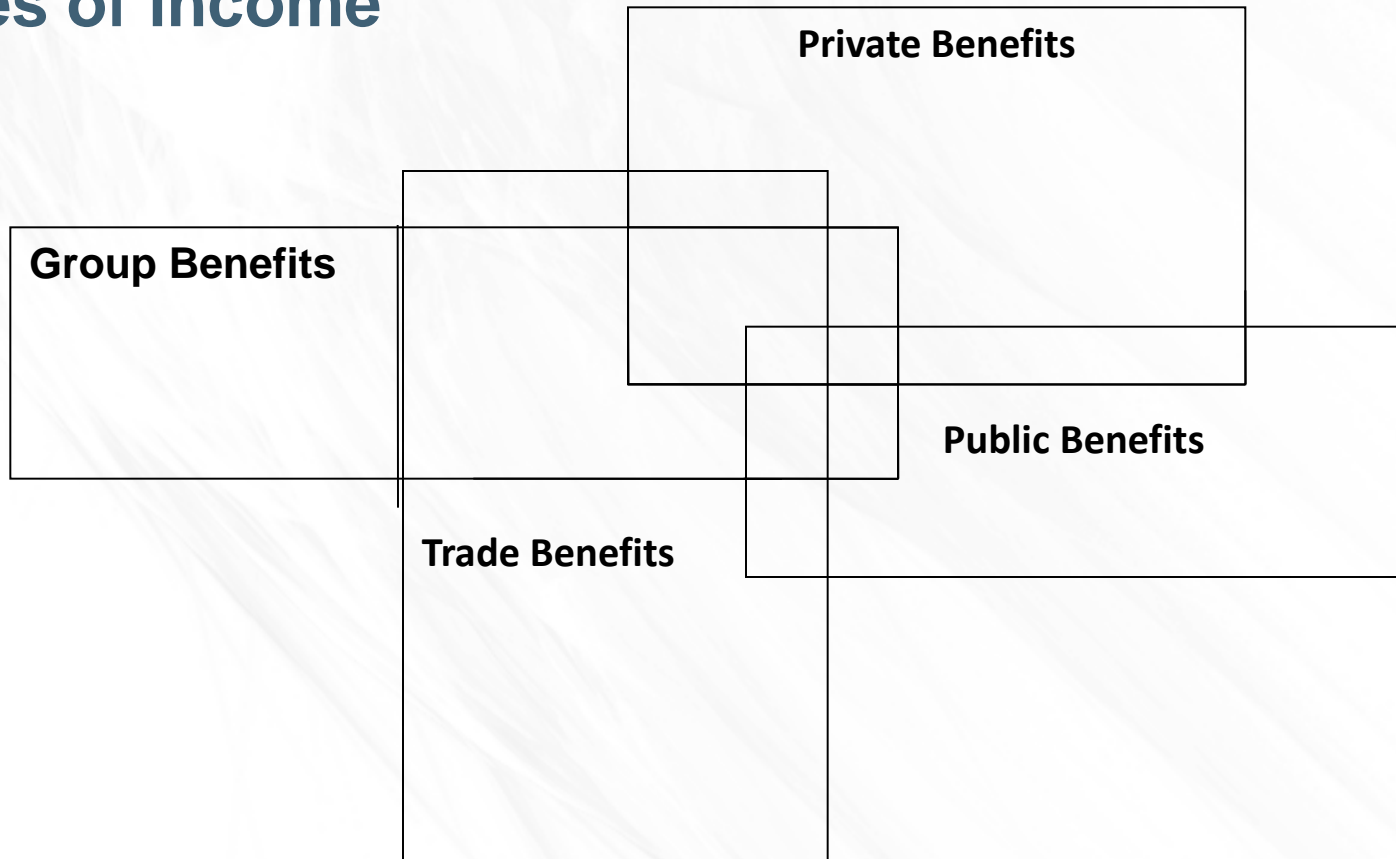
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Financial Planning: Identifying the Nonprofit's Sources of Support



Identifying the Nonprofit's Sources of Support (cont.)

**Combined benefits = multiple potential
sources of income**



Identifying most promising forms of support: nonprofit services and benefit and income combinations

Income combo	Example	Why?
<i>Fees only</i>	Gift shop	Consumer benefit only
<i>Gifts only</i>	Rare disease research	Benefits those afflicted or at risk
<i>Gov't only</i>	Offender rehab services	Increases public safety
<i>Fees & gifts</i>	Performing arts	Private benefits to attendees; collective benefits to art lovers
<i>Fees & gov't</i>	Pre-school care	Private consumer and general public benefits
<i>Gov't & gifts</i>	Monitoring environmental quality	Benefits to outdoor enthusiasts and general public
<i>Fees, gifts & gov't</i>	University education	Private student, collective alumni, and general public benefits

Identifying most promising forms of support

Significant potential sources: screen against:

- Customary forms of support in field
 - Reduces costs of securing and maintaining relationship
 - Issue of competition
- Relative control
 - Dependence of or on nonprofit
- Values of nonprofit
 - Acceptability to key constituents



Most promising sources for new investment

Framework for Decision-Making

For each Source, or expansion in income generation from a source:

- Value (direct \$ value, 'attracted' value, added mission value, minus 'crowd-out')

versus

- Direct operating expenses, start-up capital and working capital and "transaction" costs.

Dimensions of Sources of Support

Program and activity Value:

- Amount of activity that source “buys”
- Value attracted (‘crowded-in’) e.g. work of art
-and value displaced (‘crowded-out’) e.g. govt. funding vs. donations
- Additional mission value e.g. client buy-in

Dimensions of Sources of Support

Costs:

- Direct operating expenses
 - People
 - Materials
 - Services
- Start-up capital and working capital:
 - New people, facilities, equipment
 - New skill sets
 - New systems and processes
- “Transaction” costs

Dimensions of Sources of Support

“Transaction” costs relate to:

- Attracting and Managing relationships with, source(s) of support
 - Payers and potential payers
 - Messages aimed at payers
 - Internal mechanics and behavior
- External control
 - Strategic alignment
 - Balance of restricted with unrestricted
 - Negotiation of specifications
 - Reconciling external requirements with nonprofit's values

Dimensions of Sources of Support

“Transaction” costs relate to:

- **Reliability:**
 - Planning inflows and outflows
 - Mix of sources
 - Building a reserve

Dimensions of Sources of Support

Small individual donations (mailing program)

- Low value per donor, but accumulating...
- No accompanying mission value
- Reliability medium to high – repeat donations
- External control – low
- Start-up costs can be high: people and systems
- Transaction costs medium to low: can be issues around images and messages used.

Assessments will vary by nonprofit

Dimensions of Sources of Support

Government Contracts

- Potentially high value
- Accompanying mission value possible: policy influence
- Reliability medium to high, especially between regime/policy changes, and if jurisdiction has no direct supply
- External control high – specifications and reporting requirements
- Start-up costs medium – new accounting and reporting systems
- Transaction costs high – securing relationships, managing internal compliance

Assessments will vary by nonprofit

Nonprofit Finance: Decision-making and diversifying income streams

- Protection against risk
 - Loss of program?
 - Loss of nonprofit?
- Myths
 - Need to diversify across sectors
 - Always improves bottom line
- Critical factors
 - Payers who are independent of (not positively related to) each other
 - Unrestricted income
 - Overall risk strategy
- Most favorable benefit/cost analysis: largest number of independent payers vs. lowest extra investment

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