



## Non-Profit Earned Income Strategies – Where to Start?

This brief is for people in non-profits interested in new methods of generating revenue for your organization. You might know a bit about Social Enterprise and Earned Income Strategies for non-profit organizations. Certainly, the prospects of sustainable funding making your organization less dependent on current donor and foundation funding are attractive. But, what do you do next?

This introductory guide assists you and your organization in tackling social enterprise and helps you form an action plan. Social Enterprise is NOT feasible for all organizations, so investigation and prudence are highly encouraged.

**Social Enterprise Associates** offers business solutions applied to social problems to achieve public good. Through consulting services and partnerships, we foster financial and social goals in 'double bottom line' ideas, the entrepreneurs who develop them, and the organizations in which they grow.

### Incremental Steps

**Social Enterprise Associates** recommends the following steps as a manageable process to order decision-making. We know this undertaking can be intimidating and overwhelming. But, it doesn't have to be, and the information below provides a viable approach to de-mystify what is often seen as a 'black box'. Each step has associated deliverables and together they are designed to be incremental. Within your organization, board approval should be sought, as necessary.

WARNING: Program decisions of this magnitude must fit into the organization's overarching needs and goals. The best strategic choice for your organization may be to NOT undertake a social enterprise activity. Not all efforts are successful. 80% of new businesses fail in their first five years & data shows small organizations have been less successful than large organizations at revenue generating programs (Community Wealth Ventures - [www.communitywealth.com](http://www.communitywealth.com)). The wisdom and responsibility of making an appropriate choice is up to you and your organization.

1. *Internal Organizational Assessment.* This first step is largely internal. Your organization determines if it can withstand the risk, stress, and challenges of a new undertaking like social enterprise. It may not be. The process involves reviewing existing plans & priorities, as well as frank discussion among staff & the board. Methods can include 'Self-Tests', Program Evaluation, and/or a Performance Audit.

#### Key Questions

- Does the organization have sufficient staff capacity?
- Does the organization have strong enough internal systems for a new effort?
- Does the organization have the sufficient knowledge and expertise in this area?
- Does the organization have sufficient cash flow to take on new projects?

2. *Feasibility Study.* The second step is also internal. The feasibility study indicates if the project is worthwhile. The organization explores the idea further, fleshing it out with some specifics. It should include a cost/benefit analysis of the expenses and potential financial gain involving management team members knowledgeable about financial decision-making. Key attention should be paid to how this effort fits into the organization's strategic plan and mission.

Key Questions

- What are the organization's goals for this undertaking in terms of money and mission?
- What are the costs and revenues associated with this new project?
- How operational will the organization do this 'new thing'?
- What organizational changes and adjustments need to be made?

3. *Market Analysis.* This next step is external to develop an understanding of the 'Market Landscape' and, also ideally, Customer Demand. It involves an investigation in the proposed market. Market size is determined, competitors are identified (direct and indirect), and customer interest is explored.

Key Questions

- How big is this opportunity?
- Who else is doing this?
- Who are the customers and what are they doing now to satisfy this 'need'?
- Is there space for us?

4. *Business Plan.* If the previous steps are 'Go', then the next step is to document a plan. A business (or strategic) plan is a formal document that includes elements like opportunity, product, market, customers, budget, timeline, and competition. Such plans should be 'living documents' to be updated regularly, that provide a roadmap to move forward. The process of creating the plan is a valuable tool to establish a unified vision for all stakeholders in the organization.

Key Questions

- What is the purpose of this social enterprise?
- What is the value proposition?
- How will it make money?
- Who is the management team?

5. *Financial Projections & Budgeting.* This element requires participation of the financial and accounting professionals in the organization to determine costs, revenues, and the interaction between them. This step can be incorporated into the Business Plan, but ideally is also produced as a stand-alone document. Variance and probability scenarios are important components. Focus on the first 12 months of operations starting with month 0 and consider the first three years.

Key Questions

- How much money is needed in year 1, 3 and 5?
- What type of financing is appropriate: donations, equity, debt, partnerships, contracts?
- What are the key sources of revenue and major costs?
- When does this project break-even, if ever?
- What happens if expenses are 50% higher and/or revenues 50% lower?

6. *Fund-raising & Investment.* In most organizations, this step is well underway by the time the Business Plan is finished. The appropriate capital sources are identified and communication is established. Marketing materials, in addition to deliverables from the above steps, should be produced as needed. Appropriate special events & PR will complement this step.

Key Questions

- Who are the targeted 'investors'?
- What is the value proposition for funders and investors?
- Why should they choose this project?
- How much funding 'in the bank' is needed to begin operations?

**Overall tips & tricks:**

- *Be prepared to say 'NO'.* Your organization must be able to say no, even if you have invested time and money into this opportunity. Throwing 'good money after bad' is not a solution. Methods of self-monitoring include keeping the board involved, developing specific budgets for each step, and keeping a firm timeline on the process.
- *Value existing expertise.* Look within the organization and draw upon those at hand. Then, complement these skills with additional resources for the board, staff, and technical assistance transfer.
- *See opportunities where others see problems & find assets of value within the organization.*
- *As with many services, you get what you pay for.*
- *Remember Murphy's Law.* Plan accordingly for this to take twice as long, cost 50%, and generate half the revenue.
- *Have fun and do good community work.*

For additional information & resources, contact Drew Tulchin, [drew@SocialEnterprise.NET](mailto:drew@SocialEnterprise.NET) and visit our website, [www.SocialEnterprise.NET](http://www.SocialEnterprise.NET).