Earned-Income Business Planning for Nonprofits

Differentiating Factors for Mission-Driven Ventures

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The growing conversation around "impact investing" explores the challenge of how to create a convincing case for support for a mission-based venture that combines social good and pragmatic economics. While nonprofits seek assistance in many forms, business plans continue to represent a structured rationale for financial support based on the same core elements used by for-profits. Business planning in the nonprofit context can be undertaken to make a compelling and financially sustainable case for either contributed or earned income. Earned-income business plans – the focus of this discussion – target investors for initiatives that will generate profit within a nonprofit context. Potential supporters assess the viability of an initiative based on both its proposed social mission as well as its financial sense.

When creating a business plan for an earned-income initiative, nonprofit organizations often question how their process might differ from traditional, for-profit planning. In answer to this, many point to a nonprofit's double, or even triple, bottom line. That is, mission-based initiatives are motivated not only by financial returns, but also by social mission achievement and, at times, environmental care. The distinction, however, extends beyond this multiplied bottom line.

Articulating value – be it financial return or carefully measured social impact – and creating a convincing case for funding is the crux of successful business planning. A mission-driven enterprise must make grapple with at least five complex issues that distinguish its business planning.

1. ROI May Lack Standardized Value

Traditional for-profit business plans are based on the clear purpose of generating financial returns for shareholders or investors through product or service production. While for-profit businesses may have a combined social and financial mission, the key driver is the creation of financial gains. For-profit ventures stemming from a nonprofit context aim for fiscal returns that align with the achievement of a social mission; therefore, the financial gains alone are not the primary driver. While expected financial return on investment (ROI) can be quantified, a business plan must convince a potential investor that the secondary ROI – mission achievement – is also valuable and worthy of investment. Nonprofit leaders must build business plans on the premise that their social impact achievement is an enticing component of expected ROI, presenting the mission as a motivating factor to convince potential investors to forego higher financial gains in exchange for a dual social and financial gain. The mission, however, does not have universal value. Not all investors, for example, attach the same worth to increased access to quality education for children in India as to environmental issues in Brazil. The social value promised by a mission-based business plan lacks standardization and must therefore be positioned according to the priorities of the targeted investor (be they personal or corporate) and his or her definition of a "valuable" ROI. This definition can also differ between investors in a for-profit venture; however, the differentiation is more often confined to monetary terms and the minimum desired return. The value of social impact is more complex.

2. Intangible Products and Services are Difficult to Quantify

The intangible outputs of many mission-driven operations can make it difficult to quantify projected productivity. Intangible services in the for-profit sector, such as legal advice, can usually be calculated due to a somewhat standardized delivery process or a quantity attached to their production (i.e., number of hours or number of clients). It can be more difficult to assess the services of a social-impact operation. How does one assess the qualitative output of a plan to bring potable water to villages in Chile? Or public toilets to Nigeria? The intangible nature of social impact can often complicate the process of projecting outputs or customers served. To convince an investor to extend funds, mission-driven business plans must clearly convey their intended productivity by identifying an alternate measure of outputs.

3. The Beneficiary is not Always the One Who Pays

For many mission-driven ventures that provide a public good, those who pay for the product or service may not be its actual users. Foundations, government funds, or individual donations typically support the mission-based organization that is coupled with the earned income scheme. These supporters often invest in products or services that primarily benefit others without using them themselves, and sometimes, without financial gain. While users of the products or services sometimes do pay directly, such as t-shirts sold through a social enterprise, this is not always the case.

While the market assessment for a traditional business identifies its targeted customers and their willingness/ability to pay, a social-impact venture has an added layer of complexity. One group of funders may support the earned-income initiative, while others might fuel the mission-related work. Both demands must be recognized, as must the demand of those who actually use the venture's product of service, and the users may be a separate group from the funders or investors.

4. Earned-Income Ventures Must Align with the Mission

When building a case for support for a mission-driven earned-income initiative, it can be tempting to emphasize expected financial returns in order to generate investments. However, it is the alignment of the financial return with a social mission that is valuable to nonprofit organizations and their supporters. In some cases, the venture and mission are synonymous – Kiva, for example, generates lending for direct investment in programs that alleviate poverty. However, when a profit-generating bakery is launched as an arm of a food bank, for example, it can risk straying from the mission of its parent organization, which is rooted in goals that are beyond financial returns. A mission-driven enterprise must avoid mission drift that can deflect both human and financial resources from its key operations. Decisions about a planned mission-related venture must be assessed in light of its impact on the broader nonprofit organization.

5. Scale is not Always Needed or Appropriate

For-profit investors like to see their support fuel growth and yield profits that can be reinvested for scaling or replication. "Bigger is better" if financial profits are the sole driver and if growth yields greater profits. While financial returns should be a goal for mission-driven earned income ventures, the parallel goal of mission achievement can sometimes mean that sustainability alone, rather than growth, signifies success. An organization providing workshops to empower girls in Jakarta, for example, may not plan to expand to new cities or provide additional services. Rather, it may concentrate on its content expertise and the geographic area in which it is most knowledgeable. Similarly, most profit-driven businesses also choose to focus on core competencies; however, the urge for increased profits can often encourage investments in expansion. The double-bottom line of a social-impact venture may dictate that such risky moves be sacrificed in order to continue successfully achieving a social mission. A mission-driven business plan must therefore convince potential supporters of its worth, even when growth might not be planned.

A mission-related business-plan is rooted in a case for targeted organizational effectiveness – the driving condition behind mission achievement and, therefore, value creation. TCC defines organizational effectiveness as a successful balance of adaptive, leadership, management, and technical capacities, the combination of which encompasses the concepts of a business plan from leadership structure to data-driven market assessment and financial projections. While mission-driven operations face distinct complexities in building a convincing case for support, they stand to realize many gains. As the corporate sector and individual investors focus more attention on impact investing, there is growing acknowledgment that operations yielding financial profits and social outcomes simultaneously can be smart choices for any investment portfolio. Mission-driven ventures face a new pool of potential funds from investors interested in more than maximizing their profits, and can consequently realize significant opportunity if they successfully build a convincing case for support through business-planning that is distinct from the traditional for-profit process.