Having a For-Profit Mind in a Nonprofit World A long-time businessman shares his keys to nonprofit success.

By Ed Seay

Having worked most of my adult life in the for-profit sector, I was a bit overwhelmed when I moved into the nonprofit sector several years ago. The thought that I was now making money to give money was foreign to me.

I was worried because I realized that my salary and benefits were resting solely on my ability to raise money. In the for-profit world, if the store I was managing had a down year, I might not get a raise the following year, but I wouldn't take a pay cut. The profits from the other stores would take care of my salary and that of my employees.

Despite my anxiety, I approached my new role eager to make a difference. I failed miserably. In my first year as executive director at Help Network, donations went down. I could see that we were going to have some problems closing out the year and wondered what we could do.

I realized I had to change my thinking. Like many of us in the nonprofit sector, my warm feeling about doing good had blinded me to the fact that I had a business to run. If I ran it at a deficit, I would be doing our shareholders a disservice.

Yes, I did say shareholders. We have shareholders in the nonprofit sector: the people of the communities we serve. These shareholders are much more important than shareholders in for-profit business because they freely give.

When funders give us money, we're responsible not only to those funders but also to everyone who donates money to them. We have an obligation to all these shareholders. It's essential for us to be sustainable and responsible when executing our mission.

For-profit business managers have two primary concerns: cutting costs and raising revenue. I decided to look at those key drivers to see how I could use them to streamline my organization:

1. Cutting Costs

It's tough for nonprofits to cut expenses. As in for-profits, payroll is generally the largest line item on the operating side of the business. Unfortunately, it's also the area that's hardest to raise money to fund.

In the business world, companies like to have payroll at less than 10% to sales. In nonprofits, we get excited when we run at less than 30% to revenue, and many run at a much greater percent to revenue.

What would your organization look like if it ran payroll at less than 10% of total revenue? Would you be able to pay yourself the salary you're getting right now? If you're like most nonprofit leaders, you would say no. You might even think that cutting payroll is impossible.

But you would be wrong. Payroll is actually the easiest line item to trim.

In 2001, I was managing a store for a large retailer, and we were running payroll at 8.5% to sales. We believed we were as lean as we could be. Our corporate office asked us to lower our payroll to 6%.

We complained that it couldn't be done – that we wouldn't be able to serve the customers in the best possible way. Our corporate leaders didn't care. They were concerned with the most important thing in the for-profit sector: the bottom line. To end the year in the black, they projected that we had to have payroll at 6%. We had to terminate some employees and reduce the hours of others to get there, but we did it.

> "My warm feeling about doing good had blinded me."

When I began working as a nonprofit executive, I realized that I faced a similar problem. I had to decrease expenses, and payroll was the main expense. I agreed to work fewer hours to reduce my salary, and we made our assistant's job part-time. We closed our office one day per week.

I worried that we wouldn't be able to serve as many people as before. But one year later, our client requests had increased 40% on fewer operating hours.

We reduced expenses in many other ways, too. We started doing almost all our communication by e-mail instead of printing a lot of documents. We reduced the number of check-in documents we needed to print by combining some of them.

Every day, we looked at new ways to minimize expenses. One year later, we had reduced our operating costs by 20%. At a time when many nonprofits in our area were cutting services, we were able to grow our services and set records for requests for assistance and dollars spent in assistance.

2. Raising Revenue

In the nonprofit world, we too often say things like, "If everything stays the same...." That's OK if we want to serve the same number of people as we did the year before. But who really wants to do that?

The fact is nothing stays the same. Business owners struggle to keep their doors open, church giving goes down, and attendance at fundraising events falls off. Charitable giving is decreasing. We have to have the same tenacity for raising revenue that successful business owners have. We have to brand ourselves properly. We have to sell our vision and mission. We need to market ourselves with more than just a brochure. We must have value. We live in a value-driven society (ask any twenty-something if you need proof). If we can't demonstrate value to our shareholders and potential shareholders, we'll be forced to close our doors.

The Nonprofit "Bottom Line"

Raise revenue and cut costs. That's For-Profit 101. Nonprofits provide great services in communities all across America. Unfortunately, our economy is dictating that we change the way we run our business. We must have a for-profit mind in our nonprofit world.

Ed Seay is executive director of Help Network, Inc. (helpnetworkrsvl.org), a small (less than 150K) nonprofit in Russellville, Arkansas – a job he took on after 12 years in upper-level retail management.