Purging Misinformation, Hearsay, & Errors about Nonprofit Income

What are your organization's best sources of income? Even experienced nonprofit leaders often get the answers wrong.

By Karen Eber Davis

A lot of misinformation exists about nonprofit income. What do these misconceptions cost us?

Plenty. Half-truths and errors about income lead many to spend inordinate amounts of resources chasing low-return opportunities, such as grants or donations from community leaders with full dance cards. Faulty information is at the heart of high development-director turnover rates. It prevails in the thinking of discouraged nonprofits who believe that nothing they do will provide adequate income.

If it's your goal to be a sustainable and ingenious nonprofit, start with facts. Help people challenge hearsay by asking for the whole story. Here are seven common fallacies to eradicate.

We can get a grant for that. Everyone hears large foundations being credited for support on PBS and other venues. They forget the conclusion of these messages, when the announcer thanks "viewers like you." Individual donors are the largest source of *donated* income. People get excited when they learn that 100,000 grant sources exist. They forget that those grants fund 1.7 million nonprofits in North America plus NGOs elsewhere. Is it possible that you're already receiving your fair share of grant income?

The biggest source of nonprofit income is individual donations. Mission-earned income, the sales of products and services related to your mission, provide the sector's largest revenue source. It's almost twice as large as individual donations, even including bequests.

Bequests are best. You know that bequests average $70,000. They're lovely and available to all nonprofit leaders who consistently seek them (and who are willing to wait an average of seven years to see a harvest). But are they best? Not when you consider that a bequest is the final gift you'll get from that individual.

People will fund your needs. Donors and customers seek to obtain what *they* need. They provide nonprofits income to solve *their own personal* objectives – which, when you show them how your goals overlap, means resources for you. We're hardwired to help, but we do it to meet our personal needs.

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You can believe what the popular press writes about nonprofits. A recent newspaper article lauded a nonprofit for netting $25,000 on a new event that grossed $100,000. But standard sector guidelines recommend net earnings of $50,000 on a special event, so while the event raised funds, it's not a model to emulate. Large gifts make headlines, but the investment and back-stories remain untold. Most reporters have little depth of knowledge about the nonprofit sector.

We'll have success just like them. Maybe not. For individual donations, some groups – such as universities, hospitals, and the performing arts – start with superior advantages. They can create donor cultivation events whenever they open their doors. While all groups can benefit from seeking individual donations, some have a distinctly easier time filling their pipeline with potential donors.

Low overhead is critical. You often hear that a nonprofit's overhead is too high. But for many nonprofits, the opposite is true: Their overhead is too low, not too high. Except in the most egregious cases, it's meaningless to evaluate nonprofits by their overhead rates. It's imperative for nonprofits to make sure the public understands that message.

As a nonprofit insider, even if you get some questions wrong, you understand much about nonprofits and income generation. It's time to recognize what income confusion costs. Share the facts and stand your ground.

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