The Three Things Nonprofits Forget to Do First

In developing a business, don't make the mistake of skipping the most important steps.

BY PETER C. BRINCKERHOFF

Thousands of nonprofits are starting businesses to supplement their income streams. Sadly, however, most nonprofits go about the process in the wrong order: They start by deciding what the business will be—what service they will provide or what product they will make. By starting there, they make a critical mistake. Idea generation should be *fourth*, not first.

A Few Reality Checks

Before we cover what those first three steps should be, we need a few reality checks:

Reality Check Number 1. First of all, no business is going to make you wealthy as an organization. Nor is it going to make you independent of your current funding source. Most nonprofits say that a major reason for wanting a new business is to become financially independent of foundations, government, United Way, and other funders. Sorry, this is not going to happen. In all likelihood, your current funders will continue to be a major part of your income stream far into the future. You can, however, become *less* dependent on your other funders by expanding your income sources.

Reality Check Number 2. Second, remember that business income is O.K. and will not result in a threat to your 501(c)(3) status unless it dwarfs your charitable functions. Also, most of you will start new ventures that are related to your mission anyway. Why? Because it's what you know. If you are a professional in education or the arts or substance abuse treatment, you are not going to start a Wal-Mart or an engineering firm. People take what they know and find new markets for it. Thus, the business that you start will result in more services being provided.

Reality Check Number 3. Finally, the idea of a business is to maximize profits. For you, as a nonprofit, this maxim is only slightly diluted. Suffice it to say that any profits you make will have a social use: either to fund your mission reserves or subsidize a money-losing program. You aren't starting this business just to make a ton of money; there is a social purpose to the endeavor.

Business Planning Steps

So what are the steps of the business planning process? They are as follows:

1. Establish your mission.
2. Discuss your willingness to take on risk.
3. Discuss the mission outcomes of your business.
4. Generate ideas.
5. Develop preliminary feasibility studies.
6. Develop a final feasibility study.
7. Develop a business plan.
8. Implement the plan.

There is not space enough here to go through all eight steps in detail, and we've discussed many of them in earlier

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articles (see "Selected References"). But it's important to focus on 1, 2, and 3, as they are the steps that get left out. If you jump right to number 4, you will come to grief later on. Here, then, are the three steps you must not forget to do first:

1. Establish (or re-establish) your mission.

You know how central your mission statement is. It must reflect the organization you want to become—not the organization you've been for 20 years. If you haven't already reviewed your mission with your board and staff, a good time is *before* you start the business development process. Make certain that your mission statement does not conflict with the idea of your business venture. Be sure you all agree that a new service fits into the parameters of the mission statement.

2. Determine your organization's "risk level."

Risk is relative. In nonprofit organizations, our willingness to take risk depends on the makeup of the people in charge of the organization. It is also based on the organization's history and financial condition. If, for example, there has been a history of recklessness resulting in big failures (even with another executive director), your board may be less willing to take a risk than if your organization has a stellar record of success. Also, the board's willingness to take a financial gamble will be influenced by how much money is at stake, and how financially secure you are. If your organization is already financially empowered, your board is more likely to use that empowerment for the good of the community.

Your willingness to risk also depends on your view of yourself as an organization. Some points for discussion regarding your business: How much income do you need from this venture? How much social outcome do you want? Talk this through with great detail and frankness. If you don't, you may lead the charge and find no one behind you; everyone else thought it was too risky.

3. Establish uses of profit.

Of all the steps that people miss, this is the most important. You simply must specify what you want to do with the money you will earn. If you do, people will rally around the extra work (and risk) involved in the business development process. If you don't, they won't be able to focus on the outcome; they will just question why they have all the extra work.

Establish the specific uses of your profit. For example, name the program the profit will subsidize. List the amount you need per year to accomplish your social goal. Then when you finish your business plan, you can see if it meets your goals for social outcome.

Remember, First Things First

We all know that the best way to do things is in the correct order. This maxim holds true for business development. Make sure that you do the three things highlighted here *before* you tackle the rest of the business development process. If you do, you will have a much higher likelihood of success. ■

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