

# How Are Nonprofits Using Business Ventures? Advice from the Front

*What lessons have entrepreneurial nonprofits learned? It's advice every nonprofit needs to hear.*

BY JEFF BUDD

**S**lash-cut-chop-delete! These are familiar words to nonprofit managers. Nonprofit funding has been on a steady decline. Slashed budgets, though, do not mean there is less need for services. Quite the contrary.

Perhaps it is nonprofits' familiarity with ever-changing financial backing that has encouraged those who survived the Reagan years to look into creative ways of financing programs. Once the purview of for-profit businesses, these money-making ideas are now an important part of every successful nonprofit's arsenal.

## Who's Using Business Ventures?

Seven years ago, the nonprofit organization I worked for, Ketchikan Youth Services, bid on operating the City of Ketchikan's museum gift shop. We were successful in our bid and increased our gross income each year. Our reasons for entering into this business venture were: (1) to raise money to support our program and to buy a building; (2) to provide a service to the community (Ketchikan gets over 250,000 visitors each summer); (3) to provide entry-level training for youth; (4) to employ our youth clients (we feel that employment is a meaningful prevention tool); and (5) to act as an outlet for local artists.

Our venture was so successful that I began wondering if other nonprofit organizations were starting business enterprises and, if so, how they were doing. To answer these questions, I took a leave of absence and visited 33 nonprofit organizations around the United States. I found some inspiring examples of nonprofits' ingenuity in cutting costs and earning money through business ventures. This article describes some of these outstanding nonprofit organizations and shares advice from their leaders. Their insights provide important lessons for all nonprofits.

## Rebuild Resources

Rebuild Resources of St. Paul, Minnesota, was founded in 1985 and is already 50% self-supportive. Its business venture is a classic example of looking for and filling a niche in the business world. When the organization's leaders searched the community in 1985, they found that there were no suppliers of used forklift parts. Rebuild Resources stepped in to fill that need. It formed a business venture to salvage useable parts from forklifts, fix them up, and sell them.

Rebuild Resources' clients do most of the work. Thus, the venture helps the organization fulfill its mission—providing transitional employment for recovering chemically-dependent clients. Not only does the organization serve its community, but it gives its clients “the real business disciplines and challenges of a working environment.”

When starting a business venture, Rebuild Resources' project director recommends the following:

- Do your homework. Before choosing a venture, do research to discover what people in the area need and want.
- Look for your niche.
- Make contacts in the business community.

- Look at what you have to offer. For example, Rebuild Resources had person power, warehouse space, good supervision, and the flexibility of time and staff. These resources, coupled with a work force, offer appealing business credentials.
- Put time into creating a detailed, realistic business plan.

## Pikes Peak Mental Health

Founded in 1876, Pikes Peak Mental Health (PPMH) is Colorado's largest community mental health center. Located in Colorado Springs, it offers comprehensive mental health services for three counties.

In 1970, PPMH had a staff of 25 people and a \$250,000 budget. In the early '70s, the organization was paying \$1,100 a month in rent for its building. PPMH's leaders approached a bank and extended their loan to a 20-year commitment, cutting their rent in half. They used the other half of their rent budget to purchase a motel, which they replaced with a new building. Among other things, the building housed a Wendy's franchise. This franchise brought revenue into PPMH's program. By 1983, PPMH had 260 staff members and a \$5 million budget.

Charles Vorwaller, CEO of PPMH, is a nationally known consultant on nonprofits developing businesses and forming partnerships with for-profit organizations. To create a successful business venture, he gives the following advice:

- Maintain an attitude of resilience, a willingness to "go for it."
- Develop entrepreneurial flair, the ability to see opportunities where others see problems.
- Cultivate an ability to inspire others, to commit the energies of staff and volunteers.
- Form linkages with other "thinkers" in the field.
- Know the laws, including IRS regulations.
- Plan ahead.
- Be willing to take risks.
- Think like a for-profit business.
- Always be on the look-out for possible joint partnerships with for-profits.
- Be responsive to your customers.

## Minnesota Diversified Industries

Minnesota Diversified Industries (MDI) in St. Paul, Minnesota, is a sheltered workshop for people who are disabled. MDI has provided contract manufacture services for over 25 years. It has contracts

with 3M, Honeywell, Zenith, the Pentagon, and the U.S. Postal Service, among others. Its annual employee turnover rate is 2-3%, and it is 95% self-supportive.

The management ability of MDI's president, John DuRand, was evidenced everywhere as we toured the facility. It was clean and well organized, and he knew all the workers by their first names. DuRand advises the following:

- You must be businesslike. Business people like to do business with business people. You must speak their language.
- Give quality service.
- Have a positive, enthusiastic attitude.
- Follow through. Pay attention to the details so that things are organized and on time.
- Develop credibility by doing what you say you are going to do.
- Recruit business people for your board. They can help you develop your business. They will also add their credibility and expertise to your project.

## Boys Republic, School for Boys

I heard about this program all the way through Washington, Oregon, and California. Founded in 1907 in Chico, California, Boys Republic has a sterling reputation that is well deserved.

Boys Republic works with at-risk males placed through the court system. Two hundred boys live at the ranch. The goal is to return them to their communities to lead productive lives.

Boys Republic's motto is "Nothing Without Labor." The boys help operate the 211-acre farm at Chino, a thrift shop, and a newly developed tree farm. Each year they sell Christmas wreaths and trees.

Making wreaths started as a hobby for the boys in 1947. Soon after, the board decided to market the wreaths. Today, sales gross \$2 million a year. Such a return has taken time, planning, foresight, and hard work.

Executive Director Max Scott offers the following insights:

- Build the board. Boys' Republic's board is made up of 27 members with longevity. Scott and the board believe in keeping members as long as possible.
- Involve your organization's clients in your business venture. Also let them help govern the organization. Such responsibility is a key in building their esteem and self-sufficiency.

- Find a community group, auxiliary, or service club to support your program for the long term. These groups can help with many projects, including your business ventures. The Boys' Republic has had such support from the Pasadena Auxiliary for 80 years and the Orange County Women's Auxiliary for 50 years.
- Seek endorsements from your community.
- Keep striving for excellence.

## And . . .

A few other examples of successful nonprofit enterprises:

- Looking Glass Youth & Family Services (Eugene, Oregon) makes videos and conducts seminars on youth employment, using staff expertise to raise money and promote their program.
- Youth & Shelter Services (Ames, Iowa) operates a recycling business while providing educational and shelter services to area teens.
- HOW Foundation (Tulsa, Oklahoma) operates a body shop and thrift store with its work force of people recovering from drug abuse. It is 100% self-sufficient.
- Vision Services (Seattle, Washington) promotes independence for people who are visually impaired by letting them run its retail store.
- Albertina Kerr Centers (AKC) (Portland, Oregon) has four businesses: a specialty restaurant, antique store, resale shop, and discount gift shop. Volunteers manage every aspect of all the businesses.

## What Are the Lessons?

The ventures described here are impressive business operations by any standard. They have stood the test of time (most small businesses fail within the first two years). They are not, however, Corporate America. They are all 501(c)(3) tax-exempt nonprofit organizations.

These organizations provide quality service to their clients and for their community. In so doing, they strive for self-reliance. They are working toward lessening their dependence on local, state, and federal monies. For their own survival, they are using the attitude, energy, and entrepreneurial skills upon which American business was built.

All the successful nonprofits I visited have some important things in common:

- They have a positive attitude, an entrepreneurial spirit.
- They are viable businesses. They "think and work" like a business.

*It takes work.  
It takes planning.  
It takes a dash of courage.*

## Seven Steps to Earned Income

1. Choose an idea. Pick something related to your organization's mission. (You can choose something unrelated, but you'll have to pay tax on your proceeds, and you won't know as much about the subject. Better to stick with your mission, at least at first.) Hold a board-staff retreat to brainstorm ideas (see "Selected References").
2. Gain the support of your staff and board. (A board-staff retreat is a good first step in assuring such support.)
3. Do a market survey. Be sure there is a need for this new venture.
4. Write a business plan—a comprehensive description of the proposed venture, including a detailed budget.
5. Raise the capital needed to launch the venture. (Here's where corporate partners are helpful.)
6. Market the enterprise to your targeted audience.
7. Gradually expand the business as it proves itself.

- Their business is also their service. They build their business ventures on what they already know how to do. They make sure their venture helps them accomplish their mission.
- They do extensive research, market surveys, business plans, and reviews of IRS regulations.
- Their board of directors includes members of the business community, who are entrepreneurial in attitude and supportive of the idea of starting a venture.
- Their staff is committed and understands the importance of the business venture in relation to the organization's mission and overall program.
- They seek out connections in the for-profit community.
- Most of the organizations are well established. Longevity helps, although it is not the only criterion for success. Some brand-new nonprofits have also started successful businesses.
- Most of the organizations have a budget of more than a million dollars. A solid budget means that the organization can afford a director of development, who puts the business venture together. A larger budget also allows the organization to take greater risks and gives it enough capital to get started (although it's possible to start a business without any up-front funds, if the organization starts slowly, building on what it already knows how to do).
- The organizations are willing to put in the time that's necessary to start a business. Most business ventures take two years to plan, develop, carry out, and take off.

### What Does It Mean for You?

What does all this mean for you? It means that if you haven't already started a business venture, you should be planning to do so. Your starting goal could be to become 10% self-supportive within the first five years and 25% self-supportive within the next five years.

These examples show that you can maintain quality programs and still obtain financial independence. They disprove the criticism that by operating a business you will lose sight of your mission. Indeed, a business venture will compel you to keep your eye on your mission. It will force you to tighten up services, become a better operator, and be more responsive to people's needs. Your clients benefit, and your community benefits. Your new partnership with businesses will bring you many advantages beyond the profits from your venture.

It takes work. It takes planning. It takes a dash of courage.

But as so many of our interviewees advised, "Go for it!" ■

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\*Starred publications are available through the Society for Nonprofit Organizations' Resource Center. For ordering information, see the Society's *Resource Center Catalog*, included in this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).

Jeff Budd is director of Sitka Teen Resource Center in Sitka, Alaska. He has been a leader in nonprofit organizations since 1971. He may be reached at P.O. Box 1034, Sitka, Alaska 99835.

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