



## Jed Letterman's Top 10 List: Famous Last Words of Failed Nonprofit Entrepreneurs

*Business development holds great promise for nonprofits. Is it for you, or will your "last words" end up on this list?*

BY JED EMERSON

**F**irst, a couple of definitions. We define the *new social entrepreneur* as a nonprofit manager who creates social-purpose businesses to provide opportunity for those on the margins of our nation's economic mainstream. We define *nonprofit enterprise* as a revenue-generating venture founded to create jobs or training opportunities for low-income or otherwise disadvantaged individuals, while simultaneously operating with reference to the financial bottom line. Nonprofit enterprises are variously known as social-purpose businesses, community-based businesses, community-wealth enterprises, and any number of other spiffy titles the human mind can propose.

Next, a quick summary: Nonprofit business development has enjoyed modest and growing success in planning and start-up over recent years; it holds great promise for nonprofits, but it's difficult and may not be for everyone. Which is one reason we like it: To succeed at it you have to think outside the box!

Now for our famous-last-words top-10 list:

**10. "After the Sizzler folks moved out, we thought it was a perfect opportunity to start a community restaurant."**

If a site is "churning," don't start the same business as others who have failed, betting that since you're a nonprofit you can do it for "less." They couldn't and you won't. There are *reasons* businesses in your neighborhoods have failed. Usually it's location, location, location—and the fact that it was the *wrong business*. Spend time searching for a more appropriate site. Or consider ventures which move product out of the neighborhood in exchange for capital brought into your neighborhood.

**9. "Five thousand dollars should have been plenty of money for our planning process."**

Some businesses have been developed on the backs of envelopes, and others have been started on a few hundred dollars. Yours will not be one of them! Converting a nonprofit social-service organization into a social entrepreneur organization involves time, which means money. You can do a great deal

with volunteers and program participants, but you will need a staff person to give this project the highest priority. Give yourself adequate time to establish a venture committee, design a common time frame, agree on measurable goals, and make an organizational commitment to the process. Once the doors are open, you can't return to a planning mode. The greatest luxury you have is the period before you launch your venture when you can analyze your organization, prepare your board/staff/clients,

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decide on an enterprise, raise as much of the money as you think you will need, and then add more time and money to your planning budget. Adequate planning dollars alone will not make the difference, but they will provide the cushion you need to plan your attack.

**8. “But there was such a NEED for an organic produce grocery.”**

Nonprofits are developed to identify and respond to *social need*, not *market demand*. Be sure you are clear on the difference. The fact that a neighborhood may need quality organic produce is one thing; whether community residents can afford to pay for organic produce is another. Do market and pricing research to know who your customers are and what their ability to pay is. Build from there to assess your idea’s viability.

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**7. “Our goal was clear: Create meaningful employment; provide \$10-an-hour wages; generate \$500,000 a year for our organization; engage in environmentally friendly commerce; give our employees personal-growth opportunities; provide a place for neighborhood kids to go after school . . . ”**

As you go through the process of a start-up, understand one thing: You are not going to end poverty in America, you are not going to create a cash cow, and you are probably not going to be able to create a utopian work environment. If you are lucky and the business gods smile upon you, you will manage to stay in business, provide decent transitional work opportunities for folks you care about, and take not more than three years of subsidy from your parent organization. Maintain your focus. Your first goal must be to identify a demand in the marketplace and provide the highest quality service or product to your consumer at the most competitive price you can. *Period*. The rest is icing on the cake and will come only when you achieve the first goal of profitability.

**6. “We have such a great cause—how could they NOT buy from us?”**

The fact that you’re a nonprofit with a good cause is a *disincentive* in



the marketplace! In evaluations of consumer satisfaction, the fact that ventures were operated by a nonprofit came in fourth, fifth, or sixth as a reason to frequent those businesses. Consumers' primary concerns are quality, demand, and price. Often, the fact that you are a nonprofit "doing good" will go against you and be something you have to overcome in your relationships with the business community. Don't use the crutch of being a nonprofit to try to win a foot race!

**5. "Our board president always wanted us to open a T-shirt shop. Now's our chance!"**

Again, be clear on your purpose: to stay in business and create jobs for your folks. There is no room for personal agendas or "pet" ideas. If the numbers in your assessment don't support the degree of risk, don't do it, regardless of emotional or political investment of board/staff participants.

**4. "We're losing our federal grant. We'd better start a business soon."**

The goal of starting a business should be consistent with your mission. While anticipation of future cutbacks may be a motivation to re-assess your organization's place in the community, creating a business is not the first appropriate response to impending funding cutbacks and will almost always create more problems than it will solve. First revisit your mission, evaluate your values, and then conclude whether a venture is consistent with who you are as an entity. Do it for the right reasons—not because you got a business planning grant or because you're losing a program grant. While necessity may be the mother of invention, successful enterprises evolve 75% out of passion and 25% out of desperation.

**3. "If we only had more money, we would have done a better job."**

Mainstream businesses are usually

said to fail for two reasons: lack of management expertise and lack of capital. Social entrepreneurs fail for one reason: lack of management expertise. Most nonprofits have a poor grasp of financial accounting, don't understand the markets they are entering, misread their consumers, and don't anticipate staff/board opposition to the idea of creating a business. Do your homework. Develop your capacity first, create the business idea second—and the money will follow.

**2. "But they SAID they would pay us by the end of the month."**

Also known as: "May I have a bite of your sandwich? Someone just ate my lunch." Nonprofits think they know a great deal about competition for money, and as far as public funding goes, many have great skills. Private-sector markets are another matter. It's a jungle out there. Businesses compete brutally, both with ethics and without, and they compete to win. Your customers are feeling the pinch in trying to find the absolute lowest price with the highest value. Your suppliers are feeling the pinch in moving inventory and balancing cash-flow. Sitting between these two forces, you will feel the pinch, too. Realize it now and plan accordingly. Build in allowances for bad debt, missed projections, equipment breakdown, and anything else you can think of which may affect your bottom line. Remember, if you slip, you will fall, and if you fall, you will fail. Make strategic alliances which complement your weaknesses, and anticipate the problems you know you'll have, since you'll be dealing with a hundred problems you never thought of. Don't be taken down by the obvious problems you should be able to see from the starting line. Protect yourself, and play to win.

And now . . . the Number One Famous Last Words of Failed Social Entrepreneurs:

# #1

**"But we're a NONPROFIT!  
We're not supposed to  
make money!"**

Nonprofit managers (and their sympathizers) are raised by experience and training to distrust money, business, and capitalism. We develop a mind-set that views money as evil. Grow up. Money is valueless: It's what people do with money that counts. Your job is to get as much of it as you can so you can stay in business, hire people in need, pay a good wage, contribute funds to your program, and stabilize your community. Greed may not be good, but money is. After all, there is no glamour in poverty. Go out there and get your piece of the pie and then feed it to the masses. If you aren't comfortable with that idea, don't start playing the game. Or else you will find your "last words" on this list! ■

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