Starting a Business: Too Risky for Your Organization?

What are the risks of starting a money-earning venture for your organization? Do the benefits outweigh them?

BY PETER C. BRINCKERHOFF

One characteristic of financial empowerment is having outside sources of income: having a business. Throughout the nation, business activity by nonprofits is on the upswing, and dramatically so. Why?

There are several reasons. First, decrease in public support has necessitated looking for new dollars. Second, this tightening of public purse strings has led to increased competition for grants and donations. What's left is earned income. Thus, business development.

Business development makes sense. Not only will it provide you with unrestricted income, but you'll have a skill you can use throughout your organization. The question is: Is starting a business too risky?

First, Understand Risk

Realize, first, that all business is risky. That's the idea: Risk = Potential Reward. There is no sure thing. If there were, everyone would be doing it, and competition would be so intense that it wouldn't be a sure thing anymore. Different levels of risk appeal to different people. Some of us like to gamble, some don't.

When you think about risk in terms of your organization, you need to talk to your staff and board members about two things. First, you must make it clear that business is *always* risky. Second, you must come to a consensus on how much risk is acceptable for your organization.

One characteristic of a mission-based organization is being a social entrepreneur: taking reasonable risks on behalf of the people you serve. In today's competitive environment, the risk-taking organizations, the ones that are flexible, innovative, and adaptable, will be the ones that survive and prosper.

With that in mind, let's turn to the steps of the planning process.

Steps To Developing a Business

Let's start with a few examples of what we mean by business development:

A small Midwest nonprofit is in a community that has an annual craft and food festival each spring. It occurred to the executive director that a catalog of foods and crafts, sent in the fall to those who attended the festival, might be a great sales success. After careful market testing and selection of the best products, the exec set up the catalog. He subcontracted out the mailings, the order fulfillment, and, of course, the product manufacturing. In fact, all his organization did was handle the money. His initial investment: $4,000 for a test printing and mailing. His annual (pre-tax) *profits* each year now? $96,000.

An organization that provided residential care for abused teenagers was looking for new sources of revenue. They created a two-hour presentation, "Dealing with Difficult Teens: A Parents' Workshop," which they gave in hotel conference rooms.

They developed the session from materials already in-house and designed it to be presented by any one of a number of staff. They held the test session in a room set for 50 people; 430 showed up, each willing to pay $15. The revenues per year now: $205,000.

In these examples, the catalog idea was new, unrelated to the organization's mission, and a real risk. The session on teenagers was simpler, related to the mission, and not as great a risk.

Building on what you already know is always less risky. Also, a business related to your mission is not subject to the Unrelated Business Income Tax (UBIT). In addition, the work will be a more comfortable fit with your organizational culture, lowering resistance to the new venture among board and staff.

As we've noted in previous issues of *Nonprofit World*, you need to follow eight steps before you launch a new business. And it's vital that you follow them in this order:

1. **Review your mission.** How will this new business support your mission? Talk this through with staff and board members.
2. **Establish your risk level.** Discuss with board and staff your organization's willingness to take on risk. You want to make sure that staff and board are on the same level of willingness to take risk. And you want to know *before* you start.
3. **Plan uses of profit.** Of all the steps that people miss, this is the most important. You simply must specify what you will do with the money you earn. Will you use it to start a new program, to pay for poorer citizens to use your facilities, to establish a 90-day cash reserve, or to pay a staff raise? Spell this out in detail. If you do, people will be able to rally around the extra work (and risk) involved in the business development process.
4. **Generate ideas.** Only after you've done numbers 1, 2, and 3 should you consider what you can do to earn extra income. Get a facilitator and have a brainstorming session. Let the ideas flow.
5. **Develop a feasibility study on the best idea.** Don't go to the next step without considering the key question: "Is this business feasible for us?" If you complete the feasibility study, most of the work in your business plan will be done. (We'll give you details on preparing a feasibility study and a business plan in upcoming *Nonprofit World* articles.)

What Makes Change Work?

It's natural for people to resist change, but there are ways you can reduce their resistance. A recent General Electric study identifies seven keys to successful change:

1. **Have a leader.** There must be a strong leader to mobilize people and manage the change.
2. **Clarify the need.** Be sure people understand the need for the change.
3. **Forge a vision.** Ensure that people agree on desired outcomes from the change.
4. **Gain commitment.** Identify key stakeholders who must be involved to accomplish the change, and be certain you have their support.
5. **Build the change into your organization.** Use management tools, such as training and appraisal systems, to make the change part of your infrastructure.
6. **Monitor progress.** Define benchmarks to measure success.
7. **Follow through.** Develop plans to make sure that the change is implemented, that it lasts, and that people continue to support it.

From Human Resource Champions: The Next Agenda for Adding Value and Delivering Results, *by Dave Ulrich, Harvard Business School Press, Boston, Massachusetts 02163. See also "Master Change, Or Change Will Master You" (*Nonprofit World, *July-August 1996) and "Eliminating Resistance to Change: The Magic Formula" (*Nonprofit World, *September-October 1992).*

6. **Create a marketing plan.** Select marketing objectives, identify target markets, and develop a marketing strategy.
7. **Design a business plan.** Over half of all new businesses fail within the first two years, and over 90% fail within the first 10 years. A major reason for these failures is lack of planning. If you have a well-written business plan that takes into account all the variables involved in starting a new business, you can move your venture on the road to success.

The key question: "Is this business feasible for us?"

8. **Carry out your plan.** Once you've written, reviewed, and adopted your business plan, your final—and certainly not the easiest—step is to set up and run the business.

Remember, the most successful entrepreneurs fail the first few times before they hit it big. But you don't have to be like them. If you develop a sound business plan based on good research and valid marketing, your business can succeed. Additionally, you can transfer your new business planning skills to other things you do. When your funder comes up with a new program, you'll be better able to evaluate the real costs to your organization of starting and marketing the program. When you consider expanding to a new location, you can put together a business plan that takes into account the differences in costs and market wants at the new site. If you're thinking about a piece of equipment, a vehicle, or a building, you can better assess all your costs and benefits using the business planning process.

Business development skills are essential to becoming a mission-based manager. You need to use the techniques described here to evaluate all "ventures," whether they be expansion of existing programs, acceptance of a grant, or new funding from a government agency. The more you apply the tools described here, the more you and your organization will benefit.

Yes, it's a risk, but risk is OK. If you follow the steps outlined here, carefully and in the proper order, you'll reduce your risk to an acceptable level and reap many benefits for your organization. ■

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

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