ENTREPRENEURIAL *spirit*

Keep or Kill? Score Your Programs

Use this tool to decide which activities to nurture—and which to abandon.

BY JERR BOSCHEE

Entrepreneurs in the nonprofit sector have encountered a stunning irony.

When they began exploring earned-income strategies during the 1980s and 1990s, they were searching for new sources of revenue to help them maintain and expand their programs. They were dealing with a simple, deadly fact: Traditional sources of revenue—charitable contributions and government subsidies—couldn't keep pace with social needs.

So they set out to find the money they needed to serve more people—only to learn that the first rule of entrepreneurship is contraction. The last thing they expected to wind up with was fewer programs, but that's what happened. The pioneers in the field learned a harsh lesson: It is not possible to be all things to all people.

THE GOSPEL ACCORDING TO DRUCKER

The concept of "organized abandonment" began to seep into the nonprofit sector in the mid-1980s when management guru Peter Drucker turned his attention to the field and recoiled from what he saw.

> ***The first rule of entrepreneurship is contraction.***

Too many nonprofits were becoming increasingly unwieldy, unable to give their clients the attention they deserved because they no longer had the necessary time or resources. And much of the pain was self-inflicted. Multi-service organizations grew frenetically, adding programs every year, spreading themselves thinner and thinner.

Drucker had some blunt advice: If your products or services aren't number one or number two in the market, kill them. Rather than trying to be all things to all people, concentrate on doing the best possible job in a few, carefully chosen areas.

His advice ran against the grain of the traditional nonprofit mentality, but most nonprofit managers eventually do admit they're trying to serve too many masters, and Drucker's suggestion gives them a lifeline, a way to simultaneously sharpen their organizational focus and expand their impact.

Unfortunately, the process can be painful. It isn't easy to kill programs, especially if they're the pet projects of board members or funders. And there *is* an important caveat: Organized abandonment for nonprofits does *not* mean eliminating a program just because it loses money. If the nonprofit is the best or only provider of a program that's critically needed, it has an obligation to continue the program—and a managerial challenge to find other sources of revenue to cover the cost.

At its heart, organized abandonment requires a nonprofit to be honest with itself—exceedingly difficult for any organization, nonprofit or otherwise. But the results have been worth it, and the ultimate winners have been the clients. Nonprofit entrepreneurs have discovered that reducing the number of programs they offer has actually enabled them to serve more people and to serve them better—because they've had the time and resources to expand their efforts.

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THE ORGANIZED ABANDONMENT GRID®

One of the decision-making tools nonprofits have been using for the past decade to decide which programs to eliminate is "The Organized Abandonment Grid"® (see below). This grid enables them *simultaneously* to analyze the social purpose and financial impact of each program they offer—and, ultimately, weigh the programs against one another.

Before they can use the tool effectively, however, nonprofits must decide whether they're pursuing a "sustainability" or "self-sufficiency" model. Sustainability can be achieved through a *combination* of charitable contributions, public sector subsidies, and earned revenue, but self-sufficiency can be achieved only by relying completely on earned revenue. If nonprofits are more interested in sustainability than self-sufficiency, they can factor philanthropic and government support into their calculations of financial impact. If they prefer to concentrate on self-sufficiency, then they should use charitable contributions and government subsidies only as tie-breakers at the end of the process when making final decisions about which programs to expand, maintain, reduce, divest, or eliminate.

The Organized Abandonment Grid® is designed to answer two questions about each product or service the nonprofit offers:

• Regardless of who provides it or whether anybody can pay for it, how many people in the community truly need it—and how critical is their need?

• What are the financial implications? Can the product or service be profitable, or will it result in losses?

Nonprofits use the horizontal axis on the grid (a five-point scale) to answer the "social purpose" question and the vertical axis (a seven-point scale) to answer the "financial impact" question. The intersection of the two scores leads them to a cell with one of five labels, each with a specific set of mandates:

• **Definitely:** These programs *definitely* deserve more resources. They are high on *both* the social purpose and the financial impact scales.

• **Probably:** These programs *probably* deserve more resources. They are high on *either* the social purpose or the financial impact scale.

• **Maybe:** The mix of social purpose and financial impact is inconclusive. The organization *may or may not* want to keep these programs (and the decision may rest in part on the size, strength, and number of competitors).

• **Probably not:** These programs should *probably* be eliminated. Either there is very little or no social purpose, or they *could* cause severe financial damage to the rest of the organization.

The Organized Abandonment Grid®

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Notes: "Profits" and "losses" are for annual operations and include all direct and indirect costs; "profits" are pre-tax and prior to capital re-investment

FINANCIAL IMPACT			SOCIAL PURPOSE: CRITICAL 5	SIGNIFICANT 4	SOME 3	MINIMAL 2	NONE 1
PROFITS	21% OR MORE	7	DEFINITELY	DEFINITELY	DEFINITELY	PROBABLY	MAYBE
PROFITS	11% - 20%	6	DEFINITELY	DEFINITELY	DEFINITELY	MAYBE	MAYBE
PROFITS	0% - 10%	5	DEFINITELY	DEFINITELY	PROBABLY	MAYBE	PROBABLY NOT
LOSSES	1% - 10%	4	PROBABLY	PROBABLY	PROBABLY	PROBABLY NOT	DEFINITELY NOT
LOSSES	11% - 40%	3	PROBABLY	PROBABLY	MAYBE	DEFINITELY NOT	DEFINITELY NOT
LOSSES	41% - 70%	2	MAYBE	MAYBE	PROBABLY NOT	DEFINITELY NOT	DEFINITELY NOT
LOSSES	71% - 100%	1	MAYBE	PROBABLY NOT	DEFINITELY NOT	DEFINITELY NOT	DEFINITELY NOT

• **Definitely not:** These programs should *definitely* be eliminated. Either there is very little or no social purpose, or they *will* cause severe financial damage to the rest of the organization.

THE "SOCIAL PURPOSE" SCORE

The first task for a nonprofit's senior management team is to decide where each product or service should be placed on the social purpose continuum:

• Is there a *critical* need? (a score of "5")

• Is there a *significant* need? (a score of "4")

• Is there *some* need? (a score of "3")

• Is there *minimal* need? (a score of "2")

• Is there *no* need? (a score of "1")

Assigning the social purpose score is tougher than most nonprofits expect, and is more an art than a science. It's relatively easy to count the number of people who need a particular product or service, but how does a nonprofit decide whether one is more critical than another?

Decisions of this sort are frequently fueled by the passions of the people involved, and most nonprofits are reluctant to classify anything they do as less than critical. People who work in the sector are driven by a missionary instinct and loathe the idea of turning anybody away. When they see somebody in pain, they try to help. Somebody else is hurting? Start another program. Before too long, the typical nonprofit is stretched beyond its resources and capabilities.

Nonprofits' ingrained tendency to view all their programs as equally important is almost impossible to root out without doing something drastic. So nonprofits need to practice triage: No more than 20 percent of their products and services should be considered "critical," no more than 20 percent "significant," and so on. Nonprofits don't like to take that approach, but most that do discover two things: It's one of the most emotionally wrenching experiences they've ever had—but it's also one of the most liberating, because (often for the first time) they've given themselves permission to be candid.

> ***Self-sufficiency can be achieved only by relying completely on earned revenue.***

Practicing triage successfully may mean bringing in neutral observers to provide a broader perspective. Some of the most helpful have been men and women who are themselves successful entrepreneurs. Even then, however, there are no hard and fast rules about which products and services should go into which categories. Making the final decisions may require members of a senior management team to compromise with one another, but the overall result is usually a consensus everybody can live with.

THE "FINANCIAL IMPACT" SCORE

Once the social purpose score has been determined, nonprofits can concentrate on a task that is more time-consuming, if less emotional—assigning a financial impact score to each of their products and services. To do so, the nonprofit must determine the following:

Could the product or service be profitable (on a pre-tax basis)?

• 20% or more? (a score of "7")
• 11% to 20%? (a score of "6")
• 0% to 10%? (a score of "5")

Or will it result in a loss?

• 1% - 10%? (a score of "4")
• 11% - 40%? (a score of "3")
• 41% to 70%? (a score of "2")
• 71% - 100%? (a score of "1")

Historically, nonprofits trying to determine the financial viability of a product or service have relied mainly on charitable contributions and government subsidies, with earned income a distant third. Nonprofit entrepreneurs have turned that formula on its head. Earned income has become primary, especially because of the pressures impinging on the nonprofit sector today: Operating costs continue to rise, resources from traditional sources are less dependable, the number of nonprofits competing for grants and subsidies has nearly tripled in the past 25 years, and the number of people in need continues to escalate.

Charitable contributions and government subsidy are still welcome, but no longer central. So, to make the financial impact calculation as useful as possible, most nonprofits adopt the self-sufficiency model and concentrate only on earned income. Philanthropic and public sector dollars come into play later, but only as tie-breakers if the intersection of social purpose and financial impact scores is inconclusive.

Assigning the financial impact score for a product or service is based on the interplay of numerous factors: the nonprofit's ability to compete (a combination of critical success factors, environmental forces, and competitive advantage); break-even analysis; and the size and direction of the market. So nonprofits must gather at least five types of information before the score can be assigned:

• **What are the critical success factors?** The factors will be different for each product or service: They might include price, convenience, quality, volume, direct mail, access to referral sources, or many other possibilities. For example, one of the most critical factors for a nonprofit providing non-medical services in their homes for the elderly is the ability to recruit and retain home care aides.

• What environmental forces will have an impact? The forces could be positive or negative, and they could emerge from any number of sources (demographic, economic, sociological, technological, regulatory, political). An obvious example has been the impact of managed care on health and human service organizations.

• Who are the primary competitors—and how strong are they? Competitors could come from the for-profit, nonprofit, or public sectors. Do any of them have a significant advantage? The best way to find out is to test them against each of the critical success factors and environmental forces.

• What do the numbers say? What is the unit cost to deliver a single product or service? What are the fixed and variable costs? How much investment will be necessary to compete effectively? Will it take a year to break even? Two years? Five years? Will profitability ever be possible?

• What is the size and direction of the market? How many dollars will be available to pay for the product or service—and from what source(s)? Is the market growing, flat, or declining? Does it really make sense to compete in a dying market? Is it okay to take some additional risks if the market is expanding?

THE KEY INGREDIENT

Assigning the social purpose and financial impact scores may be time-consuming, but doing so is still the easy part of the organized abandonment process. It's one thing to do research, quite another to act. Organizational courage is frequently in short supply when it comes to making final decisions about what to do with specific products or services.

But if nonprofits can summon the courage, the results can be dramatic: sharpened focus, more people served—and higher levels of sustainability or self-sufficiency. ■

Resources

Boschee, Jerr, "Eight Basic Principles for Nonprofit Entrepreneurs," *Nonprofit World*, Vol. 19, No. 4.

Boschee, Jerr, *Social Entrepreneurship Videotape.*

Cohen, Jan, "You've Got to Know When to Hold 'Em, Know When to Fold 'Em," *Nonprofit World*, Vol. 17, No. 1.

Dixon, Greta KMarie, "Evaluating Nonprofit Programs: Now It's Essential," *Nonprofit World*, Vol. 12, No. 3.

Fockel, Kenneth, "Give Your Organization a Tune-Up," *Nonprofit World*, Vol. 17, No. 1.

Muehrcke, Jill, ed., *Enterprise (For-Profit) Endeavors, Leadership Series.*

These resources are available from the Society's Resource Center, 734-451-3582, www.snpo.org.

Jerr Boschee (jerr@orbis.net) has spent the past 20 years as an advisor to social entrepreneurs in the U.S. and abroad; he has delivered seminars or conducted workshops in 41 states and nine other countries. He is the founder and executive director of the Institute for Social Entrepreneurs (www.socialent.org) and the Executive Academy for Social Entrepreneurs, is the founder and a senior partner in the Social Enterprise Fund, and is a member of the adjunct faculty at the School for Social Entrepreneurs in London, England. He served previously as president and CEO of the National Center for Social Entrepreneurs and co-founded both the National Gathering for Social Entrepreneurs and the Affirmative Business Alliance of North America, the first two membership organizations for entrepreneurs in the field of social enterprise.

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