

Social Enterprise Reporter

Innovative Business Solutions for Nonprofit Entrepreneurs

The Income Diversification Journey (1)

by Warren Tranquada

Grantmakers for Effective Organizations (GEO) is a nonprofit membership community, dedicated to maximizing philanthropy's impact by advancing the effectiveness of grantmakers and their grantees. Founded in 1997, GEO incorporated as a 501(c)(3) nonprofit organization in 2002.

Pre-Planning for an Earned-Revenue Strategy

GEO has 600 members, including individuals, organizations, infrastructure organizations and regional associations, which are assessed dues contingent

This regular SER column features organizations engaged in an ongoing process of diversifying their revenue streams through the development of earned-income activities.

upon their assets. These dues, along with foundation grants, are GEO's primary financial support vehicles. Since grant support is likely to decrease as the

organization moves beyond its start-up stage, GEO has begun to consider developing earned-income projects in order to improve sustainability.

The organization decided to follow a deliberate, inclusive process. In the pre-planning period, they established guidelines, prioritization rules

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Pre-Planning – What to do before planning your business

Adapted from *Social Entrepreneurship — A Reference Guide*

- 1. Establish why the organization is pursuing the venture:**
To generate a profit? Or is revenue a byproduct of a social program?
- 2. Evaluate organizational readiness.** Assess cultural and organizational barriers to business success. For GEO, these issues were identified through interviews, and the implications discussed at an “idea generation” meeting.
- 3. Reevaluate your strategic plan.** Before making major changes, establish how social entrepreneurship fits into your organization's priorities. GEO developed a “Theory of Change” that forms the backdrop for major social entrepreneurship decisions.
- 4. Form a team to champion the process.** Err on the side of inclusion, and ensure that the Board and organization are committed to the process. GEO assigned a past Board member as primary liaison to the planning staff.
- 5. Establish a process and policies.** Include a plan to evaluate and prioritize criteria for launch, and develop a strategy for marketing and financial assessment.

and constraints to help the organization choose the best products and prepare for launch (see box above). A careful planning process was designed:

- to help GEO clarify the role that earned-income projects could play in its overall organizational strategy
- to reflect on the nature of the organization and its relationships with members
- to explore the assets and liabilities that GEO should take into account.

The pre-planning process consisted of four parts:

- interviews of selected Board members, staff, members and other stakeholders
- survey of all Board members and GEO members
- assessment of the current and potential financial results of existing earned-income streams (membership, conferences and publications)
- review of other organizations' experiences trying “interesting”

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The Income Justification Journey, Part 1

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approaches.

“It was very important to us that we establish a context for this project,” says GEO Program Specialist Hannah O’Leary, who manages the income diversification project. “Different members of the staff and Board had different visions as to the purpose and definition of earned income for GEO. Our pre-planning

was really about level setting.”

Early on, GEO became concerned that members and the Board were being over-surveyed. Recognizing that member input could provide new ideas and highlight potential challenges, the organization also understood that member participation is an asset that must be protected. Therefore, they began the project

with existing data from an earlier membership survey. GEO also conducted lengthy interviews of a broad range of people, including members, Board members and staff; and project staff asked all Board members to respond briefly to four questions about the role of earned revenue at GEO. ■ ➔ www.geofunders.org

The Income Diversification Journey (2)

by Warren Tranquada

This is the second in a series about *Grantmakers for Effective Organizations (GEO)*, a nonprofit membership community founded in 1997. GEO is dedicated to maximizing philanthropy’s impact by advancing the effectiveness of grant-makers and their grantees.

The previous article (SER, November ’04) described GEO’s steps to assess its readiness for an earned-revenue strategy, build commitment for the process, and set context. GEO staff interviewed key stakeholders, assessed earned revenue performance, and reviewed the experiences of similar organizations.

Brainstorming Ideas for an Earned Revenue Strategy

GEO’s pre-planning activities culminated in a full-day meeting to brainstorm and screen potential earned-revenue opportunities. The meeting included all staff and a board liaison.

Guidelines for Screening Ideas Quickly

Adapted from *Social Entrepreneurship — A Reference Guide*

Most organizations have far more business ideas than they can analyze in depth, and it does not make sense to write business plans for ideas with little likelihood of implementation. Simple questions can be used to rate ideas quickly, in a group setting.

GEO used the following questions and spent just 2 minutes on each idea:

- 1) Does the idea fit with GEO’s mission and theory of change?
- 2) Does the idea address an urgent unmet customer need?
- 3) Would the business lead to at least \$200,000 of revenue and \$100,000 of profit?
- 4) Can the idea be implemented with under \$50,000 investment? Is anyone enthusiastic about the idea? This question often is the decider — if no one is interested enough to volunteer 3 hours to write a business case, it is unlikely that the organization will be able to commit to making the implementation work.

“It was critical to have staff participation as we considered which projects we could actually implement,” says GEO’s executive director,

Kathleen Enright. “The board liaison helped strengthen the board’s confidence in the process. It was a great

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The Income Justification Journey, Part 2

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asset to have someone in the room who the board knew and trusted.”

Throughout the day, participants reviewed the output of the pre-planning exercises, and discussed the context in which GEO interacts with members – including trends, stakeholder segments, and the needs of members and other stakeholders. The team also discussed potential barriers to success. After developing some preliminary plans for dealing with challenges, the team agreed to “park” the remaining issues for the day, so that brainstorming could occur with open minds.

Participants kept GEO members’ needs forefront in their thoughts, as they brainstormed opportunities to enhance earned revenue and organization sustainability. For example, the group discussed how smaller-budget

GEO members were increasingly asking for more “how-to” applications of GEO research.

Almost 100 ideas were suggested, ranging from minor project enhancements to concepts that would redefine the nature of the organization. Participants divided into small groups and used a simple set of questions to create a preliminary rating for each idea (see sidebar). The questions were developed by participants, helping to create buy-in for the final selections. The process ultimately led to eight ideas emerging for further consideration. Despite the large number of ideas, final selection of ideas was actually quick, as the screening questions helped limited debate to only a dozen suggestions.

The following tips helped make GEO’s brainstorm sessions successful:

- 1) Trust your judgment
- 2) Use the customer’s perspective
- 3) Don’t split hairs by debating the ratings of ideas that are scoring low
- 4) Accept that some good ideas may be eliminated
- 5) When assessing profit potential, ask: “What must I believe is true for this to be a good idea?” For example, if \$200,000 is the minimum required revenue: How many units must be sold? What percent of the market does this represent?

A champion volunteered to work on each idea, committing to invest three hours to writing a short business case before the next meeting, when further screening would take place. Our next article describes this process. ■ ➔ www.geofunders.org

The Income Diversification Journey (3)

by Warren Tranquada

This is the third in a series about Grantmakers for Effective Organizations (GEO), a nonprofit membership community, dedicated to maximizing philanthropy’s impact by advancing the effectiveness of grantmakers and their grantees. GEO was founded in 1997.

The previous articles [SER November 2004 and January 2005] described how GEO assessed its readiness for an earned-revenue strategy, selected a ‘short list’ of eight possible ideas during a brainstorming session that generated 100 potential earned revenue concepts.

Concept Screening

As GEO staff and stakeholders evaluated earned-income opportunities, they decided to gather additional information about the eight most promising possibilities.

Eight GEO staff champions at the brainstorming meeting agreed to write a short business case on one potential revenue-generating idea. Each champion was provided with a business case format, consisting of a list of questions and a general layout to guide concept development, and a challenge to spend no more than three hours developing the case. The purpose of these short business cases

was to develop the idea (in some cases, simply a few words on a flipchart) into a concept that could be debated and assessed. It was important to GEO that the effort at this point be highly targeted and efficient.

Kathleen Enright, GEO’s Executive Director, explains: “When we agreed to assign staff champions to do further analysis, we had only invested a few minutes of discussion into each idea. We wanted to put enough effort into these concepts that we could have an informed discussion and properly assess their potential. But at the same time, we did not want to spend enormous amounts of staff

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The Income Justification Journey, Part 3

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time researching and developing plans for ideas that would ultimately not be executed. We felt the three-hour challenge was appropriate to get us to the next step.”

The team met one week later to discuss the business cases and screen the list. At this meeting, the team agreed to the final layout of a Screening Scorecard that would be used to rate the ideas relative to each other on mission fit, financial potential, and the likelihood of GEO being able to successfully execute (see sidebar). Each idea champion had 20 minutes to present their concept, answer questions, and lead the team through rating the idea on a scorecard.

Using a Screening Scorecard

Lori Bartczak, GEO Program Manager, notes that “Having a Screening Scorecard and business case layout helped us determine which ideas would help us meet our earned revenue goals. While all were good ideas at some level, we began to realize through the discussion that the strongest opportunity for us was to improve the sustainability of existing programs, such as our membership program and conferences.”

A screening scorecard allows the organization to objectively compare and rate ideas, relative to each other, by formally recognizing the criteria that drives its success in developing an earned income business. However, a scorecard does not replace intuition, and should never be used blindly; and we do not recommend using a scorecard to make final decisions on whether to implement. We find that the most effective scorecards group ideas at an early stage into ‘buckets’. The idea is to identify the set of ideas

Developing A Screening Scorecard

To develop an effective Screening Scorecard, we suggest:

1. **Stop/Go Factors.** Determine if any “stop/go” factors should automatically disqualify ideas. GEO decided that only ideas that would advance their Theory of Change should be pursued.
2. **Quality/Fit Indicators.** Determine criteria that indicate the quality of the ideas and the likelihood that the organization can implement them. GEO selected 6 quality indicators and 8 ‘fit’ indicators.
3. **Scoring.** As specifically as possible, describe what constitutes each idea’s score (from 0-3) on each indicator.
4. **Extra Weighting.** Determine whether any indicators are so important that they deserve extra weighting. GEO experimented with several weightings but found they had no impact on the highest-priority ideas.

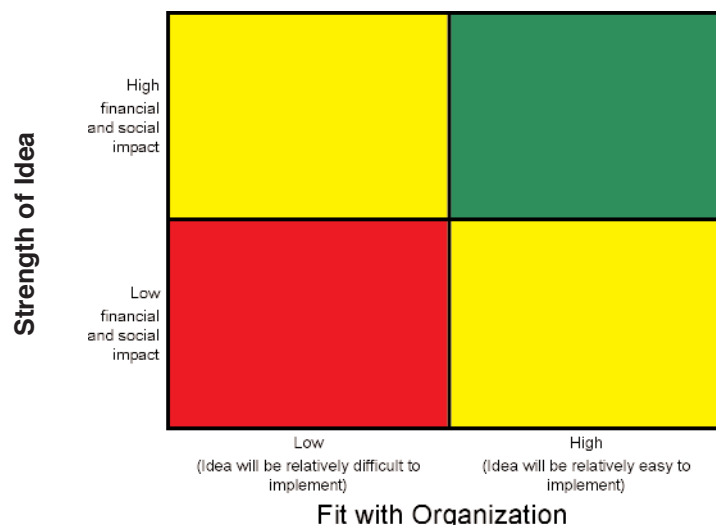
that is most deserving of serious discussion and planning.

After completing a scorecard for each idea, all of the ideas are placed on a matrix, where each quadrant has a group of ideas with similar potential, such as this example at right.

At the end of GEO’s meeting to evaluate its top business cases, the scorecard results and discussion were used to determine next steps. The

staff decided to write a business plan around the enhancement of its membership program; to develop marketing plans to enhance its two major conferences; and to further explore two new product ideas in a feasibility assessment.

Our next article, which concludes the series on GEO’s planning process, will describe the results of GEO’s decision-making process. ■



The Income Diversification Journey (4)

by Warren Tranquada

This regular SER column features nonprofit organizations engaged in an ongoing process of diversifying their revenue streams through the development of earned income activities. This is the last in a series of four articles about *Grantmakers for Effective Organizations (GEO)*, a nonprofit membership community, dedicated to maximizing philanthropy's impact by advancing the effectiveness of grantmakers and their grantees. GEO was founded in 1997.

Previous articles [SER November 2004, January and February 2005] described how GEO decided to focus on bringing forward five earned revenue initiatives for assessment.

Business Planning and Concept Development

After preliminary assessment with of a scorecard, concept papers and detailed discussions, GEO staff decided to focus on a short list of earned income opportunities:

- To write a business plan around the enhancement of its membership program, as the primary focus of its earned income strategy
- To develop marketing plans to enhance its two major conferences, and
- To further explore two new product ideas in a feasibility assessment.

One staff member was assigned to champion each initiative, working with the support of a consultant. Each champion was provided a template to complete their plan, including questions to ask, information to

validate, and a systematic approach to lay out the strategy.

Developing the 'Membership Business Plan'

Given the importance of the membership business plan, the entire staff had a planning session to develop the framework of the approach that the champion would be developing. The planning session was an opportunity to look at membership from the eyes of the "customer" (the member).

A key questions that the team sought to define was the unique membership needs of different segments of members. The team reviewed past member research and feedback, and developed a hypothesis that at least two types of members are attracted to GEO, and they are looking for somewhat different things out of their membership: those who view membership as a "transaction" (and thus expect benefits to their own organization); and those who view membership dues as a contribution to the field (and thus expect benefits for the field at large).

While these member segments were behavior based, in general their sentiments seemed to correlate with grantmaker size. GEO's dues are set on a sliding scale based on grantmaker asset size, which reinforced this member perspective.

From this base, GEO staff began to evaluate how their member services and products aligned with these segments, and how their member recruitment and retention strategies should be developed. For example, membership promotional materials now explain both individual bene-

fits (the transaction), and the broader benefits of contributing to a community of practice.

At the end of the planning session, the champion had a framework for moving forward, a list of potential strategies to be evaluated, and a set of questions that required more research to validate the assumptions made in the planning session. From this base, a business plan was developed to outline a membership strategy.

Articulating Values

"At the end of the process, we did not make any radical changes to our membership structure or service offerings," notes GEO Program Manager Lori Bartczak. "The planning process really helped us better articulate the value of membership, prioritize membership recruitment and retention in our workplan, and clarify the framework required for us to succeed."

Shorter marketing plans were also developed for GEO's conferences. Feasibility assessments on two new potential products led to a decision not to proceed at this time. The feasibility studies helped clarify that GEO's resources were best allocated toward enhancing conferences and membership, rather than pursuing new lines of earned revenue.

A final outcome of the earned revenue project was an assessment tool that GEO developed, which could be applied to all GEO initiatives, as part of the annual budget and work planning process.

"Participating in this process helped us realize that earned revenue is only one part of the equation as we determine priorities," explains GEO Executive Director Kathleen

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Income Diversification Journey, Part 4

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Enright. "Recognizing this, we created a comprehensive screening tool that enables us to evaluate each activity, based on fit with our strategy; evidence of need; impact on financial sustainability; and appropriateness for GEO. We took everything we do through this process, and came out with a work plan that balances mission and money." ■

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