

Earned Income for Nonprofits

June 2017



What is it?

Earned Income is a value-for-value exchange.

Examples

- Fee for service
- Sliding scale pricing / cross subsidy
- Government contracts
- Merchandising
- Cause marketing

“Earned income is revenue generated from the sale of goods, services rendered, or work performed.”

(Grantspace)



Why Earned Income?



- Unrestricted funding

- Independent of donors' preferences/requirements
- Autonomy in financial planning
- Diversified “funding portfolio”



- Market-driven

- More predictable, stable
- Directly linked to performance

- NOT “easier”...



Why Now?



40%

of not-for-profits
have less than
two months' of
cash reserves



1/3

of not-for-profits
receive more than
90% of funding
from government



\$128

was the size of
the average
online donation in
2016



90%

of not-for-profits
have a single
dominant source
of funding

“New York City nonprofits are fragile: 10% are insolvent (18% in health and human services); as many as 40% have virtually no cash reserves (i.e., margin for error); and over 40% have lost money over the last three years.”

– Risk Management for Nonprofits (Oliver Wyman and SeaChange Capital Partners)

“It’s important, in this age of shifting revenue sources, to explore different avenues for supporting a mission.”

- Georgia Center for Nonprofits CEO Karen Beavor



How?

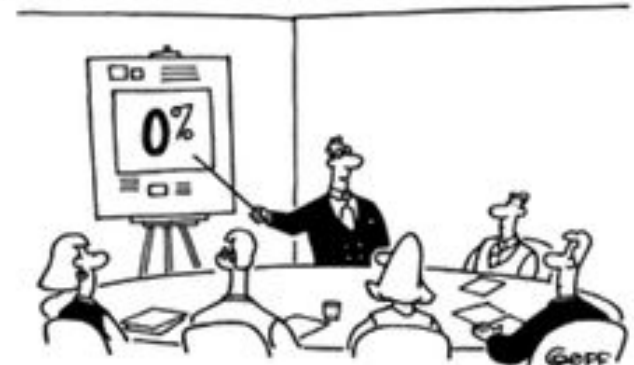
Based on strengths

- Asset mapping

Based on market needs

- Willingness vs. Ability to pay
- “Unique Value Proposition”

© 1999 Ted Goff tedgoff@tedgoff.com http://www.tedgoff.com



"Our study concludes that this is the percentage of our customers who will buy from us without any effort whatsoever on our part."



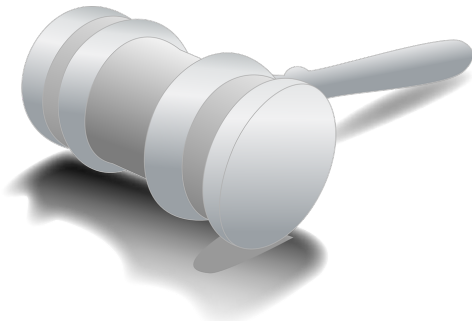
Watch out for...

Legal issues:

- 501(c)(3) restrictions
- Unrelated Business Income Tax

Non-legal issues:

- Stakeholder Alignment



**HOT BREAD
KITCHEN**





Challenges & Risks

- Skillsets
- Mindset
- Customer ability to pay
- “Mission creep”
- Reputation

"People don't buy what you do, they buy why you do it,"

Simon Sinek

***Does this support or enhance our mission?
Who will champion this internally?***



IC with Sacred Heart

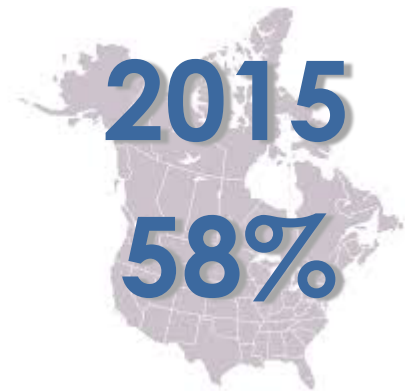


SACRED
HEART
GREENWICH





SophieConnect



In 2 years, SophieConnect has served hundreds of students and reached 58% of Sacred Heart's U.S. and Canada network.



Aligned to common goals of school network:

- Social awareness that compels action
- Deep respect for intellectual values
- Personal growth in atmosphere of wise freedom



"We ask ourselves, were we able to provide an opportunity for the student she would not have had otherwise?"
"Each one of those has been a 'Yes'."
- Site Director



Revenue Model



\$1200
subscription



\$600 per student
per semester



(\$6,500)
teacher
stipend



(\$var)
admin

11% Revenue
growth YOY



Year 1

Year 2

\$74.1K

\$82.3K



Market Opportunity

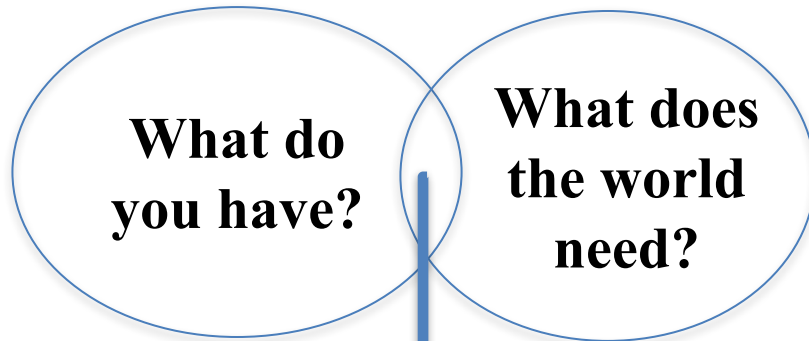
The number of students in the U.S. taking some form of online learning has grown 80% from 2009-2014. Overall spending continues to shift from textbooks to digital learning as well.

Annual Spending by Segment 2014-15





Process



- **Identify your assets**
- **Do your research**
 - Market and customer
 - “Unique Value Proposition”
 - Ability *and* Willingness to Pay
- **Build a plan**
 - Model and team
- **Recognize and monitor trade-offs**
 - Don’t be afraid to back off
- **Execute** – iterate, iterate, iterate



Asset Mapping

- **Human Capital**
 - Internal team
 - Board
 - Volunteers
- **Financial Capital**
 - Endowment
 - Grants
- **Intellectual Capital**
 - Programs
 - Methodology
- **Physical Capital**
 - Real estate
 - Equipment
- **Social Capital**
 - Partnerships
 - Connections
 - Brand awareness



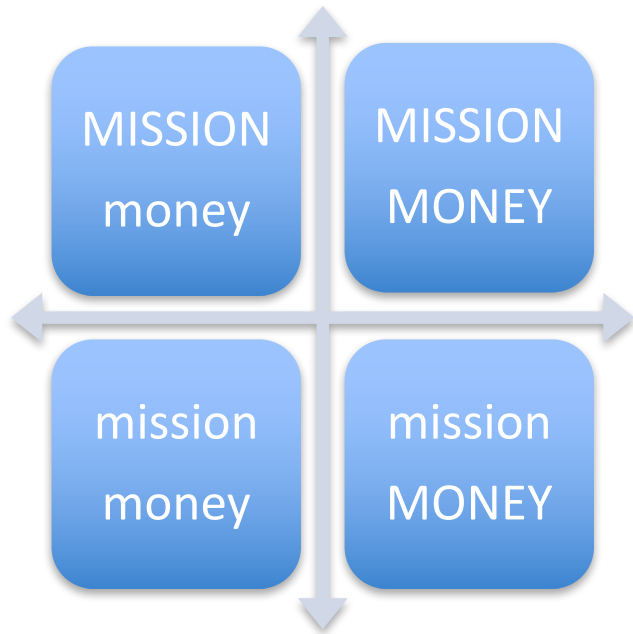
New Possibilities

- What's the most basic idea of an earned income business line you can think of?
- What would it take to execute it?

START
SOMEWHERE.



Market Assessment



1. Who would pay?
2. Who do they pay now?
3. Why would they rather pay you?



Next Steps

- **Internal assessment**
 - Team
 - Board
 - Beneficiaries / target customers
- **Business planning**
 - Market mapping
 - Customer development (Lean)
 - Feasibility study
 - Financial projections



Questions?

- Social Enterprise Associates' tip sheet
 - <http://www.socialenterprise.net/assets/files/TipSheet12EarnedIncomeStrategies.pdf>
- Should Nonprofits Seek Profits, HBR 2005
 - <https://hbr.org/2005/02/should-nonprofits-seek-profits>
- Lean Startup methodology
 - <https://hbr.org/2013/05/why-the-lean-start-up-changes-everything>