

# Generating Revenue

April 2010



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A service of the Corporation for National and Community Service - Special Projects and Sustainability Initiative

## Dear “Revenue Generating” Colleague,

In an economy where the competition for funds is becoming even more intense, a profit-making enterprise can serve as a way to supplement charitable donations and grants. In addition, a business can serve to expand services in a community where needs are rapidly growing. Click on the titles on the right to read about...

### Nonprofits and Revenue Generating Enterprises

### 3 Ways to Generate Revenue

### The Path to Revenue Generation Success

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## Nonprofits and Revenue Generating Enterprises

Questions around nonprofit organizations and profit-making enterprise usually address legal concerns. Nonprofit executives and social benefit leaders should consult with legal counsel as they begin to consider the possibility of engaging in a revenue generating enterprise.

- Unless prohibited by your bylaws, most social benefit/nonprofit organizations are free to engage in for-profit ventures that support the nonprofit's mission. If such revenue generation activities are related to the nonprofit's tax-exempt purpose—for example, a senior center selling a guide to senior

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## TIPS FOR THE TIMES

Strong community support will go a long way to make your enterprise successful. Be sure to keep your community informed of your enterprise activity as you are developing your plans. Use the internet, local publications, and face-to-face engagement to let people know what will be happening.

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health care services—ventures generally can be undertaken without limitation and without incurring income taxes.

- Nonprofits also can engage in unrelated revenue generating activities—for example, opening a coffee shop next door to the recreation center. In these cases, the nonprofit must pay income taxes on profits derived from those activities. The Internal Revenue Service calls these taxes unrelated business income taxes (UBIT).
- Check with legal counsel to determine rules that govern revenue generation limits and your organization's tax exempt status.
- If the unrelated business activity becomes too big, one option is to establish a for-profit subsidiary, which allows the tax-paying venture to grow without threatening the nonprofit's tax-exempt status.
- Some nonprofits are restricted from engaging in revenue generating ventures of any kind because of their organizing documents or their contractual relationships with a major funder.

POST A COMMENT: What do you see as the biggest road-block for organizations that want to start a revenue generating venture? Tell us. [Click here](#)

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## 3 Ways to Generate Revenue

To determine if your organization is suited for generating revenue, make a list of the things your group does well. Then consider what makes your organization unique. What do you accomplish that no one else does? Consider developing a revenue venture by marketing current services at a fee for service where appropriate, creating a new enterprise, or building a corporate partnership.

### 1. Market current services to fee-paying constituents

The same services you provide for free to your clients may be sought by others in your community who are willing to pay.

*Some examples include:*

- Parents pay on a sliding scale based on income for an after school program;
- Clinic health care services are offered to local businesses on a fee basis;
- A workshop is provided to fee-paying prospective groups—e.g. companies, medical care systems,

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- **Featured eGIZMO** (Giving Information for Zooming Mission Objectives) Business World Travel Kit. This GIZMO is designed to help you develop relationships with businesses in your community. [Click here](#) to view it
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clubs, etc.—that you have traditionally provided for free to clients.

[Click here](#) to read about creating a new enterprise and building corporate partnerships as ways to incorporate revenue generating enterprises into your organization.

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## The Path to Revenue Generation Success

Most new ventures take from a year to three years to research, build understanding with stakeholders, and plan before you launch your new enterprise. *Preparing to Launch an Enterprise* written by Rolfe Larson was published by the [Amherst H. Wilder Foundation](#) as a reference to nonprofits considering a new profit-making venture. Steps to consider are summarized below:

### Choose a Project leader

Larson suggests choosing someone from current management who is respected by other managers, has worked with the board of directors, and can allocate a significant portion of time to the effort.

### Assemble a Venture Team

This team will assist in activities such as gathering data, interviewing sources, preparing reports, and participating in planning meetings.

### Conduct a Venture Audit

A venture audit looks at your organization's constituents, its core competencies, and its capacity and assets.

### Identify Your Core Customers

These are the people and groups that your organization serves or depends on for mission fulfillment. They include clients, funders, partners, members, staff, board, and volunteers for your organization.

### Identify Your Core Competencies

Your core competencies will demonstrate your effectiveness in pursuing your mission. Here are some tests to determine a core competency:

- Valued by your core customers
- Quality that a variety of customer groups value
- Uniquely different and difficult for other organizations to imitate

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*"An entrepreneur tends to bite off a little more than he can chew – hoping (to) quickly learn how to chew it."*

– Roy Ash, co-founder of Litton Industries

## Determine Your Venture Capacity

An organization must be prepared to commit significant resources to a new venture. Such an effort requires staff experience and continuity, and adequate financial resources. Although difficult for small organizations, it is not impossible with these realities in place.

## Identify Your Unique, Marketable Assets

Assets can be tangible—such as real estate or equipment; or they can be intangible—such as reputation. To be useful for a venture, an asset has to be valued by the marketplace

## Anticipate How Others Will Respond

If you think that any of your core constituents will react negatively to your proposed venture, you need to be prepared to face their objections and answer any questions.

## Brainstorm Venture Ideas

Put your Project Leader and Venture Team to work. Call a meeting of a few selected core constituents and trusted members of your community to help you identify a broad selection of possibilities.

## Select Three Ideas for Further Study

Develop a list of criteria along the lines of strategic fit, core competency fit, core customer fit, profit potential and more. Then summarize the selected ideas and prepare to test market these ideas.

[Click Here](#) to download the complete Larson document.

POST A COMMENT: If you have a profit-making venture, how long did it take for it to become profitable? Tell us.[Click here](#)

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## 3 Ways to Generate Revenue (cont.)

### 2. Create a new enterprise

Some organizations take their unique assets, skills and abilities and create a new product or service that becomes a sought after commodity in its own right. That new product can be marketed to a whole new constituency.

- **Competency-based ventures**

*Defined:* Providing your skills and expertise to the marketplace.

*For example:* American Red Cross offers emergency

training for the business workplace.

<http://www.redcross.org/>

- **Asset-based ventures**

*Defined:* Offering tangible resources to the marketplace.

*For example:* A museum provides outdoor space for receptions, etc.

<http://transportmuseumassociation.org/>

- **Relationship-based ventures**

*Defined:* Making use of or taking advantage of existing partnerships for shared benefit (consider clients, donors, volunteers, alumni, staff, board)”

*For example:* A day care center operates on a college campus with preferences given to fee paying employees and students on campus

<http://www.ndm.edu/about/achildsplace/>

- **Mission-based ventures**

*Defined:* The profit-making venture directly feeds into and demonstrates the organization’s mission.

*For example:* A mission-based job training program runs an ice cream shop to teach business skills to at-risk urban youth.

<http://www.taharkabrothers.org/Programs/sylvan.html>

### 3. Build Corporate Partnerships

Here are some definitions and examples of corporate partnerships that can generate revenue for a nonprofit:

- **Cause-related Marketing**

*Defined:* The public association of a for-profit company with a nonprofit organization in order to promote the company’s product or service and generate money for the nonprofit.

*Example:* Macy’s encouraged people to support the Make-a-Wish Foundation by dropping letters to Santa into “Believe” letter boxes in Macy’s stores.

[http://www.wish.org/help/macy\\_s\\_believe](http://www.wish.org/help/macy_s_believe)

- **Licensing**

*Defined:* A nonprofit gives license to a company to sell products displaying the nonprofit logo. The nonprofit receives a portion of the proceeds from each item sold.

*Example:* Susan G. Komen for the Cure licensed North American Licensing Company to sell pink ribbon products.

<http://ww5.komen.org/ContentSimpleLeft.aspx?id=14406>

- **Franchising**

*Defined:* A company licenses trademarks with tried

and proven business methods to a nonprofit in exchange for a recurring payment (percentage of gross sales/profits) and annual fees.

*Example:* Ben & Jerry's PartnerShops franchises programs that give youth job experience and revenue to support job training programs.  
<http://www.benjerry.com/scoop-shops/partnershops/>

POST A COMMENT: Does your organization have a profit-making venture? Tell us about it. [Click here.](#)

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## Resources

### eOrganizer

eOrganizer is an interactive clearinghouse for the latest and greatest web instruments of change. This GIZMO shows you how to maximize free and inexpensive online tools and resources to mobilize people around issues and within organizations. Structured around eight categories important to community organizing, it offers descriptions and provides access to many of the most current web arenas and strategies for bringing groups together to create community change.

<http://www.campaignconsultation.com/GIZMOs/eorganizer/index.html>

*The National ASK (Awareness, Skills, Knowledge) to Sustain Institute*, sponsored by Corporation for National and Community Service, provided by Campaign Consultation, Inc. 1998, 2002.

*The CNCS Resources Now! National Institute*, sponsored by Corporation for National and Community Service, provided by Campaign Consultation, Inc. 2005-07.

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### **Sustainability:**

OntheGo@CampaignConsultation.com is designed to give information fast on building capacity. Use this online support for advice from a fundraising professional.

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### **VISTA Campus:**

VISTA Campus is an online learning environment for the VISTA community. The aim is to support you in your development throughout and beyond your VISTA service. The Campus includes self-paced tutorials and courses, reference materials, discussions boards, a campus bookstore and more to help improve your skills and connect with other VISTAs. To access the site, go to <http://vistacampus.org> and select the "VISTAs" option. You can enter the site as a guest or create an account to access the content and discussion boards.

**GIZMOs:**

(Giving Information for Zooming Mission Objectives) GIZMOS are interactive. They are online capacity building products featuring a myriad of topics such as e-Organizer, Producing Proposals That Work, Building Your Case for Support, Business World Travel Kit, etc. View and use GIZMOs at [www.CampaignConsultation.com/gizmosplash](http://www.CampaignConsultation.com/gizmosplash)

***The Chronicle of Philanthropy:***

You are encouraged to subscribe to The Chronicle for the latest news in the social profit industry. [Click here](#) for more information.

***Workshops/Clinics:***

The Corporation for National and Community Service (CNCS), through its T/TA service provider Campaign Consultation, Inc., offers a three-hour workshops and clinics for those interested.

***WebWizard:***

CNCS sponsors interactive website self-assessment service to assist programs and projects in maximizing their websites for sustainability needs. Simply [click here](#) now.

***Online Courses/Webinars:***

Web course delivery of topics pertinent to resource development such as — **Build Fundraising Volunteer Champions** and **Cause Related Marketing and Corporate Partnerships**. Available through the Resource Center at <http://www.nationalserviceresources.org>

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