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How Allen Proctor's Grid Will REVOLUTIONIZE YOUR NONPROFIT

by Marc Schultz

Every nonprofit is really two businesses run at the same time." That's the central tenant of Allen Proctor's "dual-business model," a social enterprise-based approach to sustainability rooted in his extensive work consulting with nonprofits nationwide, and detailed in his book *Linking Mission to Money®: Finance for Nonprofit Leaders*.

Speaking to a full house of GCN members, foundation leaders, and community partners at GCN's annual community event in February, co-hosted by Bank of America, Proctor introduced his model by asking, "Have you ever received a grant that did not cover all the costs you had to incur if you were to fulfill the terms of that grant?" He went on to ask donors in the audience if they ever restrict their gifts to program expenses or startup funds, and whether any government agents in attendance had reduced appropriations to the point that a nonprofit was subsidizing public programs.

"These stories aren't unique," Proctor said, noting that, thanks to financial and political shifts including the 2008 recession, the relationship between nonprofits and their major funding sources has permanently changed: "In one decade, the number of nonprofits has gone up by over 370,000 in the U.S. As you would expect, [total] expenses rose because they were doing more—but revenues rose 17% more slowly than expenses."

Proctor also points out that, for at least a hundred years, the U.S. has suffered a recession every single decade: "That means that no matter how much you think you're still getting out of the hole, within 10 years we're going to have another."

The situation, said Proctor, demands that nonprofits "create new bridges that span the gulf between your obligations and the resources available to you."

So what are the "two businesses" that, according to Proctor, every nonprofit runs? First, there's the mission-critical, money-losing business that makes up the heart of the organization: "The reason we're nonprofits is because we do something that our community needs that no one can figure out how to make money on. If we do it well, we *must* lose money. But if that's all we do, we'll go bankrupt!"

That's why every nonprofit needs a profit-making side—the second business in Proctor's dual-business model. "If we're going to be there for those who need us, we have to be profitable overall," said Proctor, pointing out that, nationally, charitable contributions as a share of nonprofit revenues have never surpassed 25%, and have been flat for 30 years. But even if your organization is beating those numbers, Proctor contends, every donation you attract is probably coming from another nonprofit: "So yes, you can succeed individually, but as a sector we need something to supplement philanthropy."

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It's All on the Grid

Nonprofits making revenue off social enterprise, of course, is nothing new: the average Goodwill store, Proctor notes, brings in $1 million per year for the national nonprofit. "But if you talk to someone at Goodwill, they would not say that their store is their key mission. They would say it's vocational training of the disabled," said Proctor. "They have the store precisely to make profits, to supplement the philanthropy that doesn't fully cover the costs of their training programs."

The key is balancing high-mission, revenue-losing activities like vocational training with low-mission, revenue-generating activities like running a thrift store. To evaluate those activities, Proctor has devised a Linking Mission to Money® grid, a tool for seeing, at a glance, what your organization is doing to fulfill and to fund the mission.

All the activities your nonprofit does—services and programs provided, outreach initiatives, fundraisers—are plotted in the grid according to revenue level and mission-relevancy. An activity's place on the vertical axis indicates how critical it is to the mission, and its place along the horizontal axis indicates its profitability. Goodwill, for example, would locate vocational training in the upper left-hand quadrant, indicating high mission relevance and revenue loss, and put its retail business in the lower right-hand quadrant, indicating low mission relevancy and high profitability.

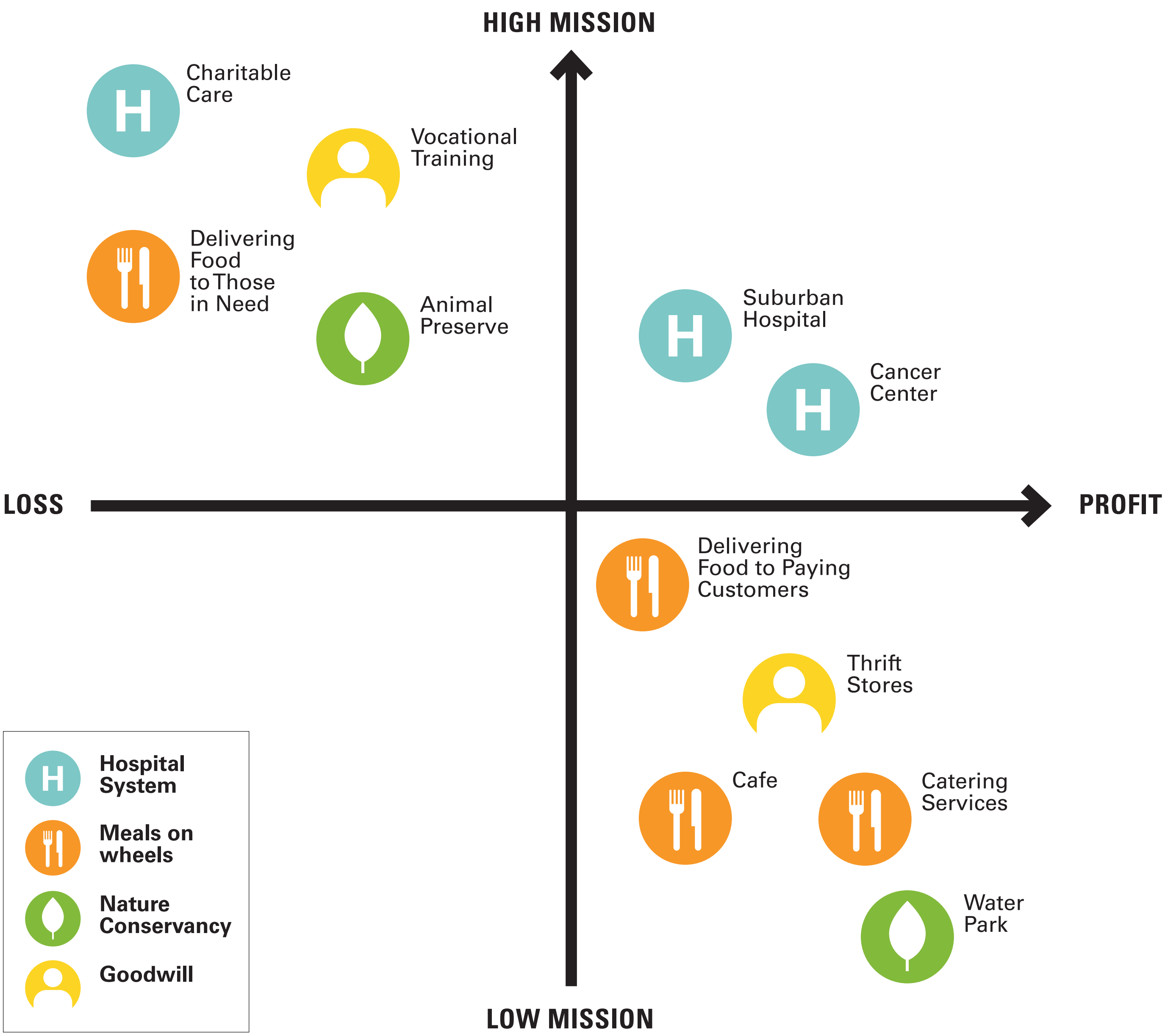
When you have the ideal mix of activities, it will describe a diagonal line from the upper left-hand corner of your grid to the lower right-hand corner. If you're like most nonprofits, you'll be deficient in activities on the right-hand side of the chart—that is, activities that make money. If you want to be sustainable over the long haul—arguably, one of the most fundamental duties of a nonprofit—you'll have to balance revenue-losing mission work with a revenue-generating business.

Finding Your Inner For-Profit

"The only difference between making money and losing money," Proctor told his audience, "is the place where you do it, the person for whom you do it, and the price you've chosen for it."

As another example, he cites a hospital system in his hometown with two locations: one in the inner city, one in the wealthy suburbs. The suburban location, with profit margins of 17%, more than covers losses sustained by the location in the city, where the key mission work (charitable care) goes on. The services are the same, it's just the location, the people,

Linking Mission to Money® Grid



and the price that change.

Proctor urges nonprofits to look to the key mission—"the most unique and special thing you do for the community"—and adapt those skills and services to create new revenue-positive opportunities. "I've never run into a nonprofit that, when they start thinking through [their mission work], can't figure out something they can try," Proctor said. "Now, just like any for-profit business, there's no guarantee that they succeed. But there's always something you do that someone else is paying for in a different context."

For one of Proctor's clients, a Meals on Wheels program, that opportunity was a meal-delivery service for paying customers: "He thought about it: what is it I do for Meals on Wheels? I know how to run delivery, I know how to put together an efficient route and get it to the right address, I know how to package food so hot stays hot and cold stays cold, and I have a kitchen that knows how to put together a meal that's cost-effective and meets all USDA nutrition standards. Well, if I can do that, I can deliver a high-quality meal to a person who can afford to pay for it."

And he didn't stop once he'd made that venture a success: "He said, if I can deliver it in a package offsite, I can deliver it in a steam table. So he said, I'm going to start a corporate catering program." Not only was it profitable, it gave his kitchen staff full-time jobs and paved the way for yet another business: an on-site cafe where his staff, and other local workers, can grab lunch. "The same core skills from Meals on Wheels created three new dots on the right-hand side," said Proctor. "Did he change anything he was doing? No: he changed the place, the person, and the price."

Join the Startup Club

Making money, however, requires that you think like a money-making operation: "What's my core market position? What skills do I need on my staff? What capital do I need in order to get this started at a scale that will be successful?" said Proctor. "This is exactly what a for-profit asks."

Proctor suggests tapping board members for help, the majority of whom work in the for-profit sec-

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tor every day: "Ideally, you'll have operational managers to call on, and they'll have the skills you need." He also recommends looking to the same resources for-profits are using: your chamber of commerce, a nearby chapter of Social Venture Partners (an organization supporting profitable ventures by nonprofits), a retired executive group like SCORE, community startup support groups, and established small businesses.

You'll also want to check your local bank: "Under the Community Reinvestment Act, banks are required to invest in the financial skills of the local business community, particularly nonprofits," said Proctor. Those skills include budgeting, business planning, and other techniques vital to getting your profit-making venture up, running, and ready for the long haul: "Nonprofits should be prepared to wait two to three years before they become cash positive," just like any for-profit business. "That's also why it's really important that they have access to adequate capital. In general, what causes new businesses to fail is inadequate capital."

To attract that capital, Proctor says to begin with the supporters you have, but make sure they understand what you're asking: "They have to understand that we need their gifts for our money-losing side, and we need their investments for our money-making side."

It's best to ask individuals and institutions that are already philanthropically motivated: "One of the groups that is most open to this are private foundations, who can use lending to meet their 5% mandatory distribution," said Proctor. "Particularly in poor investment environments, lending gives them a way to help without permanently reducing the size of their foundation. Many community foundations are moving into this area," which they call "Impact Investing." In addition, Proctor said, he "wouldn't overlook individual philanthropists who may find that investing is a way for them to supplement their giving."

Preventing Gridlock

Many nonprofits, Proctor says, discover they need a revenue-generating initiative only after they try, unsuccessfully, to close the financial gap with more fundraisers. The biggest obstacle to exploring the social enterprise option can be a traditional, this-is-the-way-it's-always-been-done mindset or a board that thinks a nonprofit should be losing money. These can both be overcome by thinking differently about the problem at hand—more like a for-profit—and communicating that vision clearly, using Proctor's Linking Mission to Money® grid as a tool.

Another stumbling block is personnel: "Often, nonprofits will go into some area that is totally unrelated to what they do, and they try to do it with the same employees they use for their key mission," said Proctor. "The reality is, if you're starting a new business, you need to bring in the people with the skills relevant to that business."

With leadership in agreement, the right people on hand, and enough capital put away, your for-profit initiative has every chance of success—so long as you stay focused on the reason you're running it. "When you forget that you exist primarily to address the key mission activity, and start focusing on just your for-profit side, that's when you get mission drift," said Proctor. "So the dual-business model requires a focus on what you're doing that, if you're doing it right, will lose money, and what you are doing to cover those losses."

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Read an excerpt from Allen Proctor's book, *Linking Mission to Money®*, on conducting your annual budget check-up.