

## Generating Income from Customers and Clients

*By Joan Flanagan*

Sports stars can add sparkle and sex appeal to any fundraising campaign by bringing their youth, power, and celebrity to your cause, and they gain from having the good qualities of your organization's "brand" rub off on them, too. That is why Michael Jordan posed for the cover of Lyric Opera's Operathon catalog, complete with a Wagnerian horned helmet on his basketball, and WNBA star Sheryl Swoopes delivered the keynote address at the annual luncheon of the Chicago Foundation for Women.

But how do you get a world class athlete involved if your group is not a big organization or not in a big city?

If you cannot get the star himself or herself, try getting the star's stuff. Almost every professional sports team and many former Olympians respond to requests for signed products for an auction if you put the request in writing at least three months in advance.

Or maybe you can get a member of the star's family. When baseball great Bill Buckner was with the Chicago Cubs, he was usually playing when the Church of Our Saviour's Antiques Fair was scheduled, but his wife Jody regularly volunteered at the bake booth. Especially for the superstars and their families who can get overwhelmed by obsequious fans, it may be a very pleasant change to be a part of a team of "regular people."

And if there isn't a Michael Jordan, Sheryl Swoopes or Bill Buckner in your community, be creative. Who can you contact? Jason Piette, then age 12, wanted to help Alzheimer's patients, so he and his mom, a geriatric nurse, joined the planning committee for the Memory Walk for the Barton, Vt., Chapter of the Alzheimer's Association.

Jason knew of Gary Langevin, founder of the Green Mountain Wrestling Association, because Gary's father is the postman in town. Jason persuaded Gary to add Newport, Vt. to his 1997 schedule and get his professional wrestlers to help build awareness and raise money for the October Memory Walk.

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Thirty professional wrestlers, featuring arch-rivals Curtis Slam-dawgg and "The Mercenary," did a meet that raised \$500 from the gate and \$500 from donations, and created a great buzz in the local newspaper and radio shows.

With this kind of support from the wrestlers and other organizations, the chapter has done an impressive job of building up their Memory Walk in the Northeast Kingdom, a region with the highest unemployment in the state. In 1998, they raised \$22,000 in Barton -- population 2,000. (That's like the Los Angeles chapter raising \$38.5 million!) So even if your town does not have a star with six NBA championship rings, use your own networks to find popular local athletes--maybe the star player or coach from a nearby college or school--who can help your cause.

Athletes and other celebrities can attract media attention, volunteers, and customers, but their fundraising clout is usually associated with events. If your organization is in it for the long haul, your own people still have to generate revenue in a productive way. Two of the most reliable ways they can do this is by selling products and by selling services.

Merchandise sales have always been a popular way for charities to make money, and fee income is now the fastest growing source of revenue for nonprofits in the United States, Canada, and the United Kingdom as governments change from grants to fees for service as their preferred mode of payment to nonprofit organizations. According to the IRS, fees now represent more than two-thirds of the revenues for the larger secular nonprofits.

## **The Basics of Selling Products**

Because even little children like to play store, almost anyone can start raising money by selling products. Even better, literally anyone can buy your products, whether or not they care about your organization. Shoppers may buy candy for a dollar from a child at the Near North Health Services Corporation in one of Chicago's most battered public housing projects, or a case of wine for \$140 from a volunteer at the Lyric Opera in one of Chicago's loveliest buildings. In either case, the shopper might not care about where the money goes (scholarships or sopranos), but they know they like chocolate and Chardonnay. Once you capture the name, you've laid the groundwork for turning customers into donors.

Besides selling products, many nonprofit organizations also sell their services. Raising money from fees is one of the fastest growing sources of

income for all sorts of organizations. Because both selling products and selling services raise money from many small customers and clients, they make up the bottom of the fundraising pyramid. Remember every consumer is a prospect. Each transaction is very fast and the buyer's commitment is very low. The great advantage is the wide number of names that are swept into your net for upgrading into donors.

Most Americans already have experience as nonprofit salespeople selling band candy, light bulbs, or pizzas in their youth. Like other fundraising strategies, creative groups find ways to connect product sales to their mission.

Probably the most familiar example is Girl Scout cookies. Girl Scouts began selling homemade cookies in the 1920s and went to commercial bakeries in 1938. Last year the 318 Girl Scout Councils in America and 81 locations overseas (many near military bases) organized cookie sales to make money and teach sales skills. One million girls and adults sold 182 million boxes of cookies to fund their local Council's programs.

The Scouts use the cookie sales as more than a moneymaker; selling cookies is considered a program activity to teach girls goal setting, decision making, and responsibility. Some troops learn telemarketing and advertising skills. For most of the girls, it is their first exposure to the business world -- an important experience, since the majority of American women will work outside the home. Thus, the Scouts have fun and learn useful skills while they are also making money for their troop. If you want to add sales to your fundraising strategy, see if you can also use the activity to advance your mission.

### **Advantages of Selling Products**

The main advantage of selling is that your customers are going to get something they want anyway. Ideally, your product will be connected to the work you do, so you can discuss your issues at the same time you make sales. For example, environmental groups sell trees, biodegradable diapers, and cloth lunch bags to make money for their causes.

At UNICEF, one third of their revenue comes from fundraising, much from the sale of their holiday cards, calendars, and children's games. The UNICEF 1998 holiday card catalog advertises how much even the smallest purchase can do and what the cumulative benefits are from all of its sales:

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- \$5 helps a family improve water quality by providing basic sanitation in that home. From 1990 to 1995, programs assisted by UNICEF helped almost 800 million people gain access to safe drinking water.
- \$2.35 provides basic educational supplies for one child. In 1996 UNICEF spent \$94.4 million fighting illiteracy.
- 7¢ provides three vitamin A capsules for protection against blindness ... for one year. Vitamin A supplementation saves the lives of 1 million to 3 million children a year worldwide.

Sales can involve lots of different types of people. The outgoing extroverts can handle the selling; the shy, well organized people can handle the order forms and bookkeeping. This is a good place to put the people who are too timid to ask for donations in person. They can fill orders from advertisements or your Web site.

A business can start small and grow a lot. Almost any group can hold a bake sale or a rummage sale and bring in \$500 to \$1,000 in a weekend. In 1998, the Junior Leagues of America made more than \$2 million from their cookbooks and more than \$5 million from their thrift shops and sales such as the Washington, DC, League's spring rummage sale "Tossed and Found."

Nonprofit businesses can also appeal to their customers' good intentions. Buying products from nonprofits can be an act of socially responsible consumerism. Why buy a T-shirt with rude remarks when you could look just as good and at the same time benefit a local charity by buying the charity's T-shirt? As long as you plan to splurge on expensive furniture, why not buy one of the outstanding licensed reproductions from the National Trust for Historic Preservation and benefit the historic properties it manages?

## Setting Goals

In 1998 a group of young teens in the Cabrini-Green public housing project in Chicago decided they wanted to go to Disney World in Florida. Some kids said Disney World was "only for rich people," but led by Rochelle Satchell, coordinator of group activities for the Near North Health Services Corporation, 41 kids decided they could go, too. So they sold candy, wrote a book about their community and sold it for \$20 per copy, and cooked breakfasts for the employees in the neighborhood (in time to clean up and get to school). In four months these children from ages 6 to 17 in one of the

poorest neighborhoods in America raised \$10,314 by selling things. (They had to dip into the publishing profits to make the last \$314.)

The purpose of the Health Services program is to help the younger siblings of pregnant teenagers avoid pregnancy, drugs, and gangs. Ms. Satchell, the coordinator, used the fundraising and the trip to build up good work habits, positive attitudes, and high hopes in the teenagers. What they learned from her was how to make their own rules to set a high goal and achieve it. What she learned from them was how much children help each other. Each child had an individual dollar goal. Once the child accomplished his or her own goal, that child would help another child make his or her goal so that every child was able to go on the trip.

### **More than Merchandise**

On a much grander scale, Lyric Opera of Chicago sells merchandise each year through a catalog from August to October and through a volunteer-run kiosk, both of which contribute to funds raised for Operathon, an all-day radio marathon on WFMT, a classical music station. The event's 1998 goal was \$250,000; they made nearly \$262,000.

Over the years, Operathon has combined excellent merchandise sales with additional event support, including corporate sponsorships, individual gifts, foundation grants, and great in-kind donations. American Airlines has been the corporate sponsor for 11 years, giving cash as well as both domestic and international trip packages. Twenty-one chapters of volunteers raise seed money, challenge grants, and more than 250 members work the day of the event.

The Operathon catalog includes a line of exclusive Lyric Opera merchandise from a box of Lyric Opera note cards for \$15 to a pair of 14K gold-plated cuff links for \$200.

More than 200 premiums are also offered, such as CDs, posters, and libretti signed by opera stars, backstage tours, meals at the best restaurants, stays at great hotels, services, trips, and gourmet treats such as a 25-pound box of Marshall Field's Frango Mints.

Each year the cover of the catalog features a prominent celebrity, and among them is Chicago's most famous athlete, Michael Jordan of the world

champion Chicago Bulls. Sports fans may not know Der Rosenkavalier from Dennis Rodman, but they certainly know how to shop.

## **Challenges**

There are always some people who will not want your product even though they think your group and its work are just wonderful. For example, dieters, diabetics, and health nuts may not buy Girl Scout cookies, although they probably want girls to learn Girl Scout values such as loyalty, courtesy, and cleanliness in thought, word, and deed.

So every time you sell merchandise in person, on your Web site, or from a catalog, also include a written request for memberships, donations, and bequests. Even if people do not want your product, they may want your mission and will contribute if you give them the option.

The other challenge facing smaller groups is that once everyone you know has your product, then who do you sell to? One solution is to combine your sales with a special event that will bring in fresh people. Christmas and Hanukkah are especially good for combining events and selling products. For example, the Hinsdale, Ill., Humane Society runs "Santa Paws," a chance to have your pet's photo taken with Santa Claus for \$15. At the same time, they sell holiday cards in sets of 13 (a "barker's dozen") for \$10.

Can you "take a ride" on some other activity that brings out lots of new people? Minnesota Clean Water Action Project has planned sales to take advantage of the miles of gridlocked cars going to the best lakes on the first day of the fishing season. One church does its bake sale on Election Day, because the church is a polling site and all the patriotic citizens smell the brownies baking while they vote. What else takes place in your town that can deliver new customers to you?

## **Growing Sales into a Business**

Selling a good product can be the first step to developing a permanent, successful business operation for your nonprofit organization. Earned-income enterprises are becoming more and more popular and profitable for all kinds of charities. They can range from selling quality products such as UNICEF cards or Girl Scout cookies to operating an entire store. Universities and libraries run bookstores, hospitals and museums run gift shops, international

relief organizations sell crafts from around the world, historical houses license reproductions of their furniture, hospitals operate pharmacies, and zoos organize photographic safaris -- all to make money for their missions. In addition to these in-house ventures, today nonprofits are running bigger ventures, often in partnership with a for-profit. Thus, a museum may work with a developer to build condominiums in the airspace above the museum, or universities may work with drug companies to patent their research.

Using sales to make money for a nonprofit is not a new idea. Medieval churches made money by selling ales brewed in the church house. In Cornwall, England, the parish accounts from 1526 showed that gypsies stayed in the Stratton church house several times, and the "keepers of the bear" paid one pence rent for it. Today churches near popular sports stadiums, such as Fenway Park in Boston and Wrigley Field in Chicago, can make money selling parking to sports fans.

What is new is that today more charities test their volunteers and staff selling good products and services, and then gain the skills and staff needed to grow sales into a full-time business.

Especially in low-income neighborhoods, business ventures can generate income as well as serve an agency's overall strategy for improving a community. Ventures serve useful social goals such as getting people off welfare, teaching work skills, giving incentives to stay in or go back to school, and providing better goods and services at fair prices. They can add another source of income, which may be vital in times of uncertain cash flow. It is not uncommon for community agencies to pay the phone bill with cash from the recycling center while they wait for some state official to approve \$50,000 in vouchers that are long overdue.

But keep in mind that the IRS is getting tougher on nonprofits that run businesses, and associations of small businesses are going to keep up the pressure to reduce what they view as unfair competition from nonprofits. Because the laws and court rulings on these questions change quickly, you need to get good up-to-date legal advice. Start by reading the IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations, that defines "unrelated trade or business" and explains the exceptions. To get it free, call 800/TAXFORM or visit [www.irs.gov](http://www.irs.gov). Then hire or recruit a lawyer with experience in this area of the law. If your proposed business will owe any local, state, or federal taxes, of course the business manager must pay all taxes on time. Do not dismiss the possibility of a moneymaking business just

because it may have to pay taxes. If necessary, consider taxes a cost of doing business and add them to the expenses in your plan.

## **Fees and Tuition**

Fees charged for services account for about 40 to 45 percent of the total budgets of nonprofits other than religious congregations, although this will be higher in some fields like education and health, and lower for others like advocacy and community organizing. With ongoing government cutbacks and a strong economy, almost every organization has looked at initiating fees for service or increasing the fees they already have.

Fees are good for a nonprofit because the people who want what you do are the ones who pay for it. If you believe in the value of your work and price it so that you will make a profit, fees and tuitions can help support your group.

Some organizations are reluctant to set fees for fear of discovering that their clients do not want the services enough to pay for them. If your clients do not want what you do, why are you doing it? Even worse, why should the taxpayers or grantmakers pay for services local people do not want?

Since many fundraisers began their professional careers not as fundraisers, but as program staff, it is often difficult for them to overcome what Rona Smyth-Henry of the Robert Wood Johnson Foundation calls "pricing guilt." There are several solutions to this. Here are a few of Rona's Rules for Fees:

- Do the math! Determine the cost on all of your programs and use the most conservative measures. For example, calculate your unit cost when the agency has its lowest census, not when it is full.
- Never charge less than your true per unit costs.
- For people who can pay more, charge more.
- It is all right to offer discounts, especially quantity discounts for more use or prepayment, just like a for-profit company would do. If you do give a discount, be sure your clients know it.
- Never apologize -- explain the value.

Many respite service programs that offer day care for people with Alzheimer's Disease have applied Rona Smyth-Henry's suggestions and found they not only developed a dependable income stream, but also had more participants, and best of all, a greater feeling of dignity in the families using the services.

For example, when the Life Enrichment Center in Shelby, N.C., opened in 1980, the Board established a philosophy of not depending on entitlements from the government for two reasons. First, they saw other good agencies close because of the Reagan administration cutbacks and second, they wanted to respect local people's desire to take care of each other. In a community of 20,000 (market area of 90,000) they now raise \$380,000 from fees and \$170,000 from fundraising. After ten years of building their income from fees they have reversed their funding mix from two-thirds fundraising and one-third fees in 1989 to two-thirds fees and one-third fundraising in 1999.

Executive Director Suzi Kennedy explained the key to success was changing the mind-set of the providers. Like many nonprofit leaders, she did not begin as a fundraiser or entrepreneur; she is a nurse. But she has learned that the Life Enrichment Center can give more people the very best service by developing their ability to ask for fees. Kennedy recommends that "you must believe in the value of what you have. Unless you believe in it, you can't sell it. Human service is valuable service. If it is perceived as value, people will pay."

For example, in 1978 Bill Draves was the only staff person for the Free University Network. With a budget of \$20,000, the Free U Network provided technical assistance for free and organized a very low cost national conference for anyone offering noncredit adult education courses. Half of the budget came from foundation grants because, as Draves says, "I thought that was where the money was."

Today the organization is called the Learning Resources Network (LERN). It has a \$2 million budget raised entirely from fees for its technical assistance, its national conference, and sales of its publications. LERN receives no foundation grants. The organization now serves more than 5,000 adult education programs in 12 countries.

### **Fees for Low Income Markets**

The obvious difficulty with fees or tuitions is that some people will not be able to pay. Your organization can choose from several strategies to solve this problem.

You can charge more for some services to subsidize other services. Measure the popularity of everything you do and charge more where you can. For

example, when LERN began, its founder Bill Draves was opposed to charging fees for adult education classes, because he wanted low-income people to be able to take classes in survival skills such as home canning and auto repair. However, an analysis revealed that the most popular adult education courses in Kansas were "Rodeo History" and "French Hair Braiding," neither of which could be considered survival skills. Then he realized he could charge the rodeo fans and beauty queens more for their courses and use those profits to subsidize the classes for low-income people.

LERN uses the same policy today. It makes enough of a surplus on its most popular services to give free scholarships to programs offering classes for low-income people. This helps programs such as English as a Second Language (ESL) and ESL Keyboarding, which teaches immigrants how to use the English-language keyboard so they can get jobs. As Draves says, "We should be doing some things for people who cannot pay." (For more on LERN, call 800-678-5376 or visit <http://www.lern.org>).

Consider other strategies for setting fees. Some counseling programs charge fees based on a sliding scale keyed to income. Everyone pays something so they are more likely to continue and benefit from the counseling, but the people with little or no income pay less, while the people with high incomes pay more.

Some groups provide sweat-equity opportunities so people can earn the fee. Habitat for Humanity helps low-income people earn a down payment for a home by having them work a specified number of hours building their own home and then volunteer a certain number of hours to help another family build a home.

Most people can and will pay when asked. If you want your agency to be perceived as a permanent, powerful organization accountable to the people it serves, always ask those people to pay a fee for the services they use.

## **Building the Base**

Both selling products and fees for service are easy ways to make money from people who want something you can sell. Be sure your telephone number, e-mail address, and Web site locator (URL) are printed on every item you sell, every invoice, and every bag or box. Include a simple one-page brochure with every sale, telling your customers who you are and how to join.

For every transaction, ask for the buyer's preferred mail and e-mail addresses. At least once a year do a mailing to all of your customers and clients asking them for donations and volunteer time. Also include local customers and clients on the invitation list for parties, and include everyone on your e-mail advocacy alert list. Then do your best to turn your customers and clients into donors giving to the mission of your organization.

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*Joan Flanagan, an internationally recognized fundraising trainer, is the author of the world's bestselling fundraising manual, "The Grass Roots Fundraising Book." This article was adapted from the newly revised edition of her popular book, "Successful Fundraising," published by Contemporary Books. Copyright © 1999 Joan Flanagan. To order "Successful Fundraising" 2nd Edition or "The Grass Roots Fundraising Book," call (800) 323-4900 or email [ntcpub@tribune.com](mailto:ntcpub@tribune.com).*