Preparing to Launch an Enterprise

By Rolfe Larson

There are many ways for a nonprofit to start an earned-income venture. Some organizations spend months, even years, deciding whether, when and how to launch a venture, while others jump in with little more than a hunch. While problems often result from both extremes, most successful ventures begin only after some careful planning has been done. How much planning you'll need depends on the idea and on your organization.

If your organization already knows a great deal about a venture idea and how its products or services will be valued by customers, and if the start-up costs and risks are low, a shorter planning process is appropriate. Some venture ideas involve relatively simple extensions of current activities.

For example, a nonprofit that provides free training may begin charging for the service, provided the participants (or others) seem willing to pay for it, and the costs and risks to turn the activity into a venture are relatively low. The nonprofit might also establish a venture by offering its training activities to a wider customer base for a fee. Starting small with a pilot project that is a simple extension of existing activities can be a good way to learn more about a market, at the same time encouraging your organization to operate in a more entrepreneurial manner.

On the other hand, if your nonprofit plans to provide new products or services, or the start-up costs and risks are high, it will be necessary to take more time to evaluate the issues thoroughly before stepping into the competitive marketplace. To take on the risks of a new venture without careful planning would not be prudent.

Typically, it takes six months to a year and at least 200 hours of work to complete a venture planning process resulting in a business plan for a new venture. If this is your first foray into venture development, 200 hours may seem like a lot of time; in fact, it's a conservative estimate. Most successful nonprofit entrepreneurs, if they actually added up the hours they spent developing a venture, would conclude that this figure was on the low side.

Of course, actual times may vary, depending on your nonprofit's prior venture experience, how your organization makes decisions, and the complexity of the venture ideas you are pursuing. Most managers want to get things going faster, and nearly all end up taking longer.

Choose a Project Leader

The first step is to organize the venture planning effort. Start by selecting a project leader, typically someone already on staff, to coordinate and champion the venture development process. This person will be responsible for organizing and coordinating project activities, including gathering internal and external research data and preparing summary reports on venture feasibility. It is important to identify someone with the passion, abilities, and authority to keep things moving forward.

The project leader should be

- Action-oriented and results-driven
- Able to motivate others to act
- Willing to challenge assumptions
- Able to keep meetings on target
- Effective at gathering and organizing information.

It is best to select someone from current management—other than the executive director—to serve as the project leader. You want someone who can take a "big-picture" perspective, is respected by other managers, has worked with your board of directors, and can allocate a significant portion of time to this effort. A time commitment of 10 to 20 hours per week for six months to a year is typical. The amounts will vary according to the complexity and number of venture ideas to be explored.

Because of the extensive time commitment, volunteers or interns do not usually work out well as project leaders, although they can help with the legwork.

A loaned executive from the private sector or a consultant might be suitable. This works if the person has the right skills (particularly in market research), has experience with nonprofits, and works closely with someone in the organization's leadership who will continue to "own" the project once the executive or consultant moves on. Some organizations select two individuals who work well together to share the project leader role, which reduces disruption of their ongoing responsibilities.

Assemble the Venture Team

The next task is to select several individuals on staff to join the venture team. Their job will be to help the project leader define and carry out the venture development process. The venture team will assist in activities such as gathering data, interviewing sources, preparing reports, and participating in planning meetings.

The venture team should include staff who are most likely to have access to, or be familiar with, the kinds of information that will be needed to go through the venture process. Individuals who deliver services, who do the accounting, or who are responsible for marketing or outreach would be good for this team. Not every organization has someone in each of these functions, so you will need to adapt to your circumstances. The point is to invite staff with a variety of perspectives in order to broaden the information base. Team members should be able to commit approximately ten percent of their time to this project.

For most nonprofits, the appeal of ventures is the potential to generate sales—and earn profits that will lead to reduced dependence on grants and fundraising. Some nonprofits also use ventures to help their constituents learn job skills or to provide them with a job.

A third reason is to help your organization expand its entrepreneurial skills and capabilities. For example, surveying your customers to determine their wants and needs, objectively comparing your services with those of your competitors, and developing marketing plans will provide valuable information that your organization can use to evaluate its programs and their effectiveness.

Whatever your reasons, it is important to remember that first attempts at ventures often do not work out. Ideas need to be tinkered with, revised, or replaced with better ones. Success often comes only after diligently applying the skills and lessons gained from earlier, unsuccessful tries.

Entrepreneurship is as much about strengthening the organization as it is about making money. Being explicit that learning as well as earning is important will help you get the most from your venture efforts.

Conduct a Venture Audit

A venture audit is integral to this process. It helps you look at your organization's constituents and identify core customers. In most cases, your core customers make the best targets for your venture ideas. You start with your constituents because these are the people and organizations that your nonprofit knows best. Because of your relationship with them, you have, in essence, insider information on what they want and value. You can then use this information to develop venture ideas to address those desires, and to anticipate needs they are not fully aware of yet.

The next part of the venture audit looks at core competencies—what your organization does best. Good venture ideas are an extension of what you already do well because they take advantage of the skills you've developed and the knowledge you have in certain areas. Once again, you are taking advantage of insider information—this time on how to do something. Your insider information gives you an edge over the competition and increases your chances of delivering a product or service in a cost-effective way.

The third part of a venture audit focuses on capacity. Here you identify your nonprofit's entrepreneurial characteristics and assets and how they will both help and hinder venture development. Organizations with strong venture skills and good assets can contemplate more challenging venture ideas and look further ahead for potential customers.

A venture idea that makes sense for one organization won't necessarily work for another. Since no nonprofit can possibly be good at everything, acknowledging problem areas can be as important as identifying strengths. In contrast to writing a grant proposal, where you don't want to call attention to negative aspects of your operation, the venture audit is meant to be a realistic, hard-nosed assessment of your organization. This will help you decide what kinds of ventures to pursue and which ones to avoid. If an idea isn't right for your organization or has little chance of success, it's better to know that now, before investing valuable staff time and resources.

Identify Your Core Customers

Every nonprofit has constituents. They are the people and organizations that you serve or that you depend on to succeed. Clients, funders, partners, members, staff, board, and volunteers are all constituents in the sense that they interact with the nonprofit in pursuit of some personal or community need. Constituents provide time, money, or something else they value to the nonprofit in exchange for something they desire.

Your task is to identify which of these constituents are your best prospects to become customers. Many nonprofits assume they cannot sell products or services to their constituents or collect fees from them. When contemplating ventures, they anticipate finding entirely different customers, unrelated to any of their current constituents. The truth is that although some of your current constituents may not be able to pay, others probably can. Or you may identify groups who are similar to those you currently serve and who could be potential customers. Or you may consider whether your specific constituents represent a larger group that you might reach. The point is, broadly consider who your constituents are and which ones have the potential to pay for something you already provide or could provide in the future.

Here's a quick example. Breakthrough Urban Ministries, a Chicago-based nonprofit, recognized that the homeless men to whom it provides food and shelter could not be considered prospective customers. By taking a broader perspective, Breakthrough concluded that other constituents—members of evangelical churches and campus groups who provide financial and volunteer support to the nonprofit—could be considered prospective customers.

In looking for potential customers, divide your constituents into smaller groups or segments. Members of a segment share relevant characteristics such as demographics (age, gender, ethnicity), socioeconomics (income, employment), or psychographics (interests, lifestyle, preferences).

Establish a division that makes sense for how these constituents use and relate to your organization's products and services. You will need to be specific: "General public" or "business community" is too general.

Breakthrough Ministries, for example, identified three distinct segments: (1) the Evangelical Free Church, its closest ally; (2) other evangelical churches; and (3) college religious organizations.

The goal is to determine what these segments want and what they are willing to pay for. Breakthrough found that its contact with the first two segments consisted primarily of high-school-age groups and their parents and church leaders, who were very different in their needs and interests than those of the religious college student segment.

Finally, ask if there are any other prospective customers who are not current constituents, but with whom your organization has a natural link and familiarity. Can you evaluate what they want and are willing to pay for?

Identify Your Core Competencies

Core competencies are your organization's central capabilities that demonstrate your effectiveness in pursuing your mission. They are what you do well, what your organization is known for in the community. They are what would help you in starting a new program or a new venture.

There are three tests to determine a core competency:

- Is it something that your core customers value?
- Is it something that a variety of customer groups value?
- Is it difficult for other organizations to imitate?

If the answer to all three questions is yes, it's a core competency.

Suppose you invited representatives from your various constituencies to a meeting and asked them what words they would use to describe how your nonprofit makes a difference in the community. How would they describe your organization's special contribution? Another way to look at this is to imagine writing a very brief resume for your organization. Describe your nonprofit's capabilities and accomplishments, using words that would make sense to those you serve.

Most nonprofits possess only a handful of core competencies. Do not be disappointed if you come up with only three or four. Some of the most successful organizations are best known for only one or two things—things that they do extremely well. Here are several examples:

Organization	Products/Services	Core Competency
Technical School	Classes/Degrees	Professional advancement
House of worship	Weekly worship services	Faith-based fellowships
Environmental group	Purchase threatened land	Save beautiful places

In each case, recognition of this core competency enables the organization to pursue its mission better, either by attracting new customers or by expanding its relationships with existing customers.

Determine Your Venture Capacity

The third part of the venture audit involves evaluating the general venture development characteristics of your organization. Some nonprofits possess strong internal capabilities to pursue ventures, such as staff and board members with business training and experience, suitable accounting systems, and depth of management. Other nonprofits, particularly smaller, thinly staffed ones or even larger ones that have never charged for services, face obstacles as they contemplate venture development.

When assessing your venture characteristics, you need to consider several categories:

• **Staff continuity.** Frequent staff changes are generally incompatible with venture development. A venture needs continuity at both the management and operational level to succeed. Important business relationships—with major customers, suppliers, sales agents, and so on—take time to develop and continuous effort to sustain. Too often ventures go astray because continuity is lost after a key person leaves.

• **Resources.** Financial stability and budget flexibility are just as important as staff continuity. Successful venture development requires a significant commitment of staff time and resources. A reasonable, minimal initial commitment would be the ability to assign a staff person to the project for about one-third time for at least six months. In addition, new businesses require start-up money and often need unexpected investments of dollars and staff time. You should contemplate an ambitious venture idea only if your organization can reallocate internal resources or obtain outside funding for this purpose. That may not be practical for small, cash-strapped organizations or nonprofits whose funding will not allow for such reallocation. Similarly, entrepreneurship may not fit well with a nonprofit that suffers frequent financial crises which result in layoffs or severe program cuts. In such cases, absent other sources of funding for venture development, ventures would be a poor investment of scarce management time and financial resources.

• **Experience.** Finally, it is important to evaluate your internal staff capabilities relative to the key skills that help businesses succeed. Do you have experienced managers who are skilled in motivating and supervising the activities of others in a variety of fields, including areas where they themselves might not have extensive experience? Do you have staff with financial expertise who can put together a budget along with income statements and a balance sheet, including notes to these financial statements, in a format that a banker would recognize and understand?

Success in ventures is not limited to larger nonprofits, but it is more difficult with small organizations (five or fewer staff). An organization must be able to commit sufficient internal resources to find and evaluate venture ideas and write a business plan for one of those ideas. Smaller nonprofits should consider smaller-scale ventures—those that keep them very close to their core competencies and customers. Another approach is to find a partner whose strengths correspond to your weaknesses. In the for-profit world, such relationships, known as strategic partnerships, are quite common. Nonprofits often partner with a for-profit company for this reason.

Identify Your Unique, Marketable Assets

Many nonprofits own assets that could be used for commercial advantage. These assets may be tangible, such as real estate, equipment, and vehicles; or they may be intangible, such as reputation, brands, and intellectual property. To be useful for a venture, an asset has to be valued by the marketplace.

You should try to think creatively about how to make money from tangible assets. For example, a zoo or museum may make certain areas of its building available for public parties and receptions; a public radio station may lease space on its transmission tower to a cellular phone company; an urban church may rent out its parking lot during weekdays.

Many assets are intangible, in that they lack a physical presence. A brand such as The Whopper or Post-it Notes is essentially a promise to deliver a product or service with consistency no matter where you find it. Burger King and 3M, the owners of these popular brands, possess intangible assets valued by millions of customers.

For many nonprofits, a significant intangible asset is their reputation—for reliability, service quality, or skilled staff. You must determine if there are prospective customers who would find that reputation sufficiently valuable to influence their buying decisions. This is the logic behind affinity credit cards, where a nonprofit gets a fee every time someone signs up for and uses a credit card that bears its logo.

Nonprofits often have a reputation for trustworthiness. In recent years, some energy companies have relied on nonprofits to certify that some energy they produce is environmentally friendly or "green." Why? Because a large energy company understands that customers interested in cleaner energy are more likely to believe the company's claims if the energy product has the blessing of an environmental group whose name they trust.

Another intangible asset is intellectual property. This includes proprietary procedures and content, such as copyrighted training materials, publications, databases, patents, proprietary software, and specialized skills in management and service delivery.

Anticipate How Others Will Respond

Since most nonprofits obtain the lion's share of their budget from contributions and grants, it is important to anticipate the response of funders and other constituents. While some funders encourage efforts to diversify funding sources, even agreeing to help fund ventures, others shy away from it. Some organizations that are funded almost entirely by government are flatly prohibited from earning outside income or, in rare cases, are even required to return to the funder every dollar earned from such activities.

Would any of your key constituent organizations oppose your efforts to engage in venture development? In addition to funders, there may be other nonprofits or private companies that would object. An example of this would be a nonprofit whose board is made up of representatives from other organizations that might oppose your entry into activities that compete with theirs. Some degree of concern is almost always raised by at least one constituent group, so it's good to think about this early.

Finally, take a moment to consider whether non-constituent organizations might object to your pursuit of venture income sources. Of course, this often depends on what kind of venture you start. In any event, if you are aware of someone who may object to your venture plans, now is the time to anticipate that reaction. In rare cases such objections can force nonprofits to forego a specific venture; more often the increased awareness helps the nonprofit take steps to prevent a major problem.

Brainstorm Venture Ideas

Getting people to brainstorm is usually quite easy. (They love to offer suggestions they don't have to implement!) Some of their venture ideas will be good, while others will be impractical. In the spirit of brainstorming, consider each idea a special contribution to the process and move on to the next one. Later on you'll narrow the list to a more manageable number.

Here's a suggested agenda for a brainstorming meeting, with the person guiding the discussion in parentheses. Be sure to allot at least two and preferably three hours for this meeting.

- Welcome and introductions (chair)
- What is venture development? Why are we doing this? (executive director)
- Role of the entrepreneurial committee (chair)
- Overview of the venture development process (project leader)
- Review and critique of the venture audit (executive director)
- Brainstorming venture ideas (project leader)
- Wrap-up, set date for next meeting (project leader)

Don't forget to consider services to other organizations (nonprofit, for-profit, or government). This area, known as the business-to-business market, might open up some new possibilities. For example, a welfare-to-work and employment readiness program might develop a complete training package for sale to school districts, business associations, and state agencies.

Select Three Ideas for Further Study

If you're like most organizations at this point in the process, you have a long list of possible venture ideas. But don't worry if your list is short. Quality is more important than quantity. Eventually, you will market-test the ideas. Since it's just not practical to gather market data on more than a handful of these venture ideas, you need to winnow the list to the three most promising ideas.

The first part of screening the list is to polish it. The project leader should combine, edit, and clarify the venture ideas so there is one clean summary of what's under consideration. Write up each venture idea as a brief description, making sure to indicate the idea, the likely customers, and the benefit to customers.

The second part of screening it is to establish a set of criteria on which to rank these venture ideas. The following is an example of the criteria an organization might use to narrow the list to no more than three venture ideas. Feel free to develop criteria that fit your situation.

• *Strategic fit?* Does this venture fit with our mission and strategic plan?

• *Core competency fit?* Will it build on our core competencies and other capabilities?

• *Expand core competencies?* Will this venture help us build valuable new core competencies?

• *Core customer fit?* Does it involve some of our core customers or others just like them?

• *Will customers pay?* Does it seem likely that customers will be willing to pay for this?

• *Profit potential?* Does this seem like it has the potential to generate profits?

Once you have completed a venture audit, brainstormed venture ideas, and chosen three ideas for further consideration, you will be better prepared to evaluate those ideas based on externally gathered market research and analysis. Using this information, you will confirm or update your impressions of those venture ideas, determine which idea is best, and then decide if it represents a worthwhile venture opportunity.

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