

Economic Survival in the City of Neighborhoods

11: Thinking Like a Business

AO'D: The studies and reports are beginning to come in, and the headlines reflect their findings:

“Budget reductions pose a threat to the survival of non-profit groups.”

“Corporate contributions fail to keep pace with the cuts.”

“Social service agency closes its doors.”

At the very same time, we could be hearing headlines like:

“Groups find new survival strategies.”

“Agency reaches self-sufficiency.”

Both sets of headlines are equally true. These are difficult times for organizations. Many may not survive. But many are meeting the challenges. And some are even thriving. They are doing it by bolstering their fiscal management, by using sophisticated financial techniques, and in some cases, by starting business enterprises to replace lost revenues.

Loren Cole: These kinds of techniques are absolutely essential if you want to survive, if you want to grow, and if you want to deliver good services to your clients.

AO'D: Loren Cole is director of Inquiring Systems, Incorporated. He travels the country, teaching non-profit groups the techniques of survival.

Cole: How to do a cost analysis, how to do cash flow statements, how to be more conscientious about the ways in which you identify what your expectations are of people, and their expectations of you.

AO'D: Cole is not alone in his quest to turn non-profits into entrepreneurs.

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A recent study by the Neighborhood Development Collaborative points out the need for business-like solutions to funding problems. That's wise advice according to Loren Cole. Even groups which look to corporations for charitable donations would benefit from a business-like approach.

Cole: A business plan approach talks specifically about outcomes and how they're generated and they look at cash flow, they look at operating statements, that look at, you've done a market survey, you determine the extent of the need. It's very, very concrete.

AO'D: But Cole says he would like to see non-profits break away from dependence on grants and contributions and develop new sources of funding. The first and most obvious is to begin charging for some services provided to clients.

Cole: You might see an alcohol recovery program, which maybe takes \$600 a month to service one person who is trying to recover from alcoholism, and they can only charge them maybe \$250. So they charge a partial fee, \$250 of the \$600 they need and then they raise the money elsewhere. That's called revenue-generating services.

AO'D: Of course, not all non-profits can or should charge their clients for services. Another trend in revenue-generating might be termed "related-business development."

Cole: Stick with the alcohol recovery program, for example. Now maybe you have homes where people come, the alcoholics live there. And so now you get into a business maybe which goes in and you recondition a building, a home, and then you resell it and you make a profit on it. Now the building, process, of rehabilitating it, is actually a work/therapy program for the alcoholic people who are working there. So this benefits your service. At the same time that's going to subsidize your program, so that's called a related-business development.

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AO'D: There is now more emphasis on unrelated-business development, also called "arms-length development". This could take any number of forms. A simple example might be the investment procedures followed by non-profit foundation's endowment portfolio.

Cole: The foundation is investing its endowment in profit-making firms. It generates income on an annual basis. That income's used to provide me with grants.

AO'D: Finally, Loren Cole points out that one of the most effective ways for non-profits to better manage themselves and their resources is to look into the idea of merging, or at least thinking about forming under the umbrella of a consortium.

Cole: What we need are organizational consortiums, which provide management expertise. They help in the marketing, they can use computer systems for physical operations, they can ensure more cost-effective, more efficient ways of working. They can purchase supplies by volume discounts and therefore assist in maintaining cost-effective ways of operating for non-profits.

AO'D: These strategies for economic survival are exciting and workable, and this series has tried to point out specific Seattle examples of how these ideas can be put to use. But simply grafting business ideas onto a non-profit group structure could be disastrous. Another critical issue is whether a group's staff and board members have the necessary skills and training to make sound business decisions. Those which do, stand a better chance of surviving the 1980s.

In the City of Neighborhoods, I'm Arthur O'Donnell.