

# Diversifying Nonprofit Funding: The Business Considerations May Not Be What You Think!

July 10, 2024

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# Today's Agenda

- ▶ The funding diversification vs. concentration debate and how to think about it in your nonprofit
- ▶ Why your field of practice is such an important starting point
- ▶ The whole task of matching the characteristics of various revenue streams into one well integrated model
- ▶ Elements of business planning for adding revenue streams
- ▶ Q&A
- ▶ Resources & Wrap Up

# Today's Presenters



**Hilda Polanco**  
Market Managing Partner  
BDO



**Michael Anderson**  
Principal and Founder,  
Michael Anderson Consulting



**Mark Hager**  
NFC Moderator



**Dana Britto**  
NFC Moderator



**Jennifer L. Metzler**  
CEO, Albuquerque Health Care  
for the Homeless, Inc.

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# NPQ's Illustrated Nonprofit Economy

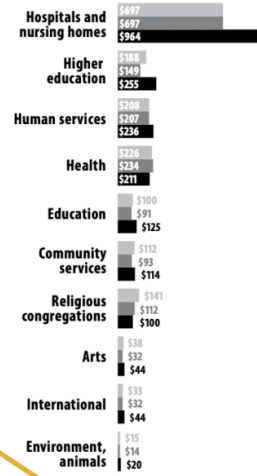
## 3rd Edition

by Jon Pratt (NPQ contributing editor)  
and Kari Aaenstad (contributing writer)

### Sources

### Source-to-Source Transfers

### Revenue Growth (inflation adjusted in \$ billions; 2006, 2009, 2015)



Program fees from private sources  
**\$1 trillion**

Federal government  
**\$491 billion**

State and local government  
**\$187 billion**

Individuals  
**\$265 billion**

Foundations  
**\$44 billion**

Donor-advised funds  
**\$15 billion**

Interest, dividends, and sale of assets  
**\$36 billion**

Bequests  
**\$32 billion**

Corporations  
**\$18 billion**

Federated drives  
**\$15 billion**

Hospitals and nursing homes  
**\$964 billion**  
(6,505 organizations)

Higher education  
**\$255 billion**  
(2,470)

Human services  
**\$236 billion**  
(143,871)

Health  
**\$211 billion**  
(43,084)

Education  
**\$125 billion**  
(71,345)

Community services  
**\$114 billion**  
(53,333)

Religious congregations  
**\$100 billion**  
(282,000)

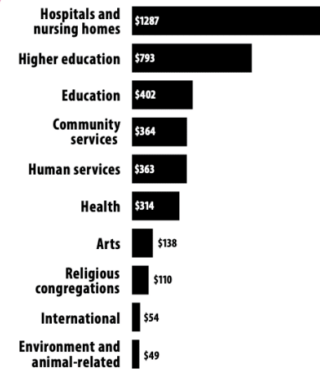
Arts  
**\$44 billion**  
(45,831)

International  
**\$44 billion**  
(9,859)

Environment, animals  
**\$20 billion**  
(21,002)

### Recipients

### Total Assets (in \$ billions, 2015)



THE **Nonprofit** QUARTERLY

Get copies of "NPQ's Illustrated Nonprofit Economy, 3rd Edition" for your next event: ten for \$14.95, bulk orders eligible for greater discounts. Order at [www.nonprofitquarterly.org](http://www.nonprofitquarterly.org), or send an e-mail to [feedback@npqmag.org](mailto:feedback@npqmag.org).

"NPQ's Illustrated Nonprofit Economy, 3rd Edition" is based on 2015 data. Jon Pratt conceived of this project and developed it with Kari Aaenstad; Gregg Dinderman designed it; and Cassandra Heliczer managed it to completion. We thank Deondre' Jones at the National Center for Charitable Statistics at the Urban Institute, Alan J. Abramson at George Mason University, and the team at [www.open990.com](http://www.open990.com) for being crucial resources to the research community and this project.

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# Mark Hager, Ph.D.



Nonprofit Financial Commons  
Arizona State University  
Civance Research

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# The Impact of Revenue Diversification on Nonprofit Financial Health: A Meta-analysis

ChiaKo Hung<sup>1</sup> and Mark A. Hager<sup>1</sup>

Looked at 40 studies with 296 calculations of the statistical relationship between revenue diversification and financial health.

- 142 calculations show a positive relationship
  - 31 show no relationship
  - 123 show a negative relationship

Nonprofit and Voluntary Sector Quarterly

2019, Vol. 48(1) 5–27

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## Is Diversification of Revenue Good for Nonprofit Financial Health?

by Mark A. Hager and ChiaKo Hung

### The PRO side

- ▶ Flexibility in times of uncertainty
- ▶ Autonomy from the whims of donors
- ▶ Greater exposure to other community stakeholders

# Is Diversification of Revenue Good for Nonprofit Financial Health?

by Mark A. Hager and ChiaKo Hung

## The CON side

- ▶ Increased exposure to risk
- ▶ Crowd-out of donations
- ▶ Increased administrative costs



# A New Look at How US Nonprofits Get Really Big

By Ali Kelley, Darren Isom, Bradley Seeman, Julia Silverman, Analia Cuevas-Ferreras & Katrina Freiherrmann | Jun. 20, 2024

## Takeaways:

- ▶ Focus on concentration in one or two revenue categories
- ▶ Seek funding this is a natural match to your organization's work
- ▶ Get really good at making these work for you

# Hilda Polanco



Market Managing Partner  
BDO

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# 5 Common Nonprofit Business Models



INDIVIDUAL DONOR



FOUNDATION (“INSTITUTIONAL”)



GOVERNMENT



EARNED REVENUE



MEMBERSHIP

# Business Model Considerations



Revenue  
Source

Who's paying  
and for what?



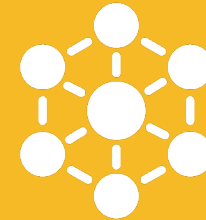
Risk

What are the  
common risks,  
sensitivities &  
challenges?



Leadership  
Capacity

What leadership  
orientation is  
best suited?



Infrastructure  
Needs

What systems  
need be in place?



## INDIVIDUAL DONOR

<b>Who Pays</b>	Small to mid-size donors, High net-worth donors, Event participants, Donor-advised funds
<b>Examples</b>	March of Dimes, Susan G. Komen for the Cure, Amnesty International
<b>Sensitivities, Risks &amp; Challenges</b>	Macro-economic conditions Reputation of both nonprofit and donors
<b>Leadership Capacities</b>	Positions organization as visible and effective
<b>Infrastructure Needs</b>	Donor management system to capture donor profiles and giving capacity Prospecting data
<b>Lessons from the Field</b>	Adopt and integrate a CRM with accounting, fundraising, and program databases; Construct systems for automated gift processing & prospecting



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## FOUNDATION

<b>Who Pays</b>	Public or Private Foundations , Regranting Intermediaries (i.e. United Way, Donor Collaboratives), Corporations
<b>Examples</b>	Innovative pilots in human services, Advocacy & organizing groups
<b>Sensitivities, Risks &amp; Challenges</b>	Shifts in funder priorities Overreliance on a single foundation or grant
<b>Leadership Capacities</b>	Employs innovative, influential, and persuasive strategies Understands current and future funding landscape
<b>Infrastructure Needs</b>	Systems for management of the entirety of the grant lifecycle Identification of mission-aligned opportunities and sources
<b>Lessons from the Field</b>	Develop systems for tracking at both program- and line-item levels Identify a mechanism for tracking grant outcomes & multi-year funding



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## GOVERNMENT

<b>Who Pays</b>	Federal; State, sometimes as passthrough of federal; Local, sometimes as passthrough of federal, state, or county
<b>Examples</b>	Community Action Agencies, Established human service agencies
<b>Sensitivities, Risks &amp; Challenges</b>	Shifts in political regime and policy priorities Highly restricted funding and bureaucratic processes
<b>Leadership Capacities</b>	Uses savvy political instincts and network connections Mobilizes stakeholders as constituents or advocates
<b>Infrastructure Needs</b>	Culture of compliance Cash management systems (working capital key) and forecasting
<b>Lessons from the Field</b>	Requires an understanding of your organization's Indirect Cost Rate; mechanisms for cost allocation; and documented policies & procedures, as required by a single audit



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## EARNED REVENUE

<b>Who Pays</b>	Customers who purchase: Goods, Services, Experiences
<b>Examples</b>	New York City Ballet, YMCA, Private schools
<b>Sensitivities, Risks &amp; Challenges</b>	Market challenges and performing against expectations Supply chain and customer service
<b>Leadership Capacities</b>	Focuses on market analysis to identify needs, create programs, and understand local and national trends
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## MEMBERSHIP

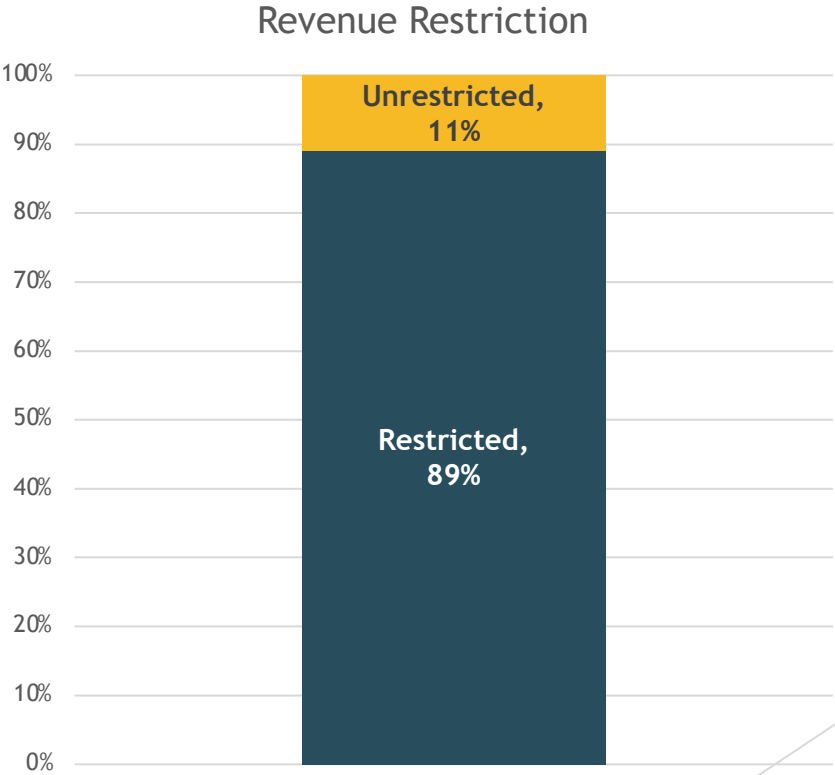
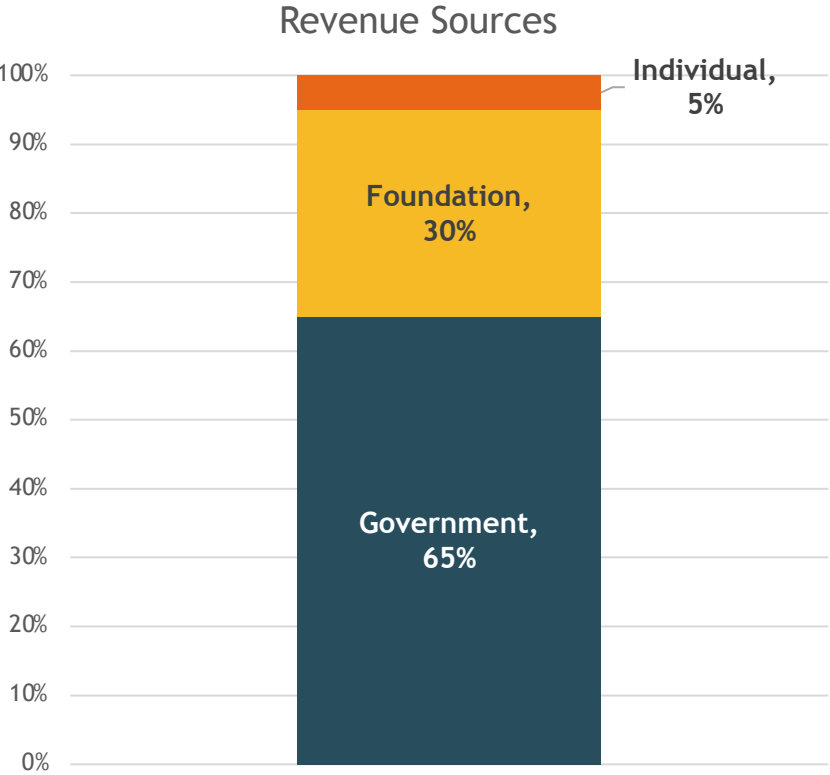
<b>Who Pays</b>	Members who share a common cause, identity, or purpose
<b>Examples</b>	Alcoholics Anonymous, AARP Industry and trade associations
<b>Sensitivities, Risks &amp; Challenges</b>	Disunity dynamics Economic downturns
<b>Leadership Capacities</b>	Prioritizes high levels of hospitality and transparency Achieves goals through unity of purpose
<b>Infrastructure Needs</b>	Effective and efficient collection mechanisms Responsive communications
<b>Lessons from the Field</b>	Clarity of governance structure and organizational decision-making Member tracking systems including giving history & programmatic involvement



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# Revenue Composition



# Q&A

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# Michael Anderson



Principal and Founder,  
Michael Anderson Consulting

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# Optimizing Your Organization's Income Mix

## Organizational Strategy

Mission and Vision

Values Differentiating Strengths

Strategic Priorities



## Financial Strategy

What is our optimal income mix?

What is our most effective use of resources?



## Multi-Year Financial Projections

Identify Income and Expense Drivers

Connect with different strategic pathways

# Income Mix Dynamics

What is the optimal income mix to resource our organization?

- **Autonomy:** authority to use funding at organization's discretion and in alignment with mission and program priorities
- **Reliability:** how confident we can be in securing funding; often related to probability, predictability, or likelihood of recurrence
- **Administrative Burden** (Squeeze Factor): the cost to the organization to manage the money; could be in earning the dollars or reporting on the funds
- **Opportunity:** magnitude, scale, potential for growth

# Income Mix Dynamics: Autonomy

**Autonomy:** authority to use funding at organization's discretion and in alignment with mission and program priorities



# Income Mix Dynamics: Reliability

**Reliability:** Predictability and likelihood of recurrence



# Income Mix Dynamics: Admin Burden

**Admin Burden/ Squeeze Factor:** The administrative burden, or the cost of the dollar; should be considered relative to mission and financial gain along with organizational readiness and infrastructure available to leverage



# Income Mix Dynamics: Opportunity

**Opportunity:** the possible magnitude of funding and potential for growth over time





# Case Study



**Jennifer L. Metzler**  
CEO, Albuquerque Health Care  
for the Homeless, Inc.

# Q&A

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# Dana Britto



NFC Moderator

# Nonprofits' special call to due diligence in enterprise planning

Someone else's money in trust means exercising extra care regarding

- ▶ Research and benchmarking
- ▶ Capital needs
- ▶ Timeline to proof of concept and to break-even point if any
- ▶ Board level monitoring of potential risks to organization with metrics

# The Board's Role in Planning for Change



Identify the new **skills**, **capabilities**, and **capacities** required to diversify which require additional investment



Understand the **runway** required for those investments to yield a **positive return**



Determine a plan to **check in on progress against goals** and to recalibrate or course correct, if necessary

# Resources & Wrap Up

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# Stay Connected on the Forum

## YOUR FORUM AWAITS...

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