

# 7 Nonprofit Income Streams

**Open the Floodgates to Sustainability!**

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*Charity*Channel®

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## **7 Nonprofit Income Streams: Open the Floodgates to Sustainability!**

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# Chapter One

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## Stream One—Mission Income

### IN THIS CHAPTER

- About mission income and its possibilities
- Will it work for you?
- Benefits and challenges
- Examples of success

**F**or nonprofits as a whole, mission income is the largest single source of revenue. Yet mission income is one of the least discussed nonprofit income streams. This chapter explores mission income. First, we look at its components by studying some examples. Then I briefly discuss how to identify opportunities. To help you decide if this income stream is worthy of more study at your nonprofit, I share major benefits and challenges. As you read, consider the possibilities for your nonprofit.

Boley Centers provides safe, affordable housing. To fulfill its mission, it rents 1,200 housing units for people with special needs. In return, the occupants pay Boley rent. This creates *mission income* for Boley Centers, its main income source.

Fees for service, ticket sales, and rents, as earned by the Boley Centers, qualify as mission income. Even if money is your main objective, the mission you also achieve with this income stream offers a strong logical and emotional reason to pursue it. The mission accomplished while

The results, as illustrated, included a 300 percent increase in attendance *and* income.

Bok Tower Gardens is one of my favorite mission-income examples. It demonstrates that by paying attention and experimenting with what you already are doing, you can increase your income and achieve more mission.

In the past, many nonprofits, and perhaps even you, ignored the mission-income stream. Many assume they already are maximizing it. If this is you, consider not only Bok Tower’s experience but also the one at MacDonald Training Center, a nonprofit serving developmentally delayed adults. When a new staff member was hired, she began reviewing the agency’s contracts. She discovered a mission-income contract that had not been renegotiated in seven years. The center quickly renegotiated the contract and earned more income.

### **Why Do People Give Mission-Income Money to Nonprofits?**

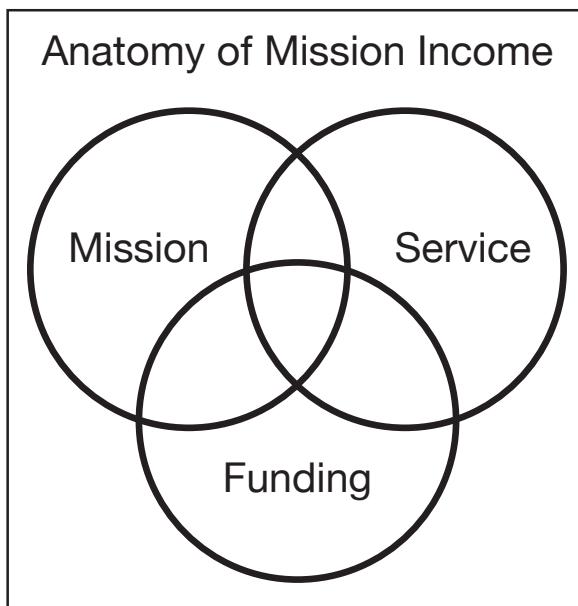
Customers purchase mission services or goods because it offers clear value. They want a product or service because it adds to their lives. Some customers actually prefer nonprofit providers—a vote for your good work and a benefit of being a nonprofit.

### **The Structure of Mission Income**

To better understand the structure of mission income, let’s examine Bright Beginnings, a nonprofit new to this source. Bright Beginnings provides many services to families and children to help the latter achieve their potential, including academic tutoring. Organization income is primarily government funded. To reduce dependence on government money, leadership decided to use agency skills to seek mission income.

At a charter school in a new service area, Bright Beginnings launched a fee-based tutoring program. The tutoring helps children prepare for Florida’s standardized test, the FCAT (Florida Comprehensive Assessment Test). Helping children master this test meets Bright Beginnings’ mission to help children reach their potential. The charter school endorses Bright Beginnings’ tutoring because of the agency’s staff expertise and the stellar results Bright Beginnings achieves elsewhere. Parents invest in tutoring because their children need help, and they understand its value.

What do you need to earn mission income at your nonprofit? You need three things: a mission, a product or service, and a fee (funding). Each component is essential. For some nonprofits, mission income serves a supporting role, providing smaller, but still useful, revenue. Bright Beginnings' fee-based tutoring sits in the mission-income sweet spot, the place where all three circles interlock in the "Anatomy of Mission Income" illustration:



- ◆ Mission: Helping children reach their full potential.
- ◆ Service: Tutoring.
- ◆ Funding: The fees parents pay.

Is your idea to increase funds a mission-income idea? It is if it contains all three components.

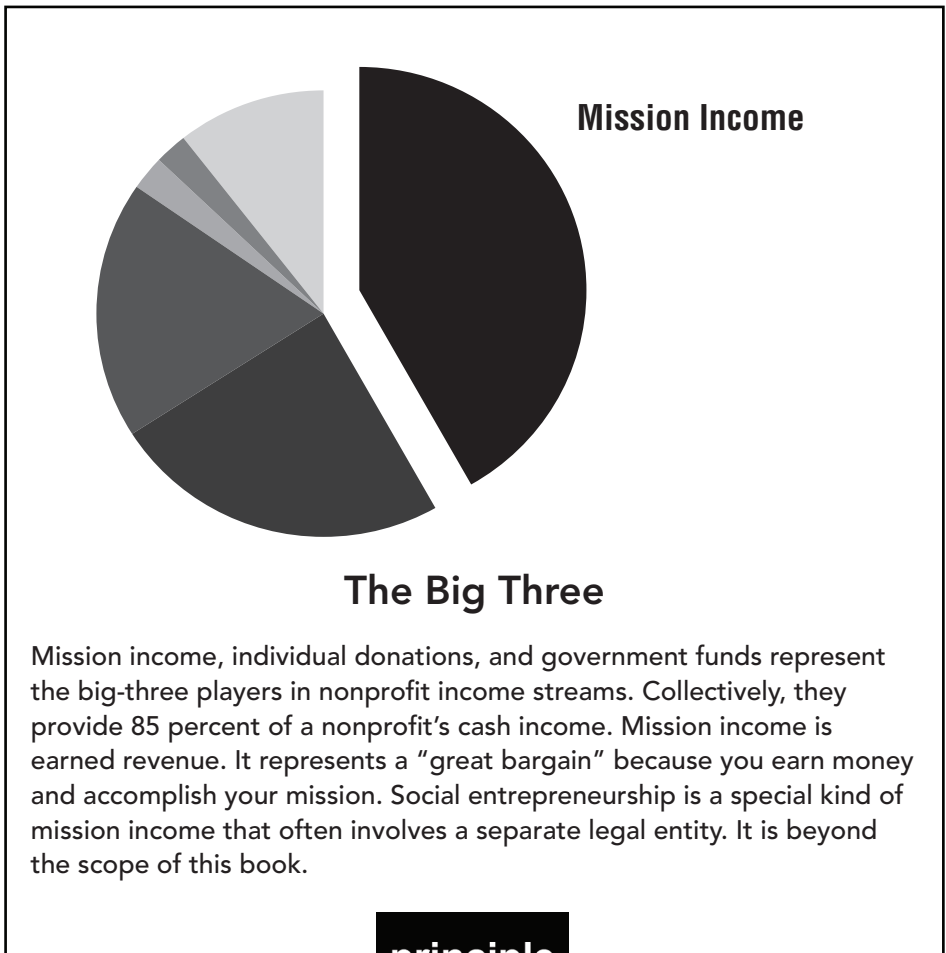
### **Finding Mission-Income Opportunities**

Mission-income ideas are everywhere. To create a list of possibilities, write all the ideas under discussion at your nonprofit. The ideas might work by themselves. Or they may inspire a new idea. For most nonprofits, thinking about who needs or might benefit from their mission generates multiple possibilities. For Bok Tower, the knowledge that they were losing money on a fascinating house stirred staff to act.

Use the examples throughout this book for inspiration and ideas. Also, answer these three questions to identify multiple mission-income opportunities:

- ◆ What new service can you offer for your current clients?  
Example: Add after-hours care.
- ◆ Which new customers can you serve with existing services?  
Example: Open a new office in an adjacent city.
- ◆ How can you serve new markets and new clients for a fee?  
Example: Offer environmental tourism at your remote, but beautiful, site.

In my work, I find most nonprofits have, with a little prompting, plenty of ideas. The challenge comes with selecting from among them to identify





those most practical, lucrative, and beneficial. To find them, you will probably have to experiment with a number of options.

### How Much?

An important consideration for nonprofit leaders exploring mission income is its income potential. How much money can you earn? The range is broad. Some groups, such as hospices, hospitals, and residential

**Three-Year Development Cycle**

Entrepreneurs often begin their business ventures with this three-year cycle in mind:

- ◆ Year 1: Starve.
- ◆ Year 2: Break even.
- ◆ Year 3: Succeed.
- ◆ Anticipate a similar development cycle for your major mission-income ventures.

**observation**

centers, earn the vast majority of their income. Other nonprofits pride themselves on never earning a dime. Most nonprofits delight at earning modest amounts, as they positively impact the mission.

A solid goal for most nonprofits getting started is to earn between 5 and 10 percent of annual income from mission income in a year or two. It often helps to try several activities and quickly eliminate those that fail to create strong interest and solid cash flows. The more you try, the more you will learn and the sooner you will see your earned income grow. To obtain a better estimate for endeavors

that require upfront investments, interview other leaders with similar, successful ventures. Chapter Eight discusses this in depth.

What if no similar venture exists? If we discuss this over coffee, I will argue this point and help you brainstorm. With 1.5 million nonprofits and nearly 28 million businesses in the United States alone, someone has done something similar. Still stuck? Find a creative thinker to help you identify similar opportunities.

In any case, you will want to evaluate your mission-income opportunities in terms of overall organizational strategy. For instance, mission opportunities that allow you to reach critical groups of new customers can be especially worthwhile. Many might earn you less than 100 percent

of their costs but still represent huge successes. Of course, how much you earn is based, in part, on how much you charge. You have a variety of choices, which we'll look at shortly.

**The Benefits of Mission Income**

Each nonprofit income source fits nonprofits differently. Does the work associated with mission income suit your nonprofit's personality, culture, and values?

To decide if mission income is "for you," compare and contrast its benefits with the benefits of other income streams. Here are five benefits of mission income:

***1. Independence***

Nonprofits exert a great deal of control over mission income. In contrast, an individual donor can change plans and give money to a long-lost niece pursuing a medical degree. The government can cancel your contract. Your main corporate sponsor can abandon a strategy that once made you an ideal partner. With mission income, you determine the price, do the marketing, serve the customers, and earn the income. Since you understand your mission best, your nonprofit is in the ideal position to identify services that create mission income at a price you can sustain.

***2. Closeness to Customers***

Mission income creates close contact between you and the customers to whom you provide value. In the past, you might have thought it was tough finding a good landlord to serve your customers. However, when you become a landlord as part of earning mission income, you perceive landlord-hood differently and can, therefore, create better experiences for your customers. Proximity allows you to fulfill needs and, ideally, earn even more mission. Mission-income activities provide a close feedback loop between you and your customers.

***3. Sustainability***

Mission income sustainability is so consistent that many nonprofits assume this income will remain essentially the same year to year. While rarely as exciting as receiving a huge donation, mission income's reliability

is very reassuring. Additionally, many social service nonprofits worry about creating unnecessary dependency in those they serve. Charging for services reduces this risk. Fees can also eliminate stigmas associated with receiving charity. Most nonprofits serve people who can afford to pay at least a token fee. Many Salvation Army homeless shelters charge for housing after several free nights.

**4. Efficiency**

Since mission income provides both income and mission, it is very efficient. The other nonprofit income streams require personnel to convert income into services.

**5. Higher Value**

If you have ever run a free event, you know that many people who make reservations do not attend. Putting a price on your services increases their value in consumers’ eyes. In all likelihood, if you charge for your services they will be more valued by those you serve. Fees add a positive tension between the nonprofit and its consumers: Value is expected in return for payment.

Warren Cox with SPCA Florida found that the public started valuing dogs more when the SPCA increased its fees to adopt them. By charging more, the SPCA increased income, encouraged better treatment of the animals, and demonstrated to new owners that owning pets involves expenses.

**The Challenges of Mission Income**

Several challenges confront nonprofits as they seek mission income:

***Conflicts over Beliefs***

Wendy stood before the local government grant-review panel and answered its question about fees. “Our services are free,” she began. “When my son was little, I had enough on my hands getting him to services without having to worry about paying for them. We believe parents who have a child with disabilities have enough challenges without adding the burden of fees too.” Values may exist in your organization that make simply looking at mission income seem wrong.

Values may exist that make mission income seem less attractive than donated income. Are some nonprofit income streams superior to others? Perhaps. If you believe that donated funds are superior to earned funds, this value might lead to lukewarm mission-income efforts and results. On the other hand, if the staff of Bok Tower Gardens decided that funds to support Pinewood Estate had to come from individual donations, hundreds of their guests would be missing the opportunity to explore the Great Gatsby-like mansion.

Values about fees often run deep. While cultural shifts, discussed next, involve a lot of “we have never done it that way before,” values ask questions about what it means to pursue your mission. If asking some customers to pay for services negatively affects your ability to fulfill your mission, then you might need to avoid it.

And if you believe, as Wendy does, that your customers are already burdened and also must not have to pay regardless of their ability or that mission income is an “also ran” choice, you will need to do some intense strategic thinking to determine how your nonprofit will be funded and what role, if any, mission income will play.

If you have these kinds of concerns, schedule board time to discuss your organization’s values regarding fees. Answer questions, such as:

- ◆ What role might mission income play in our income strategy?
- ◆ When and where are fees appropriate?
- ◆ What positive benefits can be realized by charging a fee?

**Need for Cultural Changes**

If your organization has never charged for services, adding a mission-income stream will require a cultural shift, or a different frame of reference for the work. For instance, a group that supported cancer patients told me it could never charge patients for services. It was against the group’s charter. Period. Not yet content to let it rest, I asked, “Who else, besides your primary customers, receives value from your

services?” With encouragement, they began exploring the possibility of providing services to medical groups and hospitals by offering feedback

### Missing Income?

The Senior Friendship Center provides a health clinic for seniors. To cover overhead, it added a sliding-scale fee. The clinic, however, generated little revenue. Puzzled, staff investigated. They learned that some volunteer doctors were advising patients to tell the assistant at checkout that they could not afford to pay, even if they could.

In response, the nonprofit developed training sessions for the clinic’s volunteers and staff, wherein they shared the center’s budget challenges and details about uncovered expenses, including soap, water, and utility bills. Attendees learned that the clinic would close without the wonderful volunteers *and* the fees. Over time, leadership communicated why the fees were essential and began to change the culture. Fees became a normal part of doing business.



on the medical services offered. This was extremely valuable mission-enhancing information. With it, people experiencing cancer could, by giving feedback to the medical community, improve client experiences and help future patients. Members of the medical community might learn what is most important to patients and how to serve and attract them. Because of the relationships the nonprofit had with both parties, it was in a unique position to provide this value for a fee. For this organization, even considering fees represented a major rethinking of what the organization was and how it might operate. It would be a cultural shift. You also may live in a culture that dictates “you shall not charge fees.”

Don’t underestimate the size of this task. Making a cultural shift is no small matter. It

takes time, energy, and focus. To support the shift, recognize that pursuing mission income will require new behaviors and skills. Staff and volunteers will find using these behaviors and skills uncomfortable. It will help if they understand the why behind them.

### ***Viability***

Finding an idea and creating a fee-based program that creates mission and produces solid funding can be a challenge. In the United States, just 96 percent of new businesses survive two years. Litter from failures fill our lives, including audiocassette tapes and kitchen gadgets that require

odious cleaning. Many of the entities that created these items went on to develop new products. Your nonprofit also might need to work through several ideas until you identify viable candidates for your skills, setting, and market.

**Evaluating Your Work**

By entering a more overtly competitive market space, a nonprofit’s work will often require more critical evaluation. Not everyone is ready to grapple with this. You might be badly ranked by Yelp! It takes a healthy self-esteem and a true desire to “be all you can be,” to listen, and to improve. You can charge for your services and accept the feedback as a gift. Make your services worthy and believe in them.

Southeastern Guide Dogs, is a great example. It decided to be the top seeing-eye-dog school in the nation. By preferring quality over quantity, it created a viable nonprofit that competes primarily with other guide-dog schools. It offers the community several mission-income opportunities.

**Skills**

Nonprofits involved in mission income must continually grow skills to conceive of and manage opportunities. For many nonprofits, obtaining mission income requires adding new expertise:

- ◆ Identify potential opportunities.
- ◆ Test the market to determine if an opportunity is viable.

**Sure Thing?**

“What surprises me most is how some services that look like sure things don’t work,” says Susan Motley, executive director of the Medical Society of Virginia Foundation. “For example, providing continuing education for people who are required by law to have it seems like a natural fit for an association. Yet it can be hard to monetize. When you study the true cost of such programs, you might just break even. On the other hand, some activities like our quality improvement for physicians have been very successful. One needs to experiment and invest.”

**observation**

- ◆ Determine price.
- ◆ Market products or services.
- ◆ Comply with IRS or Canada Revenue Agency rules.
- ◆ Collect fees.
- ◆ Refine services and products midstream.
- ◆ Evaluate if the effort is worth pursuing long term.

***Donor Confusion***

Many people support the Girl Scouts by purchasing their cookies. This mission-income opportunity teaches girls entrepreneurship, marketing, and similar skills. The funds earned from cookie sales are not the only income needed. Yet cookie sales confuse some would-be Girl Scout donors. They believe that by buying cookies, they have done their part to support this worthwhile nonprofit. Your mission income efforts can send a similar unintended message to potential donors. If you engage in mission income and seek individual donations, you will need to be vigilant about keeping donors and potential donors informed about unmet needs that their donations support.

**How Much to Charge—An Opportunities Continuum**

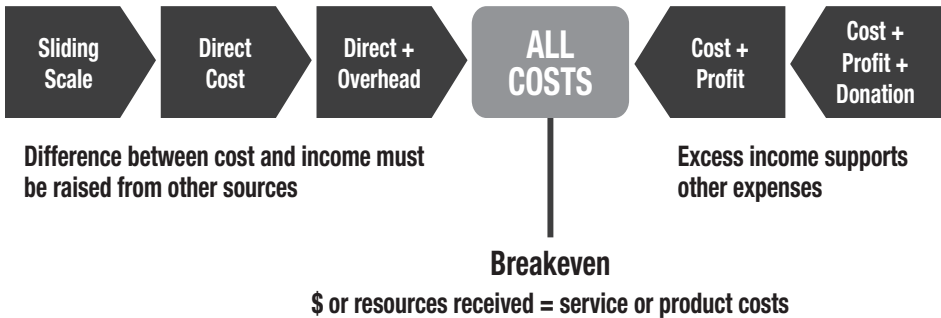
To expand your thinking, the chart below illustrates a set of choices about what you might charge customers. On the left side of the chart, we start with sliding-scale fees. As we move toward the right, you earn more of the money it takes to offer a product. Charges to the left of the vertical line represent fee options where your customers do not pay for the full cost of the service but contribute to it. Naturally, when customers do not pay for all of the costs of a program, you should identify other income streams to cover these expenses, e.g., a corporate donation.

To the right of the vertical line, customers pay the full cost of the service and make donations. Here people begin to be individual donors *and* customers. You use the surplus for other agency needs or to invest in future products.

Consider the following fees with both your mission and unrelated income opportunities:

- ◆ *Sliding scale.* A fee charged based on the customer’s income. Often used in government-funded programs. For instance, if your family income is below a certain amount, you pay one dollar. Families with more income pay ten dollars.
- ◆ *Direct cost.* A fee based on the out-of-pocket expenses a nonprofit spends to provide the service. No fees are collected for administration, building use, overhead, or the like. You run a summer sports camp, and the fees charged cover the cost of running it when you add it to other existing programs.
- ◆ *Overhead costs.* A fee based on all the costs of running the program and of running a viable nonprofit. Your campers pay a fee that covers direct expenses plus a proportion of other costs incurred by the organization, like the executive director’s salary and audit. Large nonprofits, like universities, often have a preestablished overhead rate.
- ◆ *All costs.* Even though direct and overhead costs include almost all costs, this fee would generally be higher and cover long-term costs incurred by the organization. For your sports camp, it would cover all costs plus wear and tear on the building, long-term marketing, establishing a reserve fund, etc.

### Earned Income Fee Options





- ◆ *Breakeven.* A price that allows a nonprofit to cover exactly all costs associated with a program or service. Revenues less expenses equals zero.
- ◆ *Cost + profit.* This fee is based on all costs of the program, plus a small amount toward other nonprofit needs. If you are a parent, you probably encountered field trip forms with this message. “The field trip is twelve dollars. Two dollars of your fee is to provide a scholarship to a child who would not be able to attend without your support.” This also occurs when you set a price based on selling 85 percent of the seats, but then sell out.
- ◆ *Cost + profit + Donation.* This fee includes all of your costs, plus a donation to your nonprofit. From the perspective of this book, this fee is a combination of mission income and individual donations. A nonprofit uses this pricing structure for events that regularly sell out.

## Memberships

Finally, no discussion of mission income would be complete without a brief membership discussion. Where do memberships fit? Are they earned

### Get More Income from Your Membership

Erick Lindblad, CEO of the Sanibel-Captiva Conservation Foundation, learned something valuable about membership. Several years ago, the foundation decided to separate its membership and annual giving efforts. The most important result of this separation was a great increase in individual donations. While membership numbers and income from it remained roughly the same after the split, the funds generated by the annual campaign grew by more than 25 percent. Lindblad credits this success to the opportunity the split offered to tell two distinct stories. The first story was about membership and its benefits. The second was about being a donor and donor benefits. Each story fulfilled two different needs and provided value to two different audiences.



income or individual fundraising? While many nonprofits invite people to become members with the hope that they will become donors, this is unlikely. In my opinion, memberships are mission-income opportunities. They engage individuals who seek to participate in your mission and belong. In contrast, individual fundraising is about giving a donation with the rewards that donations bring, such as giving back, meeting important basic human needs, helping those with less, and bringing about change.

Memberships often include inducements, such as free entry, key chains, and advance announcements. When you squish membership and donations together, you perplex people who care about you. You also lose income.

**To Recap**

- ◆ Mission is the heart of your nonprofit. Money is its fuel. Mission-income success combines heart and fuel together.
- ◆ Mission income is the biggest of the three main sources of nonprofit income.
- ◆ The benefits of mission income include independence, closeness to customers, sustainability, efficiency, and the possibility that your services will be of more value than ever.
- ◆ The challenges with mission income include the possibility that collecting it will conflict with beliefs about your work, you may need to make cultural changes, it may be hard to find viable ideas, you may need new skills, and you might confuse your donors.