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More Not-for-Profits Try For-Profit Ventures: Mission, Not Money, Should be Motivation, Observers Say

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Second Helpings needed to try something different.

Finding money for the agency's burgeoning hunger-relief and job-training programs was difficult, and additional growth would only add to the challenge.

So leaders asked themselves an increasingly common question: What else can we do?

And like a growing number of its not-for-profit peers in Indianapolis and elsewhere, Second Helpings thinks it has the answer in a for-profit venture.

Using part of a \$ 250,000 grant from Lilly Endowment Inc. and the expertise developed in seven years of preparing and delivering meals for other social-service agencies, employees are prepping Just 'Cause Catering for a September launch.

We have the facility, the knowledge, the interest, Executive Director Gina Brooks said. We've always been asked to do catering, and we've basically been turning people away. It just makes sense.

Graduates of Second Helpings' culinary training program will be able to apply for paid internships, adding a business component to the kitchen skills they're already taught. But the primary motivation is monetary.

We hope [business] will take off and we'll be able to put more money into programs, Brooks said.

That's a common sentiment among charities nationwide looking to for-profit enterprises to shore up the bottom line. But observers warn against being blinded by potential profits.

It is very tempting, said William Foster, a partner at Boston-based charity consultant Bridgespan Group who has studied the national trend. Nonprofits are under a lot of financial pressure, and funders like the notion of supporting something that could possibly generate its own revenue.

But there are often more challenges than first appears.

Foster and colleague Jeffrey Bradach examined the practice in a paper published in the Harvard Business Review this year. Their conclusions attempt to burst the bubble surrounding what they call the sector's unwarranted optimism about such ventures.

The potential financial returns are often exaggerated, and the challenges of running a successful business are routinely discounted, they wrote. Most important, commercial ventures can distract nonprofits' managers from their core social missions and, in some cases, even subvert those missions.

Mission and money

Perhaps the biggest potential pitfall is a moneymaking venture that fails to make money drawing scarce resources away from an agency's primary purpose.

Foster said research indicated 70 percent of the for-profit endeavors do not make money, and the other 30 percent may not be accounting for all the operating costs.

There is a risk involved with any business, said Ellen Annala, United Way of Central Indiana's CEO. They need to make sure they have a good business plan, just like any new venture.

The wild card in the case of not-for-profits is how closely the enterprise is tied to the organization's reason for being, Foster said.

If something is mission-aligned, the need to make a profit isn't as great, he said. It might be fine to lose 10 cents on the dollar if it is serving the greater good. The challenge is to make sure that's really the case.

Only 10 percent of not-for-profit executives who participated in a 2003 Bridgespan survey said they started their business ventures purely for the money; 58 percent cited mixed motivations. The rest said it was all about mission.

Indianapolis charitable entrepreneurs say they fall in the last category.

At Coburn Place Safe Haven, domestic violence victims take sewing lessons as part of a self-sufficiency component. Those who are interested also can get involved in Sisters in Stitches, a micro-enterprise launched last year with the help of a \$ 10,000 grant from Bank One.

Stitches produces and sells sister bags made, ironically enough, out of men's ties and a line of other accessories. Now the organization is seeking additional funding to add a business-management component to the training.

We want to give women the tools they're going to need to be more self-sufficient. That's our focus, said Development Director Mary Jane Sorbera. If it makes money, great. But our first goal is to give them another tool to get through life.

The same goes for domestic violence agency Julian Center, which opened its Thrifty Threads secondhand store eight years ago. Julian Center clients shop free of charge for needed items, and other customers keep the lights on and the doors open.

Occasionally, the store makes a small profit, but the primary benefit isn't monetary, said Executive Director Ann DeLaney.

It is an important part of the agency mission, educating people about domestic violence, she said. Visibility is a big plus, whether we make any money or not.

Not-for-profits need to look for ways to diversify their revenue streams, she said, but for-profit endeavors are anything but an easy answer. Julian Center has considered and rejected other enterprises, including a side business making rugs and such out of scrap clothing donations.

Like most not-for-profits, just doing our mission consumes every waking hour, DeLaney said. From my experience, the best way to make more money is to just ask people for it. This is a very generous community.

Generosity or self-sufficiency

Still, generosity isn't always enough.

Second Helpings began thinking about its for-profit options when it found itself scrambling to cover its \$ 3.5 million annual budget. Leaders worked with an MBA class at Butler University to help explore their options and develop a business plan. Since then, they've also found advisers with small-business and food-service experience to weigh in.

And the Lilly grant \$ 155,000 of which will be used for the catering business's startup costs went a long way to making the venture possible.

Brooks said the agency expects Just 'Cause to post a \$16,000 profit the first year, and hopes it generates more money for programs down the road.

If we get into it and it's a huge disaster, we can always pull the plug on it, she said. But we hope it's self-sustaining.

In fact, some donors want agencies to flex their entrepreneurial muscles.

We hear that regularly, said Timothy L. Seiler, director of The Fund Raising School at Indiana University's Indianapolis-based Center on Philanthropy. Funders really like to hear [organizations are] learning ways to become self-sufficient. If they have the right leadership at the board level, that's a reasonable expectation.

Indiana Youth Institute has experience in the for-profit arena, augmenting its program revenue by doing fee-based consulting. CEO Bill Stanczykiewicz said every little bit helps.

In the funding climate today, we're always looking for additional sources of revenue, he said.

It's a huge trend in the nonprofit sector.

Still, he said organizations shouldn't go too far too fast.

It takes extensive, careful planning to do this right, Stanczykiewicz said. And quite candidly, if you do it wrong, it could sink your whole organization.

Next month, IYI is hosting a workshop for not-for-profits considering for-profit ventures. Los Angeles-based The Grantsmanship Center will put on the three-day seminar, scheduled for Aug. 15-17. The cost is \$ 575.

Bridgespan Group's Foster said the best advice for not-for-profits is to spend time on any decision to enter the for-profit realm.

It is so hard to make money, he said. You don't want excitement about potential financial gains to cloud the examination of whether it makes sense. This shouldn't be looked at as a magic bullet.

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