



INCOME GENERATION MODELS FOR NONPROFIT ORGANIZATIONS

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THE BRIEF

Sustainability is one of the biggest issues, if not THE biggest, facing the non-profit sector today. Non-profits are fast looking at new models where they can generate their own revenue and reduce donor dependency. And donors are increasingly expecting non-profits to have sustainability strategies in place.

At our next gathering, Marcus Coetzee, management consultant with 20 years experience in the development sector, will share some practical thinking, strategies and frameworks on how to develop your sustainability.

THEMES TO BE EXPLORED IN THIS PRESENTATION

1. Concept of sustainability
2. NPO versus business paradigms
3. Five income generation and profit models (with examples)
4. Tips for earning income from government
5. Tips for earning income from businesses

TERMINOLOGY - WHAT IS SUSTAINABILITY?

- The term '**Sustainability**' is a misnomer that has become jargon, and jargon leads to fuzzy thinking.
- Organizations are always at risk.
- It is impossible to predict the future with certainty. Big changes (e.g. 'Arab spring', global financial crisis, Marikana miners' strike) are frequently unexpected.
- Instead of using terms such as 'sustainability', it is better to be more precise in our language. We should instead discuss how enterprises can improve their strategic position, and generate the income and profits required to increase their social impact and reduce their financial risk.

TERMINOLOGY

- **Product** is a Good or Service or combination thereof that has been properly packaged for market.
- **Customer** is the person or organization that pays for the Product.
- **Beneficiary** is the person or organization that derives the predominant benefit from the Product that was purchased.
- **Donor** is the person or organization that provides resources expecting no return beyond goodwill or brand awareness.
- **Social Investor** or **Impact Investor** is someone that lends money to a person or organization that is doing good, and who expects a strong social return and a lesser financial return on investment.

TRADITIONAL VERSUS NEW THINKING

Traditional NPO Thinking

Ask donors for sufficient funds to cover costs of agreed activities:

- Donors are particular about which costs they are prepared to cover.
- Difficult to build a reserve for rainy days or to cover discretionary spending.
- Impossible to scale operations without finding new donors.
- The pool of available donor funding is already saturated and the sector is only having 10% of the required impact.
- Accountancy nightmares.
- Donors can easily change their minds year-to-year.
- Cost savings don't equal more profit.
- At risk of donors political agendas.

New or 'Social Enterprise' Thinking

Ask customers to pay for social-outcomes that are achieved.

- Generate increased financial resources
- Reduce reliance on donors.
- Increase range and diversity of investors and customers.
- Scale organization if business model is right.
- Develop reserve for 'rainy days'.
- Increase discretion of how to spend money to further organization's interests.
- Impact not limited by availability of donors.

RESISTANCE TO THE IDEA OF INCOME AND PROFIT

Talking about applying about business ideas, generating income and profit margins tends to provoke a reaction amongst many NPOs. Over the years, I've heard the following comments:

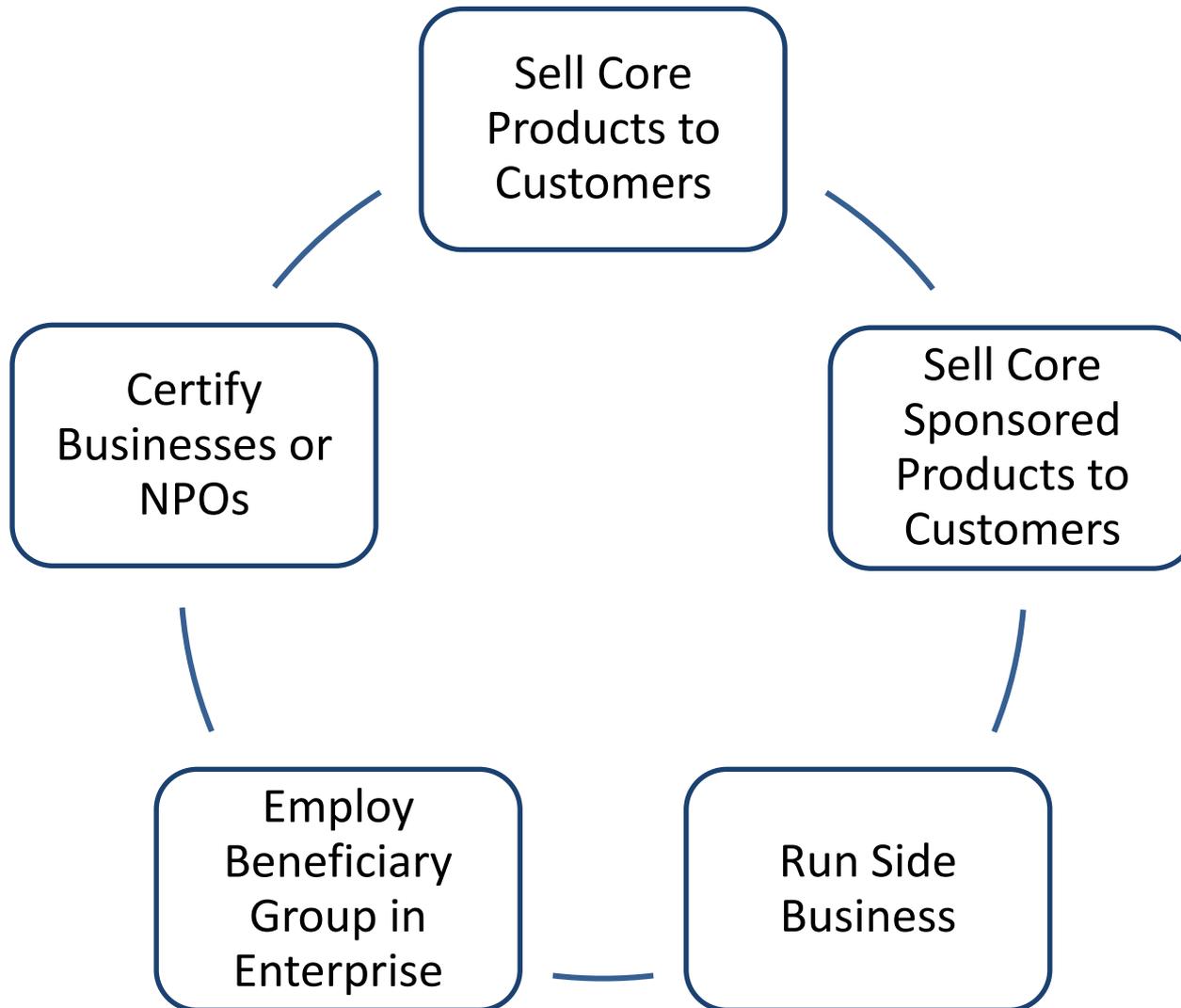
- It is wrong to make a profit
- Making a profit means stealing from beneficiaries or donors
- Our organization will lose its soul or essence if it makes a profit.
- Making a profit is for businesses not NPOs
- It will distract us from our mission (aka 'mission drift')
- We will lose our NPO status
- We don't have business skills to make a profit
- Our donors don't want us to make a profit
- The type of work we do does not allow us to make a profit (e.g. our beneficiaries are poor).

On the positive side, there has been increased acceptance of these ideas since I started promoting them in 1996.

FUNDAMENTALS OF MAKING MONEY

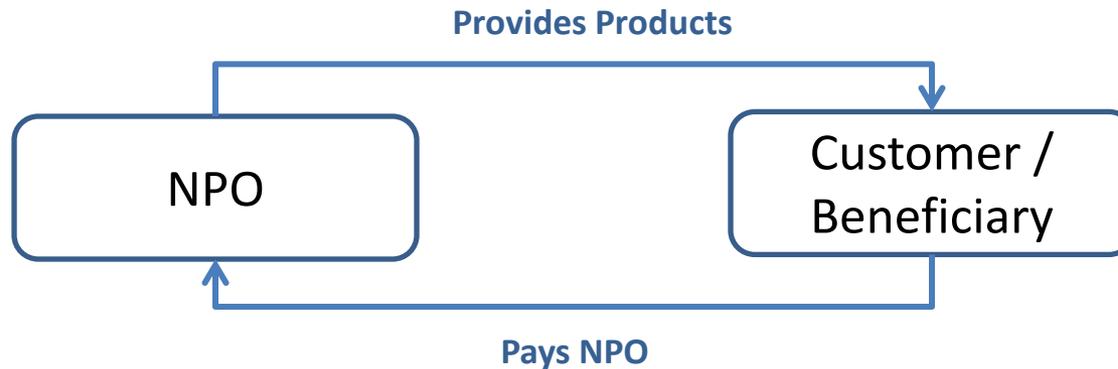
- Income > Expenses
- Profit margin of between 25%-100% after all overheads are included.
- **Sell outcomes and not your activities or the problem.**
- Sell the benefits of the outcomes to your customers.
- Sell the value-for-money of your products.
- Package your product in a slick and professional manner.
- Sell successful change, not the many terrible problems in the world. Your customers want to associate their brands with successful social innovations.
- Think in terms of customers – the people buying your product. These can include your beneficiaries, government, donors, investors, businesses and other NPOs.
- Actively cultivate your brand in the marketplace using modern tools.

SOME POPULAR MODELS FOR EARNING INCOME



MODEL 1: SELL DIRECTLY TO CUSTOMER

The NPO sells core products directly to its customers who are also its beneficiaries.



Examples:

- Shonaquip
- Soil for Life
- Social Enterprise Academy
- Social Audit Network
- Helderberg Society for Aged
- Greater Capital
- Communicare

MODEL 2: SELL SPONSORED PRODUCTS

Customers (donor/investor/government) pays for the NPO to deliver a product to a group of beneficiaries.

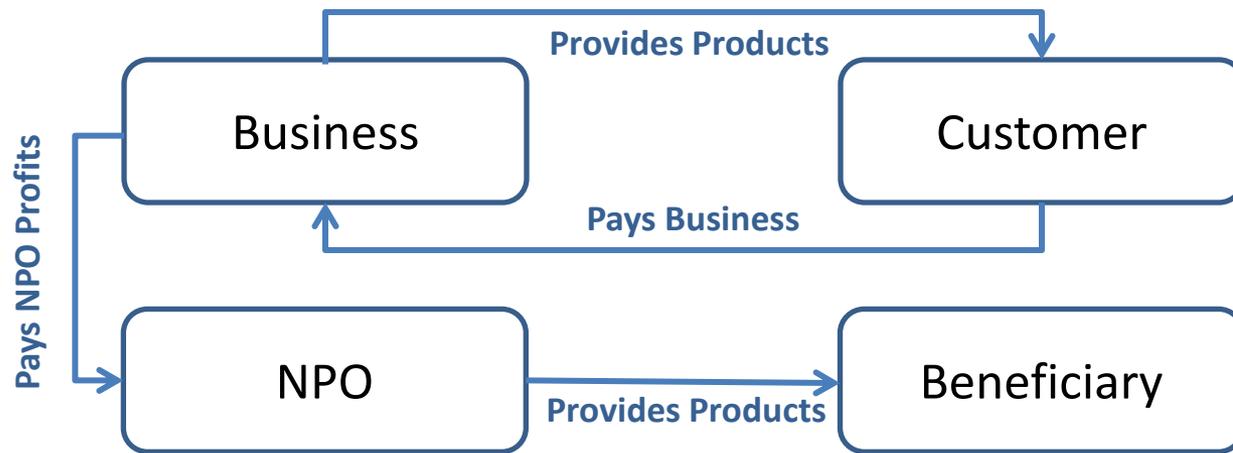


Examples:

- Food and Trees for Africa
- Peninsula School Feeding Association
- Open Africa
- Lapdesk Company

MODEL 3: SET UP SIDE BUSINESS

The NPO sets up a side business in a semi-related or unrelated field. This business then generates profits, which are siphoned off by the NPO and used to deliver products to the NPO's beneficiaries.

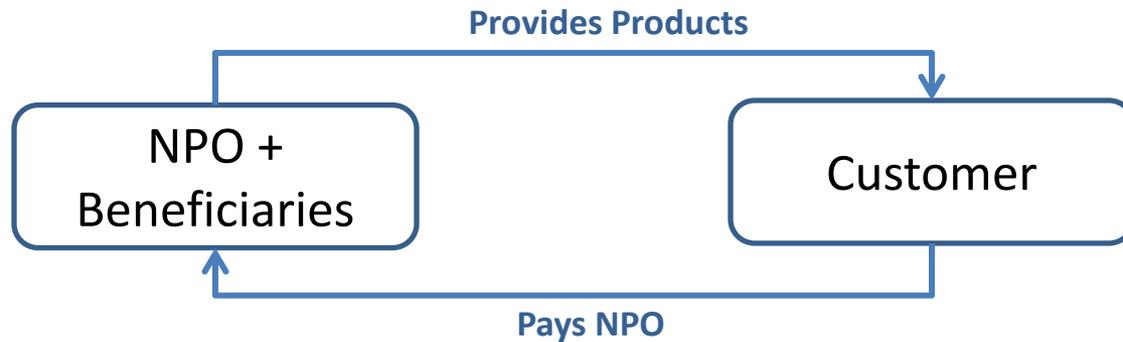


Examples:

- Common Ground Church (e.g. café)
- Catholic Welfare and Development (e.g. bookshop)
- Shawco (e.g. Rags to Riches, community transport)
- Oasis Association

MODEL 4: EMPLOY BENEFICIARIES IN ENTERPRISE

The NPO employs its beneficiaries in an enterprises that serves and employs more beneficiaries as it expands in market share.

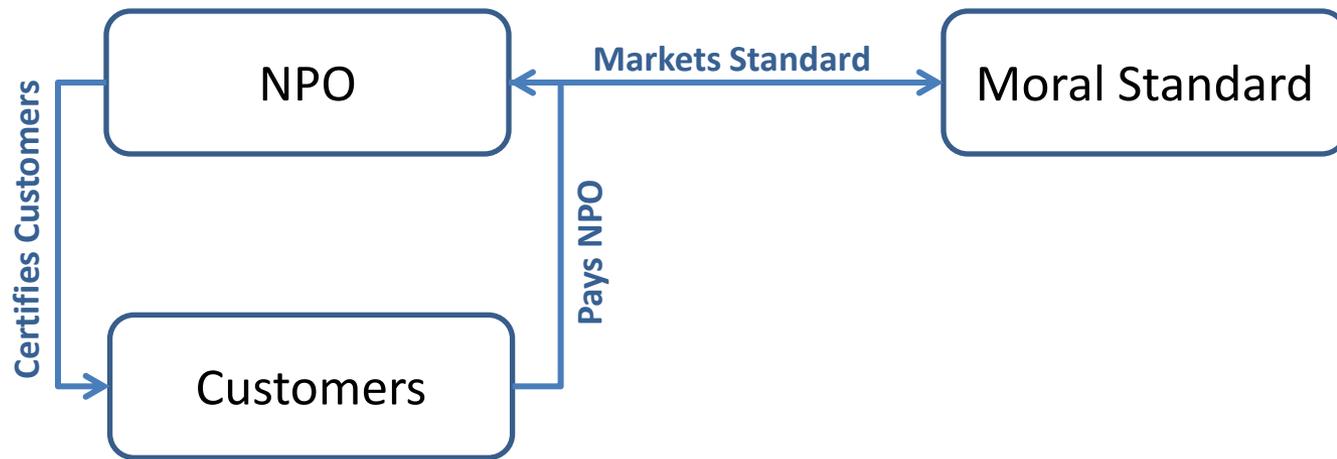


Examples:

- Work 4 You
- Oasis Association
- Wola Nani
- Streetwires
- Indalo
- Big Issue
- Trade-mark

MODEL 5: CERTIFY OTHER ENTERPRISES

The NPO develops a valued certification and then certifies enterprises who have achieved some social, environmental or other standard. This certification then helps the certified enterprises to build its brand and attract more customers.



Examples:

- Heart & Stroke Foundation (e.g. Heartmark)
- Sustainable Seafood Initiative
- Forestry Stewardship Council
- South African Market Research Association
- Fairtrade International
- Proudly South African

EARNING AN INCOME FROM GOVERNMENT

The government remains a big customer of NPOs products. However, over the past ten years, the SA government has gradually been shifting into a model where it pays for specific outcomes to be achieved.

OLD SYSTEM:

Government treats NPOs as special

Government has pools of funding dedicated to NPOs

Funding covers activity costs



NEW SYSTEM:

Government has a 2 round tender system

Government issues tenders for achievement of set outcomes

Businesses and NPOs compete for contracts. No special privileges for NPOs

TIPS FOR EARNING INCOME FROM GOVERNMENT

- Register on supplier databases of the departments you work with.
- Subscribe to Tenderscan , Tradeworld and GCIS tender bulletin.
- Get B-BBEE status asap as it affects price calculations (HDI system scrapped).
- Understand the difference between 70/30, 80/20, 90/10 calculations.
- Understand how the two-round system and the price war works:
 - Round 1 – Get over quality hurdle (typically set around 60% - 70%)
 - Round 2 – Get cheapest price when modified by B-BBEE score.
- Get a tax clearance certificate (needed for all tenders).
- Consider developing partnerships with businesses.
- Review official strategic plans and chat to department contacts to get a sense of what items will be tended in the next year. Then you can work on proposals and partnerships in advance.

SYMBIOTIC RELATIONSHIPS WITH BUSINESSES

The majority of businesses strive to comply with South African laws and maximize returns to shareholders.

- NPOs that are able to help businesses achieve these primary objectives, will find themselves in a stronger to earn income or extract donations.
- To establish a symbiotic relationships with businesses, consider helping them to do one of the following:

Secure Supplies:

Help businesses to get the inputs they need.

e.g. African Women Chartered Accountants

Stimulate Demand:

Help businesses stimulate demand.

e.g. Sustainable Seafood Initiative

Improve Context:

Help businesses to improve their context

e.g. Woodstock Improvement District

Honour Responsibilities:

Help businesses to honour their responsibilities

e.g. Arrive Alive

THANK YOU FOR LISTENING

Visit www.MarcusCoetzee.co.za to read more about social enterprises and the changes in South Africa's nonprofit sector.

