7 Myths About Income Generation That Undermine Strategic Clarity

Non-profit organizations that wish to design Sustainability Strategies may be sabotaged by these 7 myths. This brief will help your organization to overcome these myths and preconceptions, and earn the income needed fulfil its mission.

MYTH: Income generation and donations are separate and different.

FACT: A better approach is to see donations are merely one of many forms of income. This makes it easier to identify income opportunities within your reach, and generate a surplus from existing transactions.

MYTH: "Income generated", "equity investment" and "loan finance" are similar in many respects.

FACT: Each form of income or finance should be approached, contracted and used differently. Confusing these can lead to an organization using its funds incorrectly.

MYTH: Non-profit organizations should not make a profit (or surplus). This is either illegal or immoral.

FACT: Non-profit organizations are morally and legally allowed to make a profit, which can help build reserves, fund and expand operations, and manage risk, but does depend on how the profit was earned and used.

MYTH: The nature of an income stream can be defined by the source (e.g. a foundation, CSI department).

FACT: The "source of income" (where the money comes from) is very different from the "form of income" (how the money is generated). It is possible to contract a variety of forms of income (e.g. donations, sales) from a single source (e.g. CSI department). Knowing this difference builds clarity about sustainability strategies.

MYTH: The best budgeting method for funding proposals is to take a slice of your income statement or cost structure.

FACT: There are three alternative costing techniques that can help a non-profit organization to earn a profit from its fundraising proposals. These are: i) unit costing; ii) outcomes-based funding; iii) charge out rate or consultancy costing.

MYTH: Profits are calculated after the direct implementation expenses are deducted from the income stream.

FACT: Profits are only calculated once all costs (including an appropriate proportion of all overheads or indirect costs) have been matched against the income stream.

MYTH: Additional legal entities should be registered as soon as an organization starts to think about income generation.

FACT: This should only happen once markets and business models have been finalized and tested. Organizations can easily create unnecessary and complex bureaucratic arrangements.

MYTH: Non-profit organizations cannot earn much income without losing their Public Benefit Accreditation.

FACT: This risk is overestimated and the tax laws were revised in 2006. There is considerable scope for non-profit organizations to earn income in a variety of ways without creating new legal structures. Just make sure that you remain true to your social or environmental mission.

http://www.marcuscoetzee.co.za/thinking-about-income-generation-and-profit-in-a-non-profit-world/

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