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## Does Your Organization Have What It Takes to Start a Business Venture?

## Resource

*Venture Forth: The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization*

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*From Becky Andrews, Marketing Manager, Fieldstone Alliance:*

PERHAPS YOU'VE perused the retro vases at a shelter-run thrift store. Maybe you've taken a course at your local zoo. Or, you may have purchased an extremely informative book from a knowledgeable nonprofit organization. These days, wise nonprofits are working to diversify their revenue streams as broadly as possible. A good portfolio includes fees, grants, government contracts, savings, donations—and in some cases, money-making programs or subsidiaries. But should your organization even consider this route?

*Venture Forth: The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization*, was developed to help nonprofits explore the development of business options. The author, Rolfe Larson, has twenty years of experience as a venture manager and consultant for nonprofit organizations. Previously a senior manager at Minnesota Public Radio (well-known for its successful mix of ventures and other revenue streams), he is currently the president of [Rolfe Larson Associates](#), a marketing, new venture, and Internet-commerce consulting firm based in Denver, Colorado.

Material in this newsletter is adapted from pages 36-39 of *Venture Forth!*

### Determining Your Organization's Venture Capacity

Larson advises a careful "venture audit" when nonprofit organizations consider adding an income-generating business to its portfolio.

As part of this audit, a nonprofit should evaluate its general venture development characteristics. Some nonprofits possess strong internal capabilities to pursue ventures—staff and board members with business training and experience, a suitable accounting system, and depth of management skills. Other nonprofits, particularly smaller, thinly staffed ones or even larger ones that have never charged for services, face obstacles as they contemplate venture development.

When assessing your venture characteristics, you need to consider several categories:

- **Staff continuity.** Frequent staff changes are often incompatible with venture development. A venture needs continuity at both the management and operational level to succeed. Important business relationships—with major customers, suppliers, sales agents, and so on—take time to develop and continuous effort to sustain. Too often ventures go astray because continuity is lost after a key person leaves.
- **Resources.** Financial stability and budget flexibility are just as important as staff continuity. Successful venture development requires a significant commitment of staff time and resources. A reasonable minimal initial commitment would be the ability to assign a staff person to the project for about one-third time for at least six months.

In addition, new businesses require start-up money and often need unexpected investments of dollars and staff time. You should contemplate an ambitious venture idea only if your organization can reallocate internal resources or obtain outside funding for this purpose. This may not be practical for small, cash-strapped organizations or nonprofits whose funding will not allow for such reallocation.

Similarly, social entrepreneurship may not fit well with a nonprofit that suffers frequent financial crises that result in layoffs or severe program cuts. In such cases, absent other sources of funding for venture development, ventures would be a poor investment of scarce management time and financial resources.

- **Experience.** Finally, it's important during this step to evaluate your internal staff capabilities relative to the key skills that help businesses succeed.
  - Do you have managers who are experienced and skilled in understanding, motivating, and supervising the activities of others in a variety of fields, including areas where they themselves might not have extensive experience?
  - Do you have staff with financial expertise who can put together a budget along with income statements and a balance sheet, including notes to these financial statements, in a format that a banker or the entrepreneurial committee would recognize and understand?

Success in ventures is not limited to larger nonprofits, but it is more difficult with small organizations (five or fewer staff). An organization needs a certain size to have the capacity to commit sufficient internal resources to find and evaluate venture ideas and write a business plan for one of those ideas. But smaller nonprofits are not out of the picture altogether; they could consider smaller-scale ventures—those that keep them very close to their core competencies and customers. The techniques involved in a venture audit would be helpful if, for example, the smaller nonprofit were evaluating charging for an existing service, either for current constituents or new customers who are similar to them.

Similar advice applies to larger organizations that receive a low score on the 11-question worksheet that follows (Internal Venture Skills). Such organizations might begin to build the requisite experience and flexibility by starting small. Another approach is to find a partner whose strengths correspond to your weaknesses. In the for-profit world, such relationships are known as strategic partnerships and are quite common. Nonprofits often partner with a for-profit company for this reason.

**11 Questions to Ask Before Considering a Business Venture**  
(from *Venture Forth!*, Worksheet 2C, pages 194-195)

Rank each question according to the following scale. (A scoring key appears at the end.)

5 = yes 4 = probably 3 = maybe 2 = probably not 1 = no	Rank
1. Do you have the financial stability and budget flexibility to invest sufficient resources (at least one-third full-time employee for six months) into exploring venture opportunities? Explain:	
2. If a promising venture opportunity emerges and a business plan is written, can you invest staff and financial resources into launching that venture? Explain:	
3. Do you have strong financial and accounting capability on staff? Explain:	
4. Do you have strong financial and accounting capability on the board? Explain:	
5. Do you have strong marketing background and experience on staff? Explain:	
6. Do you have strong marketing background and experience on the board? Explain:	
7. Do you have staff stability and continuity (slow turnover), especially for the three most senior positions in the organization? Explain:	
8. Does your organizational culture encourage innovation, risk taking, and long-term thinking? Explain:	
9. Do the executive director and the board support the development of earned income ventures? Explain:	
10. Do you have a solid internal cost-accounting system that provides reliable data on fixed and variable costs for each program or activity? Explain:	
11. Do you have the ability to establish the cost for a unit of service? Explain:	

Total Score

Scoring Key &lt;33 Weak 34-38 Fair 39-43 Good 44+ Excellent

**Summary**

Nonprofit business ventures can be an important addition to your organization's programs and revenue structure when they align well with your overall mission. They should be entered into very carefully, as most businesses struggle for some time before seeing success. But across the U.S., many nonprofits have found that a business venture works well to accomplish mission goals while helping the organization diversify its revenue stream.

**Additional Resources****Community Wealth Ventures**

54 page report, PDF, 1.47MB

[Mapping Your Assets and Identifying Opportunities](#). Research and identify your own assets and opportunities.

**Ewing Marion Kauffman Foundation**

Online article

[Watching Trends](#). Success as an entrepreneur is related to your ability to spot trends. This brief article gives you some resources.

**National Center for Social Enterprise**

2 page assessment, PDF

[Is Your Organization Ready for Social Entrepreneurship?](#) This is another tool to help you determine if your organization can support a venture.

**Fieldstone Alliance**

Annotated list of [social enterprise resource links](#)

Sincerely,

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Fieldstone Alliance

August 22, 2007

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