Lessons For-Profits Can Teach Nonprofits about Getting Funded:
The All Important, Much Maligned, Business Plan

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Business plans are perhaps the best known and least understood tools of operating any kind of organization. Everyone knows for-profit businesses use them – you can't get a business loan without a business plan. Grant writers and nonprofit managers, however, use these plans nearly every day and often don't understand what they really do. (Many seasoned professionals reading this article just went, "Oh. Not again.") For-profits make use of business plans to greater effect than nonprofits. In fact, the real lesson to be learned from for-profits is how to use your business plan to plan and fund your venture.

Business plans have only two purposes: as a operating manual; and/or a funding proposal. Think of a grant proposal as your business plan. Every time you seek a grant, you're presenting your business plan to seek an investment. Nearly every contributor I've ever met thinks of giving a gift of any size as an investment. Investors pretty much read the plan objective then ignore the narrative written stuff until they do the numbers because they believe that the written stuff is a moot point if the numbers don't work.

Numbers tell much more about a business than forecasting the size of the river of filthy lucre. Numbers present a crystal clear description of your organization and the thing you want to do. Let's say you're developing a free clinic in low-income housing. Your financials for that clinic will clearly indicate management, planning, staffing, facilities and everything else about your organization and your proposed clinic. If you present your numbers clearly, you won't have to have a sustainability plan, your numbers will tell anyone how long you can stay open.

So, what numbers do you need? Of course you need a budget; you'll also need a couple of years of audited financial statements. Business plans use a few other financial statements to great value. If you're seeking funding for a new program or new organization, the first schedule will be a Statement of Start-Up Expenses: a list of one-time costs incurred before turning the key on the new venture. Include items like your salary while you're thinking up the project or attending meetings to think up the project, salaries of other key people in those meetings, any design services, grants consultant, or program development consulting services. While you may or may not seek funding for these expenses, presenting them will instill confidence in your investor and offer a view of what the real costs are. These costs also make hand-dandy in-kind service contributions.

Your next schedule will be a Capital Equipment Budget. Who pays for that capital equipment is immaterial. In your new clinic, you need all kinds of medical equipment, furniture, etc. If you were seeking funding to host a dance recital, would you have capital equipment cost? Sure. Where did the music come from? A piano? A boom box? Where did that come from? If your organization already owns the piano or box, the cost can quickly become in-kind matching. If the equipment is needed for the project, its cost is part of the overall cost. Likewise, be sure to present any space costs, except rent.

Rent is a daily operational expense; include it in your budget. If you are purchasing a building to house your new clinic, then the building and land are capital expenses.

As mentioned before, you want a budget. The presentation of that budget is very important. Show your budget broken down by months for as long as you expect to execute the project. If your project will last a year, show a period of 12 months. If you're hoping for a multi-year grant, show the budget for each month of those years. Include increases at appropriate times. Substantiate your budget with a "Notes and Explanations" section. Tell your investor why your personnel expense is $35,000 and, especially that your fringe benefits are calculated at 17% of salaries (or whatever) based on 50 years of operating the organization. You want your prospective investor to see that you've done the math. A summary budget alone will not tell your investor that your clinic will operate without funding revenue until the grant comes or that you're prepared to manage operations without revenue. If presented well these points show managerial strength.

Now for the really hard stuff. Business plans include a balance sheet, income statement, and statement of cash flows. All smart investors know money comes in, money goes out. How money comes in and goes out and what's left over is of great interest to them.

Your accountant, bookkeeper, or treasurer may be able to help you develop these statements. Other articles in GFR have explained nonprofit financial statements as well. I also found some nifty online "workshops" on them from the Small Business Administration website.

Here I'll just touch on their importance to your funding-proposal-as-business-plan. Simply put, your balance sheet says what your organization has and who owns it. For instance if you have $8,000 in the bank (Cash) and a $4,000 business loan that is being paid off, your bank owns $4,000 of your Cash until the loan is paid. Balance sheets get far more complicated than that, but the basic principle works for each item. You own a building and land, but buildings wear out and that's depreciation – depreciation offsets the value of your building. You have $8,000 in the bank and $20,000 in receivables that are offset by loans and accounts payables. So you have $28,000 in value minus loans and payables. And so on. What do you have? and who owns it? An investor cares because he or she wants to know the strength of your organization. At for-profits, the concern is "if I sell the business, how much do I truly get for it?" Investors collect some of that money. For nonprofits the issue is, "is this organization operating in a sound and reasonable manner? Is it managing debt well? What are the real liabilities?" The balance sheet will help tell your investor whether your organization is strong enough to commit to the project.

We're all familiar with income statements. Some nonprofits call these Expense and Revenue Statements, or something along those lines. We think they tell us how much filthy lucre we're making. Actually, they say much more than that. These schedules are a way of keeping score in the game of business. How much revenue has come in, how much expenses are going out? To stay in business an organization has to have more money coming in from some source (endowment, revenues, grants, etc.) than going out. For investors, Income Statements speak volumes about management. Are you bringing in more than you're spending? If not are you looking for new resources? Are you budgeting properly? Are you getting the best value for the dollar? It isn't enough to operate your organization cheaply, i.e. to save three cents on a length of pipe. You must operate it for the greatest results? Are you paying enough to get great results?

Now we turn to Statement of Cash Flows. Your cash flow statement shows cash at the beginning of the period, how much came in, how much went out during the period and most importantly, what's left. This is the general principle no matter how complex your cash flow statement seems. Strong investors live by one basic rule: If your organization has no cash in the bank at the end of the day, you can't open in the morning. You are then broke, bankrupt.

Once your investor has seen all these statements and is satisfied that you are not going to take his money to Las Vegas to prove your prowess at the tables, he or she is ready to look at the program. Here nonprofits often believe they have it all over for-profits. Many of us are wordsmiths. Give us the perimeters of the project and we'll write it up. But, here, too, the business plan uses some bells and whistles we seldom use and perhaps don't understand. Here, too, are lessons to be learned from for-profits.

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Detailed and well-conceived financial statements quickly indicate the chance for success of a new project or program. Developing a schedule of start-up expenses, capital equipment needed, and a month-to-month forecast of income and expenses will show the true cost of the project while balance sheets, summary budgets, and statements of cashflow will help forecast continued operations. In the written word, however, for-profit businesses also offer lessons in fundraising.

Business plan narratives bear remarkable resemblance to case statements and grant proposals. Elemental titles may be different but key elements are much the same. Business plans call for business profiles that include mission, vision, strategic direction, goals, and objectives. Investors want to see at least a skeletal three- or five-year plan for start-up, stability, growth, and expansion. Investors also want to know core business systems, methods of execution, and appropriateness of the new venture to existing operations. For instance, an investor might not want to fund a doughnut shop that needs to triple its budget to sell tuna sandwiches. (Tripling your budget to add a product line is not a proportionate business risk.) Grantwriters use these same elements to present the case for support. Business plans, however, use two profiles that too often receive little or no attention from nonprofits.

The first of these arguments is the market profile. Nonprofits equate market profiles to needs assessments, typically a section that may be a highly elaborate description of identifying needs and ways to meet those needs or simply a paragraph that says, "We need a program to do _________." Market profiles, however, speak not only about the needs for service or products, but also about users of those services and products.

Successful for-profits spend a fair amount of time envisioning, quantifying, and qualifying the market, i.e. the customer. They seek specific detailed information about gender, age, race, belief systems, and enumerable characteristics that define their customer. The same should be true for nonprofits for every program, project, piece of equipment or building. All have unique markets.

Is your market your clientele? Your community? Your governance? Your prospective grant-maker? Others? Why are these folks your market? How do you know they are your market? How do they pay for the service or product? How do they enjoy the service or product? Why are they essential to your operations?

Think about a grant to purchase a new furnace. Who is the market for the furnace? Certainly the people using the building are part of your market. Who pays for the service? Does your consumer pay for the service or does your grantor pay? Your grantor, of course, provides the necessary funds to build the building, but your consumer's investment is no less even if your services are free. Your consumer uses the building, uses your service and reports to your community about your effectiveness. Your organization needs consumer validation to stay in business.

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We, as grantwriters, are adept at using statistical information in proposal writing, but all too often organizations ignore statistical data while planning the new program. Back to our furnace proposal. Why do we need a new furnace? "The old one is wearing out and keeps breaking down," so says our Facilities Director and so says our boss. Without further adieu the grantwriter is deeply convinced of the chronic need for a new furnace. The investor? The grant-maker? Not so much. The prospective funder wants to know, "How did your organization make the decision to purchase the specific furnace in our proposal?" Usually we come up with statistics about the age of the old one, energy outputs, energy consumption, etc. We then make the assertion that the new furnace is the most economical of all furnaces in the universe and best suited for our needs. Our investor then asks, "What are our needs?" And, we mutter, "to keep warm?" Market surveying, assessing, examining, or simple unscientific strategies like sitting in the lobby one cold December morning would give us much stronger statements, substantiated by first-hand, local, if only anecdotal statistics, that said something like, "our consumers are females, over the age of 65, living with specific diseases, who are particularly sensitive to temperatures below 40 degrees Fahrenheit. They experience great discomfort when entering our building because our furnace isn't working and the temperature averages 37 degrees. If our organization continues in this way, our consumers will go elsewhere and we'll be ruined as a service provider. The XLS72000 is the only furnace that can fit in our basement, and run at peak levels with optimum green energy consumption to provide the comfort level that our consumers must have." And in our proposal is a neat two-page market profile that defines and delineates our consumers, our costumers, our investors, and other market shareholders. With this kind of background, it is no wonder we need the XLS72000 and small wonder we've lasted so long without it.

The second key element is a competition profile. Who is your competition to provide services? Competition for funders giving to human services, healthcare, etc.? Competition for staff? Competition for consumers? What is the proximity of these competitors? Are they across town or across the state? Has your competitor reacted to your plans for the new program/project? Do they now have something similar in the planning stages? (If they do, their reaction makes you a leader and community catalyst.) How does your competition measure up to your services? Do they care for the same number of people? Seat the same number of audience per show? Offer the same number of beds? These questions and more create your competition profile. A frank and honest discussion of your competition, highlighting their strengths, and explaining how you intend to take advantage of their weaknesses, shows great planning on your part. Planning always instills confidence in your prospective grant-maker.

To get back to our furnace project, we want to describe the competition for services. Perhaps they bought a new furnace two years ago and mangled the project so that their building is now twice as hot (or cold) as it used to be. We will take care to avoid their mistakes in implementing the furnace purchasing project. Or, perhaps our competition does not need a new furnace because they are in a brand new building and are leaching our consumers daily. Our users are going to what we consider inferior services simply because those inferior services are being offered in a more comfortable environment. We must right this wrong post haste and save our clients from poor service delivery. Your proposal should include a clear description of your competition backed by substantial data, consumer comments, or some other community-based evaluation. One-liners that sneer as your competition's supposed faults does not a competition profile make. A business plan without a competition profile does not get much purchase in the profit-making world. A case statement without a thorough description of competing organizations is not a strong competitor for funding either.

Business plans are all important to for-profits and often much maligned by nonprofits. Yet, we use business plans under different names nearly every day. Adding thorough market profiles and competition profiles will strengthen not only our grant proposals, but our planning process for any new venture. These are a few of the lessons for-profits can teach nonprofits about getting your venture funded.

About the Contributor

Carl Richardson:
With 30 years in the fields of marketing, fundraising, grantsmanship, and nonprofit management, Carl Richardson has served nonprofits in the fields of the arts, healthcare, education, special education, social services and all levels of government. He has lead grants writing, planned giving, and major gifts programs; as well as capital campaigns, strategic planning processes, and organizational restructuring projects. Carl has also published articles on fundraising, leadership, and nonprofit management in Philanthropy News Digest, New England Nonprofit Quarterly, and other periodicals. He has taught a spectrum of charitable in workshops at colleges and universities as well as national conferences. He has also conducted grantswriting workshops for U.S. Embassies in Northern Europe and served as a peer reviewer on behalf of several federal programs. Carl's firm is located outside Boston, and focuses on strategic planning, fund raising, and organizational development/repair.

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