

Desperately Seeking Sustainability

Helping Your Grantees Find the Right Funding Model

March 13, 2012

Optional **PRE-READ** materials

Peter Kim

Susan Wolf Dittkoff

A tale of two funders



... a different tale...

Funder perspective

“We funded [the organization] for five years, during which they were able to open 30 new sites and enhance their program model to provide better, deeper services... **Our investment put them on the path to achieving much greater impact”**

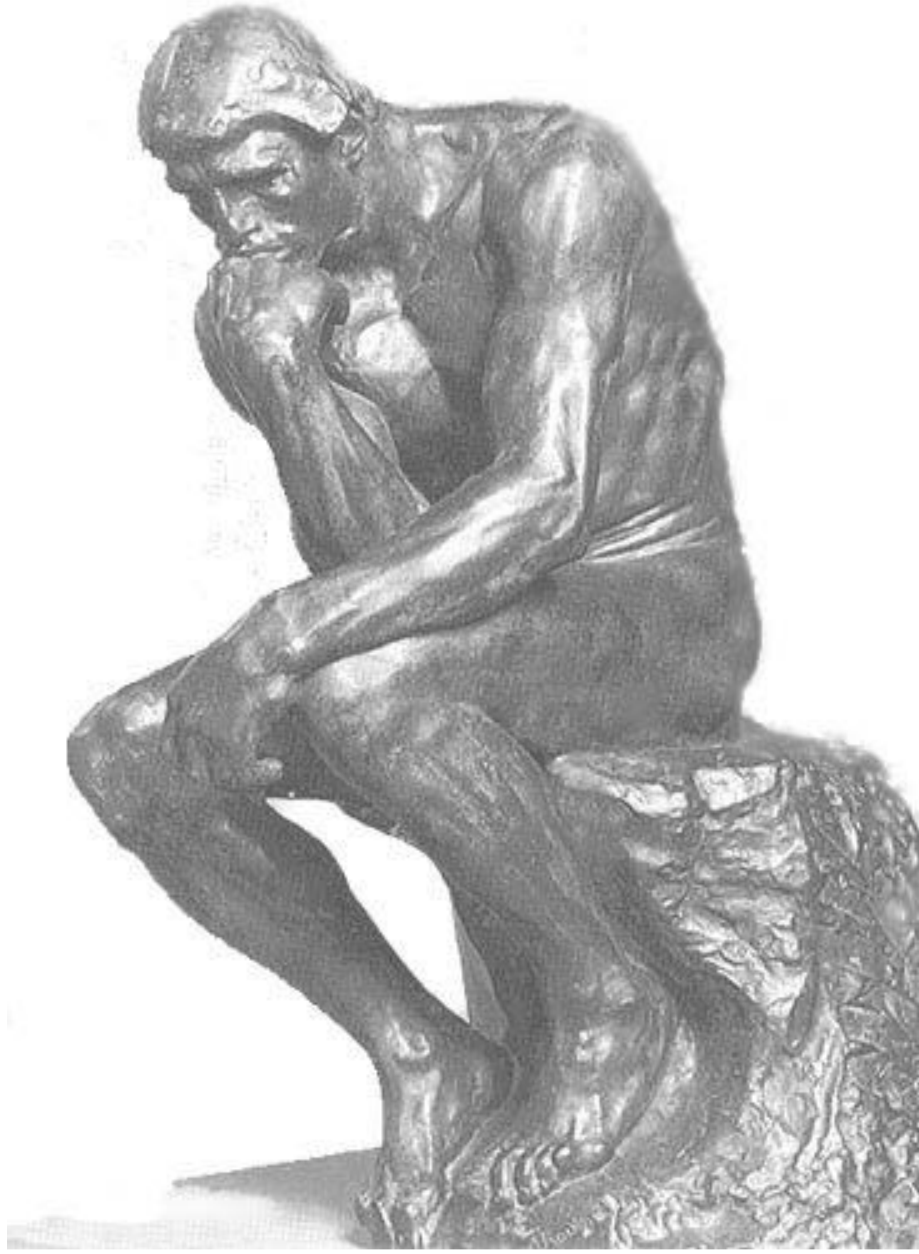
Grantee perspective

“We grew rapidly... by the end of this period, we relied on foundations for over 60 percent of our funding. When the biggest funder withdrew support – with little notice – we were crippled... **We weren’t able to sustain ourselves at this new level”**

Goals for today's session

- 1 Develop a shared definition of financial sustainability
- 2 Understand how nonprofit organizations can improve financial sustainability
- 3 Identify approaches to support grantees that you believe would benefit from an honest discussion about sustainability

What is your experience with grantee sustainability?



The Bridgespan Group

Breakthrough results in
promoting vital **SOCIAL CHANGE.**

Our mission

The Bridgespan Group collaborates with mission-driven leaders and organizations to accelerate breakthrough social impact. A nonprofit ourselves, we share our clients' passion for building a better world.

How we achieve our mission

We have partnered with over 250 nonprofit organizations and over 50 leading philanthropists to develop strategies to accelerate impact



Over the past decade, we have heard about the challenges of financial sustainability from both the nonprofit and funder perspective

How do you define financial sustainability?

Definition of financial sustainability

What is it?

- Majority of funding is **reliably predictable and renewable** on an annual basis
 - Multiple types of funding sources can lead to financial sustainability
 - Funding should be consistently sufficient to cover the bulk of core ongoing expenses

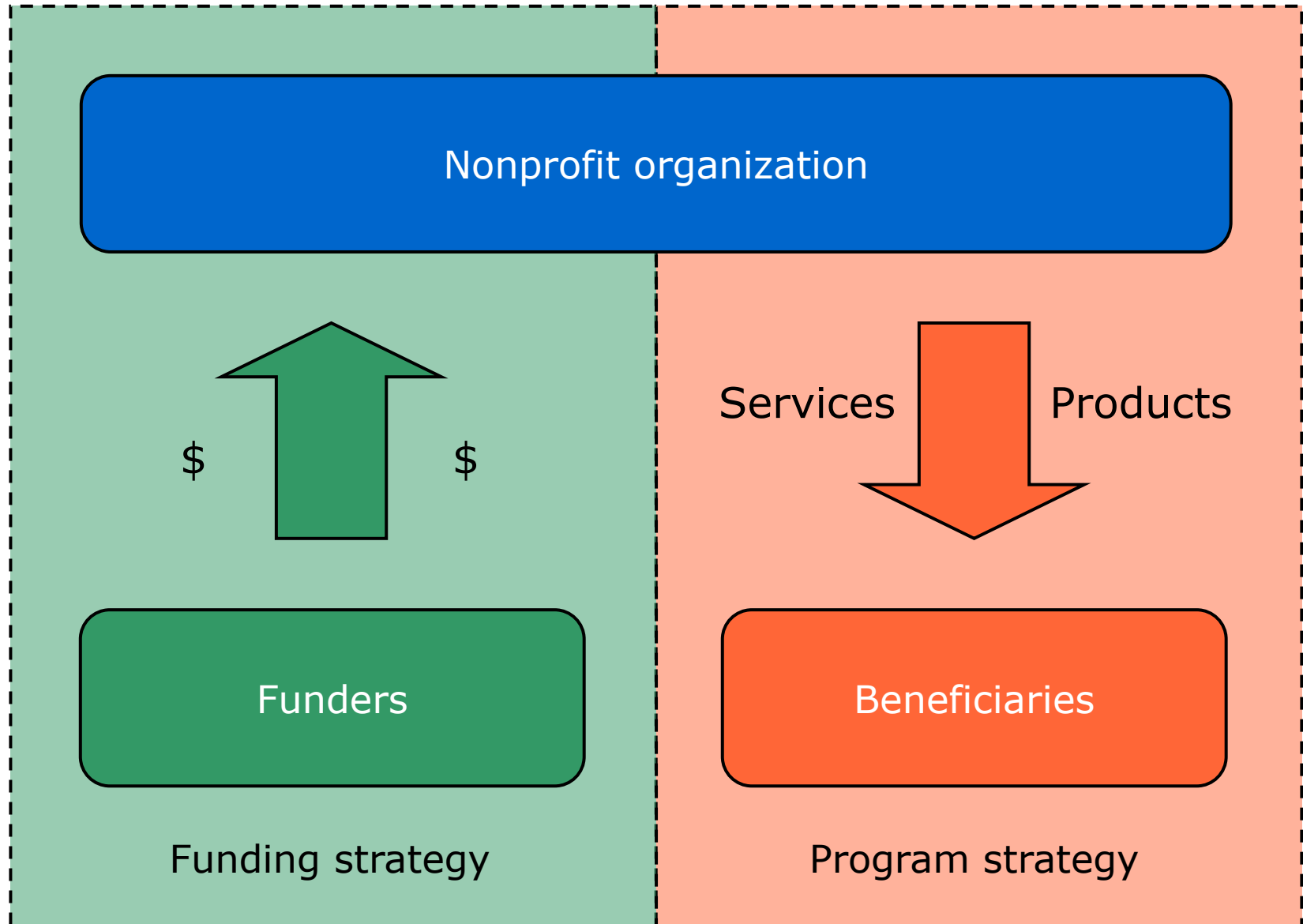
Key characteristics

- Does not depend on 1-2 internal staff to raise revenue, but uses an institutionalized method
- Does not depend on only 1-2 external relationships

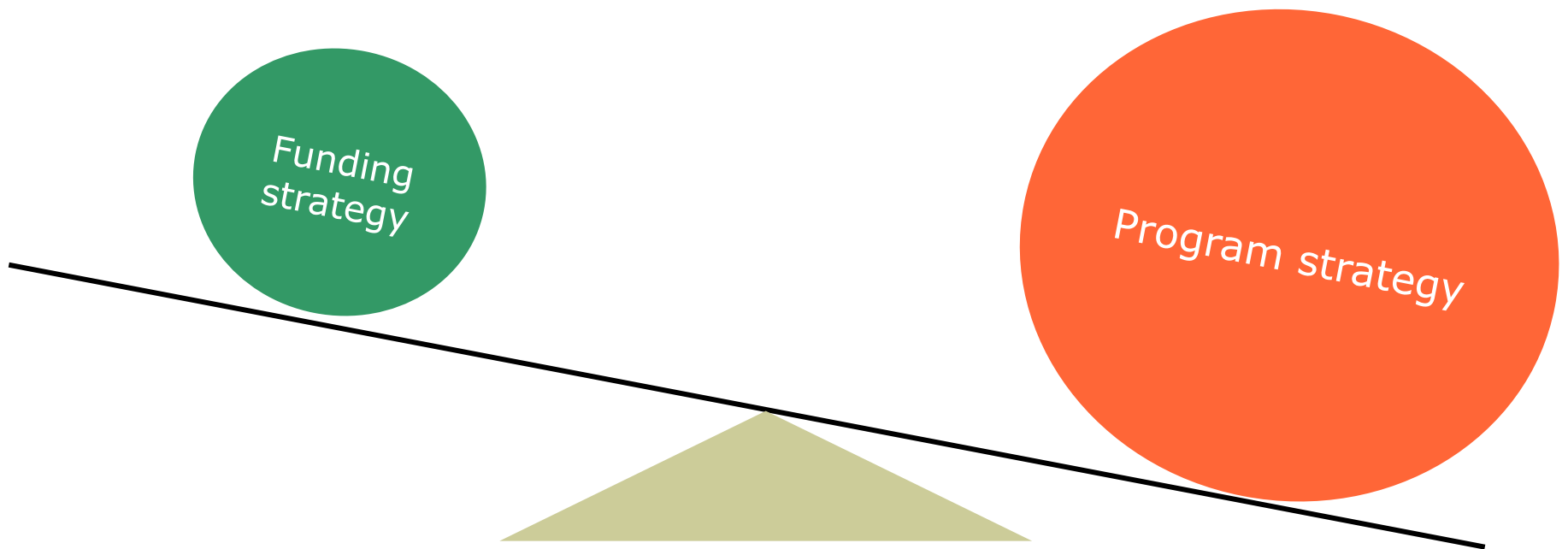


What does research tell us about what it takes for a nonprofit to achieve financial sustainability?

Unlike the for-profit sector, nonprofit leaders must cater to two sets of 'customers'



Funding strategy doesn't get as much attention



So is the world of nonprofit funding hopeless?

Won't our founder always find a way by year end?

Government is shrinking, where else can we look?

**Isn't diversification of sources our
smartest bet?**

Aren't "earned-income" ventures the place to focus?

Are flows of funds idiosyncratic?

Bridgespan's research on nonprofit funding

- Nonprofits founded since 1970 with annual revenues greater than \$50M by 2003
 - Excluded hospitals and universities
- 144 nonprofit organizations met these criteria
 - Represents less than 0.1% of nonprofits founded during this time period



Hypothesized that these organizations were doing something different... but what?

Key lessons



At scale, funding is generally concentrated in one type



Natural matches will dictate a few paths



Organizational capabilities are required

What is a funding model?

Stanford SOCIAL INNOVATION REVIEW

Ten Nonprofit Funding Models

By William Landes Foster, Peter Kim, & Barbara Christiansen | Illustration by Doug Ross

For-profit executives use business models—such as “low-cost provider” or “the razor and the razor blade”—as a shorthand way to describe and understand the way companies are built and sustained. Nonprofit executives, to their detriment, are not as explicit about their funding models and have not had an equivalent lexicon—until now.

Money is a constant topic of conversation among nonprofit leaders. How much do we need? Where can we find it? Why isn't there more of it? In tough economic times, these types of questions become more frequent and pressing. Unfortunately, the answers are not readily available. That's because nonprofit leaders are much more sophisticated about creating programs than they are about funding their organizations, and philanthropists often struggle to understand the impact (and limitations) of their donations. There are consequences to this financial fuzziness. When nonprofits and funding sources are not well matched, money doesn't flow to the areas where it will do the greatest good. Too often, the result is that promising programs are cut, curtailed, or never launched.

And when dollars become tight, a chaotic fund raising scramble is all the more likely to ensue!

In the for-profit world, by contrast, there is a much higher degree of clarity on financial issues. This is partly due to the fact that when it comes to understanding how different businesses operate, which can be encapsulated in a set of principles known as business models. Although there is no definitive list of corporate business models,² there is enough agreement about what they mean that investors and executives alike can engage in sophisticated conversations about any given company's strategy. When a person says that a company is a “low-cost provider” or a “fast follower,” the main outlines of how that company operates are pretty clear. Similarly, stating that a company is using “the razor and the razor blade” model describes a type of ongoing customer relationship that applies far beyond shaving products.

The value of such shorthand is that it allows business leaders to articulate quickly and clearly how they will succeed in the marketplace, and it allows investors to quiz executives more easily about how they intend to make money. This back-and-forth increases the odds that businesses will succeed, investors will make money, and everyone will learn more from their experiences.

The nonprofit world rarely engages in equally clear and succinct conversations about an organization's long-term funding strategy. That is because the different

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1 Source of funds

2 Funding decision-maker

3 Funder motivation

For more information and a description of the ten models, read **Ten Nonprofit Funding Models** which is also uploaded as a pre-read

Example: Heartfelt Connector



1 Source of funds

Individual

2 Funding decision-maker

Multitude of individuals

3 Funder motivation

Altruism

Example: Member Motivator



1 Source of funds

Individual

2 Funding decision-maker

Multitude of individuals

3 Funder motivation

Collective interest

There is a difference between developing a funding model and getting better at fundraising



Funding model



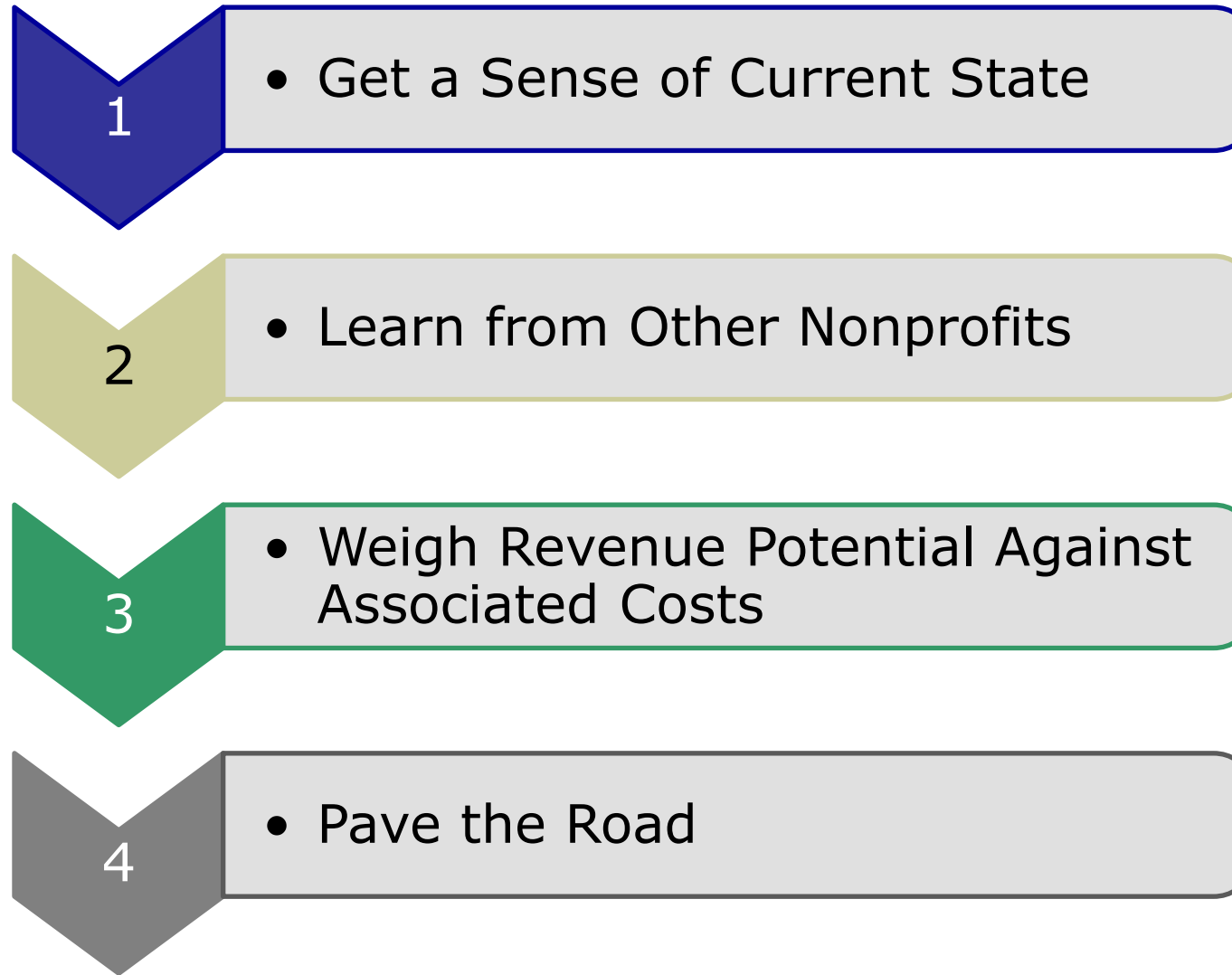
Fundraising

*"**Clarity is king** when running a nonprofit. Picking a sensible funding model was one of the most liberating and clarifying things we've done to date.*

*I empathize with leaders who constantly wonder, why not membership, what about online giving, how about government grants? **Taking 'maybe' out of the process has already boosted our bottom line.**"*

Brett Jenks, CEO, Rare

How can nonprofits find their funding model?



How can nonprofits find their funding model?

1

- Get a Sense of Current State

Why taking a step back can help

“Why do people support your organization?”

*“The **secret to our success** is visits to our diagnostic learning centers. Our biggest donors like to **see the kids** who are learning in a different way. We work with the program staff to **make sure that these visits take place whenever possible.**”*

Development Director, *Love Learning*

What we learned after analyzing their funding history

- Contributions from donors who had visited a learning center was a **surprisingly small percentage** of total funding
- **Virtually none** of the biggest donors cited clinic visits as a major motivation for their continued support of *Love Learning*

How can nonprofits find their funding model?

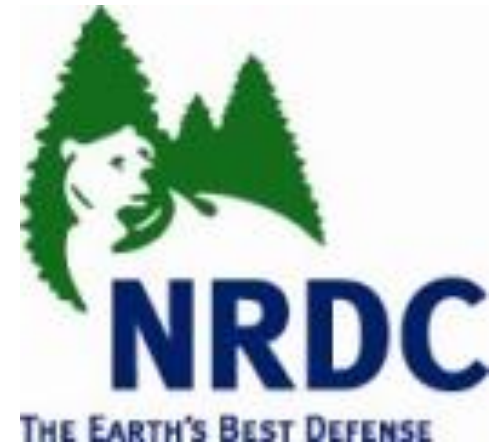
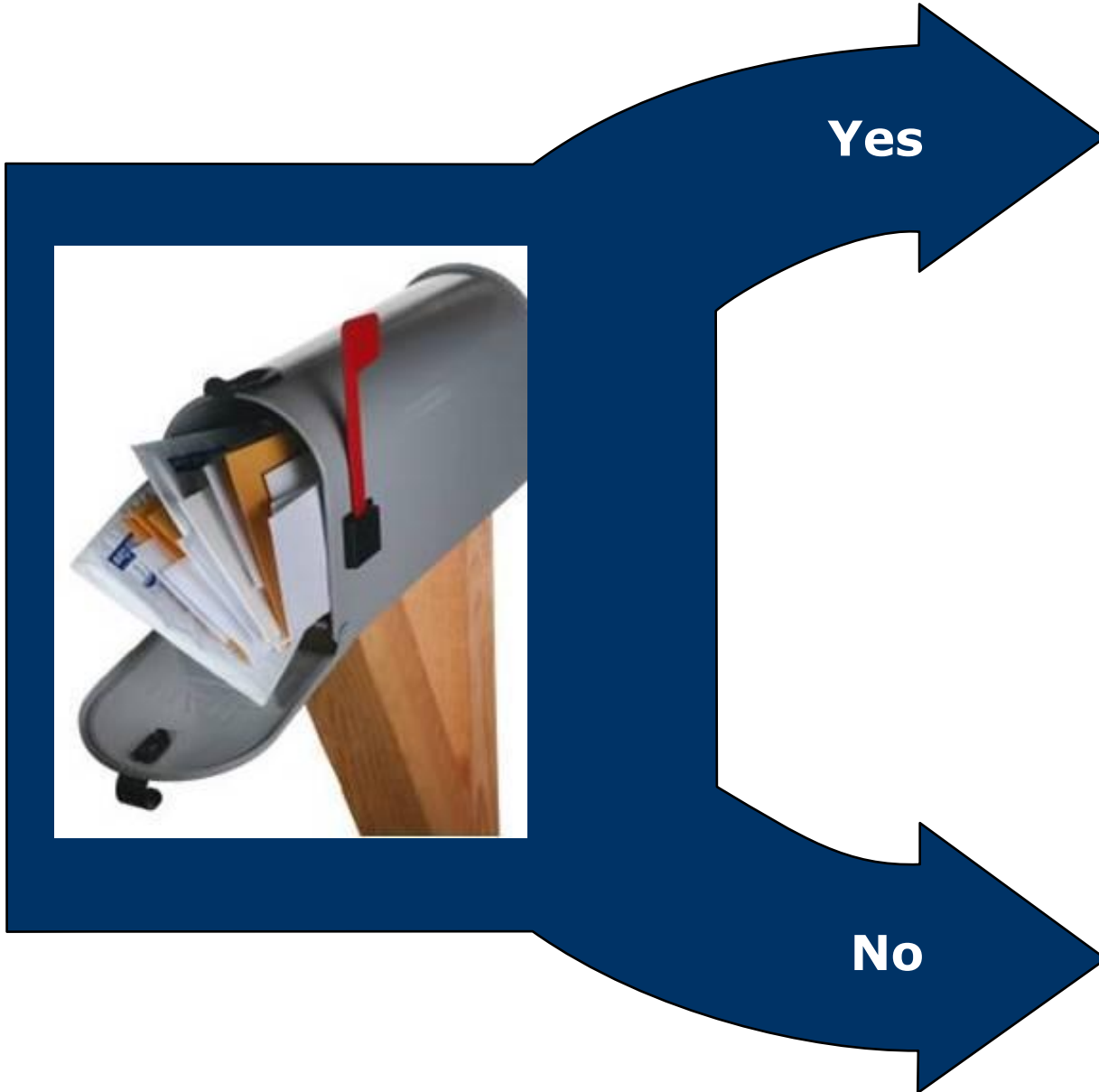
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- Get a Sense of Current State

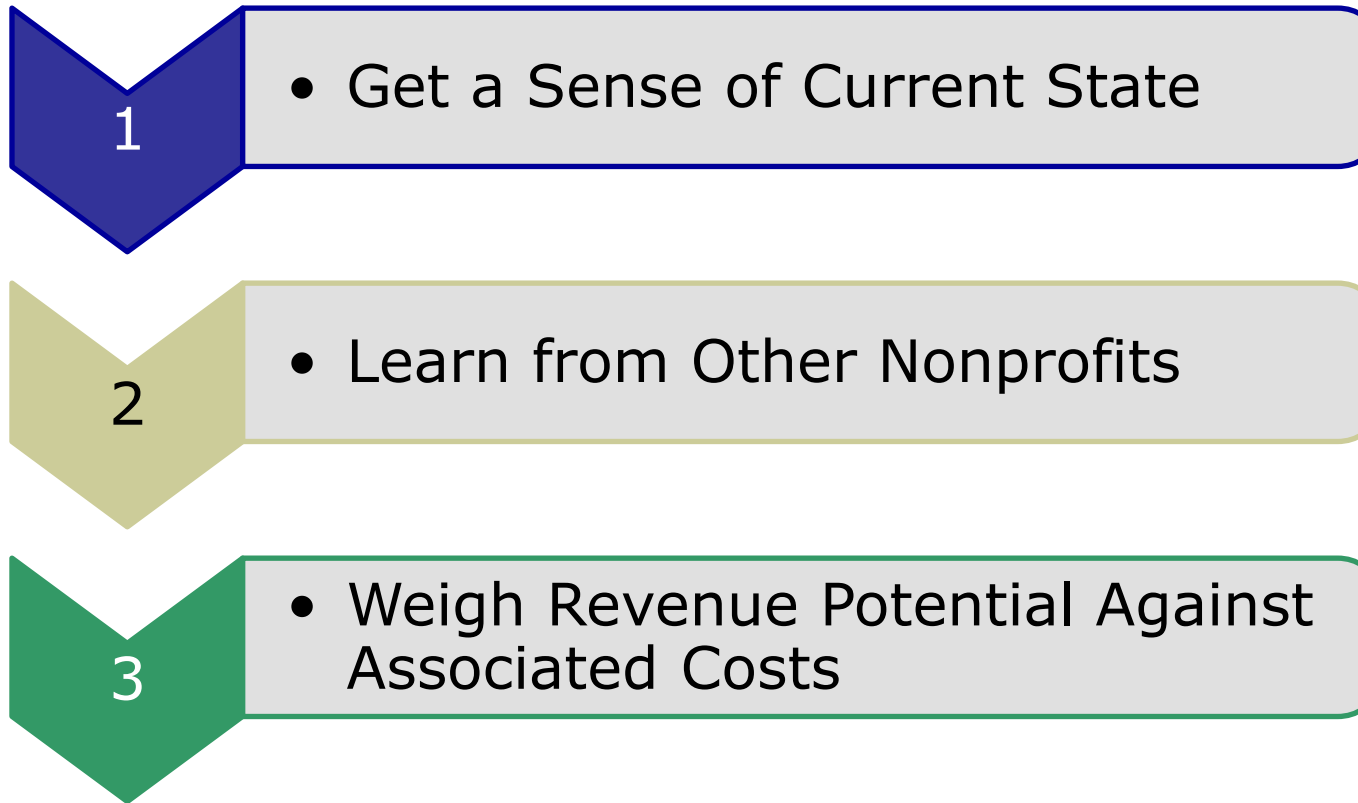
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- Learn from Other Nonprofits

“Should we start doing direct mail?”



How can nonprofits find their funding model?



Understanding the tradeoffs



Availability of funding

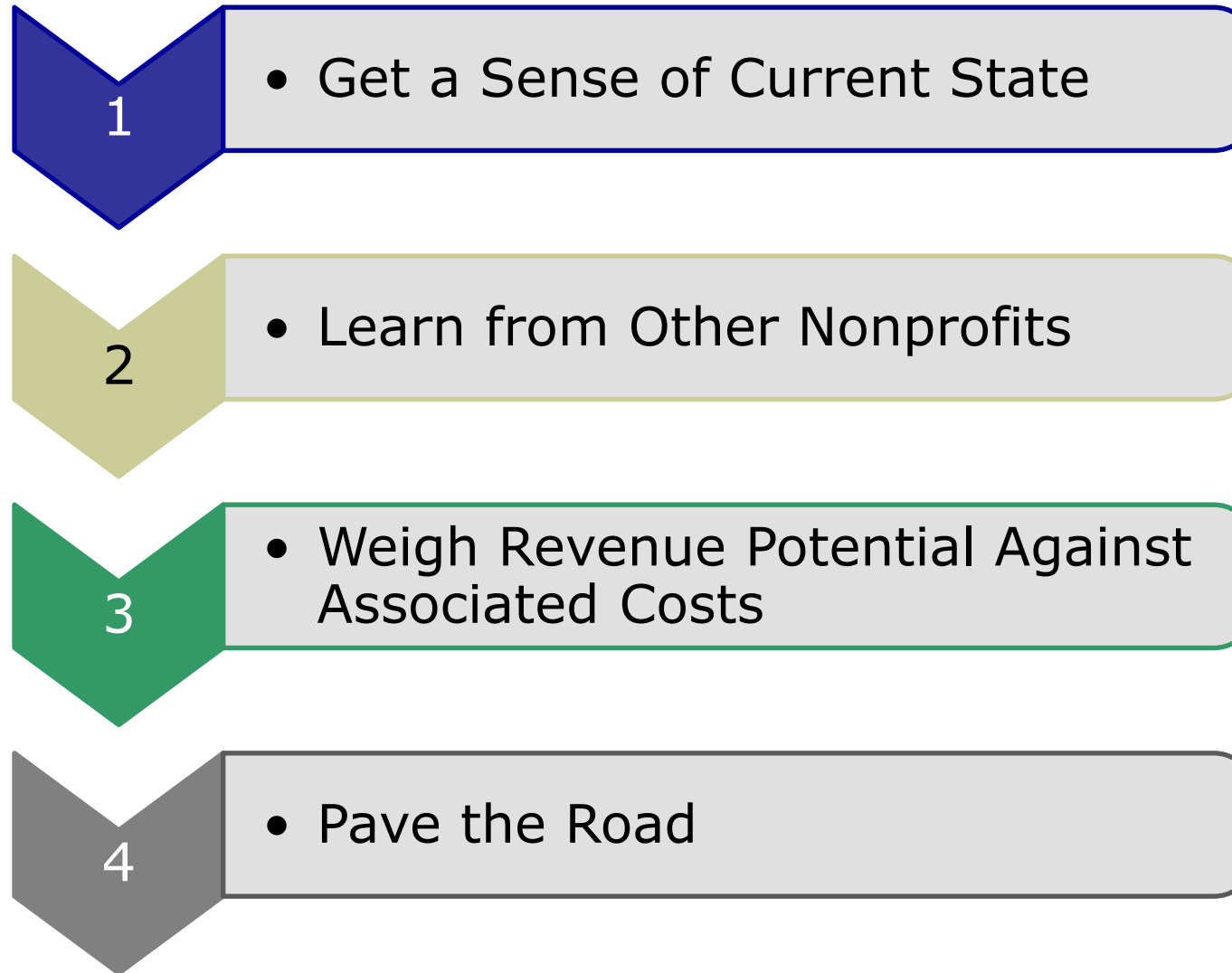


What it would take to access funding

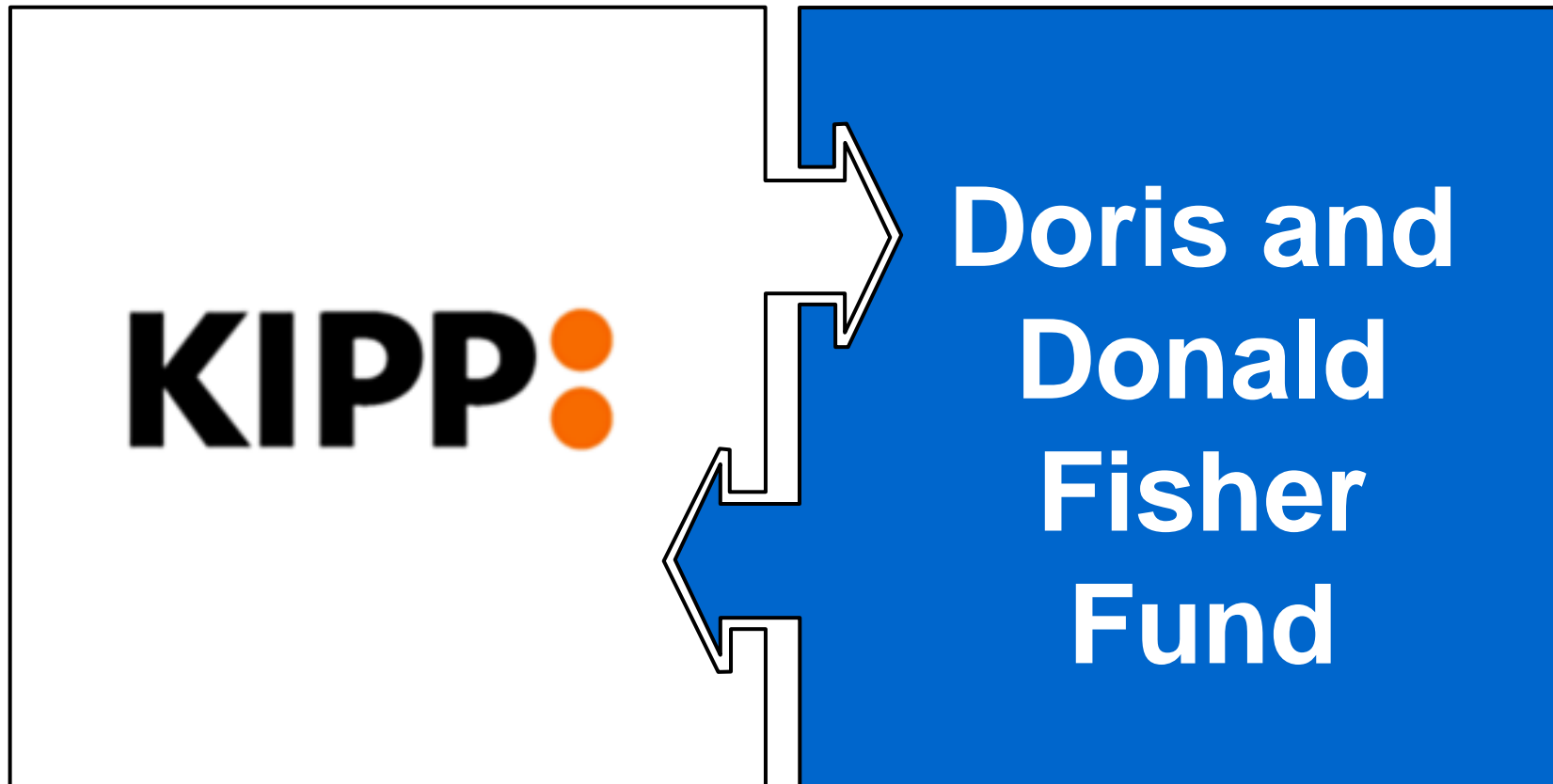


Required capabilities

How can nonprofits find their funding model?



Foundation perspective: What role did foundations play in the organizations in our study?



What role can philanthropists play in propelling the success of grantees?



When You've Made Enough to Make a Difference

*A strategy for becoming an effective philanthropist
by William Foster and Susan Wolf Ditkoff*

- Many philanthropists focus on program models, but less on funding models
- Common reasons:
 - Long-term funding isn't as exciting as program vision
 - Lack of understanding about how to address effectively
- Successful philanthropists focus on developing an **investment model** to support grantees more effectively

Potential options to support grantee sustainability





*Collaborating
with leaders to
accelerate
breakthrough
social impact*

**When You've
Made Enough to
Make a Difference**

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Questions or comments
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