

Business Planning: What's in Your Toolbox?

by Richard Brewster

WHEN NONPROFITS EMBARK ON planning exercises, they have myriad tools at their disposal. But often, nonprofits stick to the familiar rather than looking for the appropriate tool for the job. To this end, the Nonprofit Business Planning Project—a joint project of the National Center on Nonprofit Enterprise (NCNE) and the Center for Nonprofit Excellence, in Akron, Ohio and funded by the Kellogg Foundation—decided it would be a useful service to collect these in one place and offer simple explanations of each tool. Nonprofits might want to take a morning and “browse the aisles” for the tools that suit their particular situation. While the following discussion provides basic descriptions of the tools, the Additional Resources section at the conclusion of this article provides readers with a list of sources on how to use the right tools for the greatest impact (see page 65).

The Planning Process

You need to plan to plan. Planning ensures that all participants understand their responsibilities, and those who are not directly affected understand what will happen and how they can help.

Planning process agreement. This stage of planning requires that those who lead the planning process engage with those who are going to take part, secure an agreement about what success looks

like, identify the short- and long-term questions to be answered, and categorize these questions under various headings (such as program impact, financial health, organization, and relations with outside groups). Agreement can be formalized with specific “job descriptions” for key players.

Planning process map/flow chart. With this form of analysis, you need to create a visual picture that supports the planning process and to communicate about the process with relevant stakeholders. The end result should be a diagram depicting who will do what when.

Looking Outside the Organization

In part, planning involves matching the abilities of the nonprofit to opportunities that exist in the world around it to make a difference. Therefore, exploring your environment is extremely important. Accordingly, there are numerous ways to assess aspects of your nonprofit's external world. Unfortunately, “jargonauts” have flattened the language in the field, so be especially careful to understand what each tool entails.

Multiple-cause analysis. Originally used to manage complex change, multiple-cause analysis involves identifying and weighing the causes of a challenge that a nonprofit attempts to address. In the case of planning, it helps a nonprofit determine the most critical point of intervention and make program

selections. Staff members at a substance abuse organization, for example, could identify causes of client alcoholism as unemployment, family breakdown, and peer pressure. Staff can then determine where in this web of causes the nonprofit is best equipped to intervene to prevent clients' substance abuse (see the section on the theory of change as well).

Stakeholder analysis. Using this tool, organizations can identify each stakeholder group, the nature of their stake, and their potential impact on the nonprofit. In some cases, the principal beneficiaries are included in this analysis; in others, identified stakeholders may cause an organization to deflect its focus from its constituents or mission. In both cases, stakeholder interests must be taken into account.

Gap analysis. In this kind of analysis, organizations assess service users' needs in a given field of service compared with services currently available. This helps to establish the scale of organizational opportunity for the nonprofit. A homelessness group, for example, can use this approach to identify the number of homeless people in hostels and compare that with the number of homeless candidates for whom current providers, including itself, could find a home. The disparity between these two numbers is the “gap” an organization can fill if it has the resources to do so.

PEST analysis. In this kind of analysis, organizations assess the political,

environmental, social, and technological, or PEST, factors that may affect a nonprofit's activities and its ability to achieve its goals. An organization uses this kind of analysis to identify opportunities and risks and then develop plans to take opportunities and guard against threats associated with its activities. It is important to focus on only those factors that affect a nonprofit. So while it may be interesting, for example, that the Democrats will increase their majorities in Congress this year, decreases in local property tax revenues are likely to have a greater impact on a nonprofit's prospects.

Nonprofit industry analysis and the six-force chart. This kind of analysis requires an understanding of the key external factors that determine whether a nonprofit can flourish in its service area. By creating a chart, an organization identifies (1) other organizations in its field and their relationships with one another; (2) suppliers; (3) possible new entrants; (4) potential substitutes for the nonprofit's service; (5) users, customers, and client groups; and (6) funding sources. The tool is especially helpful for nonprofits that face stiff competition, such as day-care providers.

Competitor analysis. In this kind of analysis, an organization assesses other organizations with which a nonprofit competes. The activities for which such an analysis is most useful are those in which there is genuine competition: services that are delivered through markets (such as higher education, theater ticket sales, and health care); activities whose funding is secured through competitive bids to government agencies; and fundraising sources. During planning, an organization should prepare strengths, weaknesses, opportunities, and threats (SWOT) analyses for each of its major competitors (see more on SWOT analysis later in this article). Sophisticated competitor analysis also addresses substitute competition (such as watching DVDs at home instead of attending a theater performance) and can be used to explore program interventions. In the case of a drug addic-

tion prevention program, for example, "competition" may be identified as those who sell drugs to the potential addict.

Analysis of other players. This form of competitor analysis has been developed specifically for the nonprofit sector. A nonprofit identifies the other players in its realm of service as well as their objectives and strategies, their performance, and their strengths and weaknesses. Analysis should focus on whether each player is an actual or potential competitor, collaborator, or both; and its level of influence relative to other organizations in the field and, in particular, to the nonprofit engaged in planning. As with the six-force chart and competitor analysis, this tool helps a nonprofit identify its niche, how it can compete (or whether it has to compete), and whether there are opportunities for collaboration.

Benchmarking. With this dimension of competitor and other-player analysis, a nonprofit can compare measures of its performance with those of other players. A community center, for example, can compare its prices for the use of its facilities and the levels of user satisfaction it achieves with prices and satisfaction levels of other nonprofit centers.

Key success factor analysis. This involves identification of factors that determine success in a given market or field of activity. Examples include securing funding, particular skills or knowledge, and influence with local and national government. Understanding these factors enables a nonprofit to judge how well equipped it is to enter a new field or to identify needed improvement in existing services.

Sources of resources analysis. Based on NCNE's recent work on income strategy, this kind of analysis assesses the most likely sources of support given a nonprofit's mission, assets, and activities. A nonprofit identifies the benefits that each of its programs creates and for whom. These benefits fall into several categories, each of which is associated with a form of nonprofit income: (1) activities that generate private benefits for

individuals that attract fees, like those for counseling; (2) activities that benefit an entire community or that are politically mandated and that are public benefits paid for with tax dollars (through Medicaid, for example); (3) activities that benefit a group of people, like those with a rare medical condition that are paid for by donations from those with a particular affinity for that group; and (4) nonprofit services that benefit other organizations if they provide something in return, such as corporate sponsorships.

By undertaking this analysis, a nonprofit can construct a potential portfolio of support on the basis of its programs. This approach is useful when a nonprofit seeks to diversify its revenue sources or intends to develop a new service and needs to identify funding sources.

Assessing the Nonprofit

In planning its future, a nonprofit also needs to identify the characteristics of its own operations that provide the potential for the greatest impact.

Theory of change, or social-impact theory. This form of analysis outlines how a nonprofit's programs lead to concrete and measurable change. This requires understanding the causes of a nonprofit's challenges and opportunities and relevant technical knowledge that links program activity to these causes. Organizations can use informal discussion to identify their theory of change; they can also use structured frameworks. The principle here is known as the *logic chain*. Understanding a nonprofit's theory of change is crucial if it wants to have the greatest impact and put its available resources to best use.

An organizational audit. This is a collective term for various approaches to the assessment of a nonprofit's performance and assets. These approaches generally differ only in terms of terminology and level of detail. Almost all are designed to identify the organization's strengths and weaknesses that will become key features of a SWOT analysis. Structured ver-

sions of this approach involve two main elements:

An audit of resources. First, an organization should systematically list all resources under its control, including staff members and their skills and knowledge, financial resources, physical assets, organizational culture, and intangible assets such as organizational reputation.

Analysis of current use of resources. This analysis is often multidimensional and encompasses a nonprofit's programs, human resources, finances, physical assets, and intangible assets. In each case, it is possible to analyze the potential impact, strengths, and weaknesses of (1) each resource itself; (2) the configuration of resources; (3) how this configuration, or "value chain," creates competitive advantage; and (4) the efficiency with which each resource is used.

In the case of programs, for example, analysis would include an evaluation of units of service, cost per unit, and measures of impact. But analysis could also include how these results are achieved and the relative contributions of, for example, staff knowledge and techniques, the quality of the building in which the program is delivered, and the systems to determine the level of efficiency of this program. The results of this analysis can be compared with a benchmark or ideal level of performance.

A specific example is the McKinsey Capacity Assessment Grid, which is adapted from McKinsey's original 7-S model. The framework for an organizational audit covers aspirations, strategy, organizational skills, human resources, systems and infrastructure, organizational structure, and culture. It enables a nonprofit to rate its relative strength or weakness in these seven areas.

Identification of core competencies. This process involves establishing a shared view of what a nonprofit does well. A nonprofit can establish consensus on core competencies by identifying those activities at which it excels in its field as well as activities that consistently produce

outstanding results. The critical idea here is that only by exploiting these competencies will a nonprofit achieve optimum impact relative to its internal challenges and to its competition. For many nonprofits, the outcome of this process can be difficult: that is, nonprofits need to accept that they should withdraw from services that they do not deliver well. A mental health nonprofit, for example, may have added mediocre residential services to its outstanding day and outreach programs because of client demand. But it may be better for this organization to transfer its residential services to a specialist residential provider.

Portfolio analysis. Organizations with a range of services and/or products often use this approach, but portfolio analysis can also be helpful for an organization with a small number of programs. This method involves placing each nonprofit activity and product in a matrix and enables a nonprofit to get a clear view of how its activities contribute to its organizational mission and its financial health.

Some kinds of portfolio analysis have been adapted specifically for nonprofit use. The best-known example is the Product Portfolio Map, which compares an organization's contribution to its mission with its contribution to economic viability.¹ The ideal is a blend that optimizes mission impact while building the financial sustainability of a nonprofit.

High mission contribution/low financial contribution	High mission contribution/high financial contribution
Low mission contribution/low financial contribution	Low mission contribution/high financial contribution

Generating Strategies

Having scanned and analyzed the environment in which it operates and assessed its own strengths and weaknesses, the nonprofit's next step in planning is to find the best match between what it does very well (that is, its core

competencies, opportunities to have the greatest impact) and available financial resources and other forms of support. To achieve such a match, a nonprofit has these options:

- to modify the nature of a program, particularly to improve its quality;
- to add new programs;
- to withdraw from programs;
- to increase the number of people to whom programs are delivered; and
- to secure more resources.

There are various methods through which a nonprofit can generate options that match what it does well with its opportunities.

Scenario planning. This form of analysis paints pictures of assumptions about the future environment, enabling a nonprofit to identify factors with a high level of uncertainty that may have an impact on its work and to explore potential responses. This approach is most useful for a nonprofit that tackles a particular dilemma. For example, a theater group is considering whether to provide only avant-garde productions (which are its specialty) or to add mainstream material to its program. It can envision how each option would play out with audiences, funders, and other supporters and also plan its responses to their reactions.

SWOT analysis. For nonprofits, this is the most popular planning tool and is used at all levels of planning. The tool is sometimes used on its own but more often in conjunction with the previous forms of analysis. Its essential purpose is not primarily to generate lists of strengths, weaknesses, opportunities, and threats, which is as far as many nonprofits go with this tool, but to link strengths and weaknesses with opportunities and threats to *identify action*. For example, if a nonprofit wants to exploit its particular program expertise (a strength) and secure the funding to meet the needs of more people, it may first have to improve its poor reporting system (an identified weakness). And a strong fundraising department is only a useful strength if there is a new funding source (an oppor-

tunity) that it has the specific expertise to exploit.

The Ansoff Matrix. While this may sound like the title of a bad sci-fi movie, it is, in fact, a tool. The matrix is generally used in commercial marketing but can be adapted to help a nonprofit clarify strategy, particularly when it wants to determine its optimum mix of programs. The matrix enables planners to define options in terms of users served and type of program intervention.

	Current Program	New Program
Current Users	Extending program to same types of users	New type of program intervention for existing users
New Users	Bringing benefits of program to new types of users	New type of program intervention for new types of users

For example, a local nonprofit whose mission is to rehabilitate ex-felons and that runs a life-skills training program can offer its program to additional ex-felons in the local community; offer the same program to ex-felons in additional communities; or develop a different program, such as business skills training, and offer it to current clients or to people in other communities.

Nonprofits can also use the Ansoff Matrix to evaluate levels of risk and likely cost: new services and new kinds of customers require higher costs and higher risks.

Fundraisers can also use the matrix in analogous ways.

	Current Method (e.g., Conducting Mailings)	New Method (e.g., Placing Telephone Calls)
Current Individual Donors	Mailing more frequently to existing donors	Placing telephone calls to existing donors
New Donors	Mailing potential new donors not previously contacted	Placing telephone calls to potential new donors

Evaluating Options and Making Decisions

After generating likely options for development and action, how does a nonprofit decide which to pursue? There are several tools and approaches from which to choose.

Assessment of proposed strategies based on agreed-upon criteria.

This is the simplest and most commonly used approach to assess a nonprofit's choices. These strategies can include the extent of the opportunity; the extent to which a given option builds on an organization's assets, capabilities, and knowledge; competitive position; the probability of securing funding; the likelihood that a strategy will enhance other programs; consistency with mission; various measures of feasibility; level of risk, and so on. It helps to have all the key decision-makers agree on these criteria *before* options are generated; it's natural for individuals with a preference for particular strategies to choose criteria that produce their desired outcome.

Cost-benefit analysis (CBA). This form of analysis provides a framework to assess the benefits and costs over time of investment in a program or combination of programs. The results can be compared with those for another investment option. CBA was originally designed to quantify—often in dollar terms—difficult-to-measure outcomes (quality of life, for example) and integrate them with conventional financial benefits and costs. This approach is not always valid, and for many nonprofits it is easiest to quantify as much as possible but also to judiciously account for benefits and costs that are not quantifiable. For example, a substance abuse treatment nonprofit can quantify the benefits of its clients' recovery in terms of health-care costs saved, reductions in crime, and taxes generated (if recovery includes securing new employment). In deciding which programs to pursue, this nonprofit should identify a program in which it excels and that maximizes benefits at the lowest program cost.

Stakeholder CBA. This form of analysis assesses the benefits and disadvantages of a program or strategy for key stakeholders. This can be done by involving the various stakeholder groups and testing various options with them. The principles of CBA apply here as well, but analysis of various stakeholders enables a more comprehensive accounting of benefits: many nonprofit activities can benefit groups other than clients, such as the parents of those affected by substance abuse.

Organized abandonment. This form of analysis is the Institute for Social Entrepreneurs' structured version of portfolio analysis. After programs are assessed in relation to mission and financial contributions, a nonprofit should move away from programs that fail to produce either strong mission impact or a surplus.

Tools from microeconomics. For decisions that concern how to modify or enhance a program or how to choose between different delivery methods, economic tools can be helpful. They are particularly powerful when a nonprofit can quantify in monetary terms an activity's mission-related benefits. The tools include opportunity cost analysis, thinking at the margin, market analysis, and transaction-cost analysis.

Risk analysis. This form of analysis assesses different kinds and levels of risk. The aim is to identify and quantify the most significant risks to the achievement of a nonprofit's goals. Risks can be identified by analyzing the threats from a SWOT analysis or generated as a separate exercise. The key factors are the *probability* of a given risk and the *level of impact* that the risk would have on an organization. Together, they provide a measure of the seriousness of a risk. A nonprofit can also consider worst-case scenarios and sensitivity analysis (see below). The job of the nonprofit is then to identify, assess, and adopt strategies to minimize the most significant risks.

Sensitivity analysis. This form of analysis involves testing the robustness

of a particular choice of program or strategic direction by asking what-if questions about, for example, the effects of different levels of funding. A museum, for example, can run the numbers on a range of different attendance levels and admission prices to determine whether a new exhibit with higher-than-average costs is sustainable.

Implementation

To prevent a nonprofit's plan from gathering dust on a shelf, there are two necessary devices: a planning document and a monitoring process.

A planning document that emphasizes action. It's useless to draft a strategic plan that articulates vision, environment, and future direction but that fails to specify who will do what and when. A useful planning document should include the following elements:

- a clear statement of goals and how they will be achieved;
- reasons for choosing these goals;
- clearly defined objectives at all levels and for each phase of the plan;
- a definition of tasks required to achieve objectives and expected outcomes from these tasks;
- a description of the allocation of resources to each of these tasks;
- clear allocation of individual responsibility for each set of tasks;
- identification of risks and how these will be mitigated;
- measures and milestones; and
- budgets.

A monitoring and review process.

This second device involves planned and structured arrangements through which a nonprofit assesses progress against objectives and milestones, outcomes and goals, and takes action accordingly. These objectives can be built into the plan document itself or be negotiated and communicated separately. The phrase *monitoring and review* sounds deadly boring, but assessing what a nonprofit has achieved and using the plan to understand how it has accomplished its goals is a motivating and enlightening experience for executive directors,

board members, staff, and volunteers. And review meetings need not be staid events. A mental health nonprofit, for example, asked each departmental team to select a song that conveyed its progress or lack thereof and to act out the lyrics.

With tools of analysis in hand, organizations can better assess their risks, opportunities, and the environment around them. Whether the goal is to improve program performance, to jettison an underperforming service, or to take on new clients, these tools enable organizations to make more informed decisions in the context in which they operate and in light of the many factors that influence their activities.

Additional Resources

Michael Allison and Jude Kaye, *Strategic Planning for Nonprofit Organizations*, 2nd. edition. Wiley, 2005.

John M. Bryson, *Strategic Planning for Public and Nonprofit Organizations*, rev. ed., Jossey-Bass, 1995.

National Center on Nonprofit Enterprise Web site (www.nationalcne.org).

Sharon Oster, *Strategic Management for Nonprofit Organizations*. Oxford University Press, 1995.

Dennis R. Young (ed.), *Financing Nonprofits: Putting Theory into Practice*. Alta Mira Press, 2007 (for sources of resources).

Dennis R. Young and Richard Steinberg, *Economics for Nonprofit Managers*. The Foundation Center, 1995 (for tools from microeconomics).

ENDNOTES

1. See the list of additional references for more on the Product Portfolio Map.

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In its planning process, has your nonprofit used these tools? Share your lessons and experience at feedback@npqmag.org. Reprints of this article may be ordered from <http://store.nonprofitquarterly.org>, using code 150310.