

Business Planning on a Dime: An Interview with David Brown and Pamela Brown

RECENTLY, THE *Nonprofit Quarterly* sat down with veteran nonprofit business planners David Brown and Pamela Brown to get insight on what distinguishes business plans from other kinds of plans and what nonprofits need to know to create an effective plan.

Nonprofit Quarterly: Can you give us a quick-and-dirty definition of a nonprofit business plan?

David Brown: A nonprofit business plan should be done in conjunction with a strategic plan; it is an operating plan, but at a high level. Business planning focuses on the must-haves. It aligns with a financial lens a series of component parts: target markets, key goals, and success measures. It also includes monitoring mechanisms—metrics, if you will—to monitor performance against the plan.

NPQ: What motivates nonprofits to develop a business plan?

DB: Well, market forces are changing all the time. It's just a very rigorous environment. Within this context, nonprofits are, as always, motivated to do as much as possible for their constituencies. At the same time, they may face complicated market forces, limitations on resources, competition, and funding shifts. That means that choices have to be made, and they are often difficult. So organizations need a well-reasoned

rationale that explores all the avenues for financing and accomplishing the most critical things they must do. And it's as important to be clear about what you will *not* do as it is to be clear about what you will do to succeed in your mission. Business planning is a tool to help institutions make these choices in an informed way.

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Pamela Brown: There is also often a precipitating event motivating the development of a business plan: maybe the primary source of funding that an organization enjoyed disappears or there is a change in management or a new leader who wants to reexamine the organization's financial structure and prospects. Sometimes they're growing rapidly or leaking money or thinking about a merger.

DB: Again, this type of planning must fit in with higher-level strategic planning. Business planning does not require a fun-

damental rethinking of the organization's vision, mission, and strategy. It builds on them, and it forces organizations to make financial decisions best suited to their goals. Among the things we may end up with is an economic strategy or a capitalization strategy. It all depends on the nonprofit's needs.

PB: Of course, as with any type of planning, we are doing more than just creating a plan. We are also building consensus within the board and among the staff. So the planning process itself has, typically, other objectives besides creating a plan document.

NPQ: What surprises people about the ways in which the process can be helpful?

DB: People are surprised to learn that the process helps them with the allocation of resources and alignment with aspirations. It's very common for organizations to have solid missions, solid programs, significant aspirations—sometimes they're articulated better than others—but the disconnect occurs in terms of the resources they need to get from here to there and the hard choices they need to make. They tend to be constrained, or handcuffed, by their current practices and existing experience. What we try to do is come in and raise the conversation to a higher level and help them see the benefits and risks of various alternatives.

PB: Nonprofits don't think of themselves as being in the business of competition, but they are competing for resources, for volunteers, for funding, for board members, for staffing, and perhaps also for constituents. In order to compete effectively, you must differentiate yourself, your organization, and your programs or services. We call that your "value proposition": what is the value that you deliver that's distinct from the value that other organizations deliver? The better a nonprofit can define its distinct value proposition, the more effective it's going to be in generating resources. The business planning process helps with defining this as well.

NPQ: *What are some of the new concepts that you help nonprofits to understand?*

DB: With any organization, operational practices tend to be cumulative over time, so the act of taking a step back to look at why it does what it does in the way that it does it, and whether it still makes sense, is important.

Additionally, many nonprofits do not think about their capitalization strategies. They fail to ask critical questions: "What are our goals in terms of keeping sufficient operating reserves? What's our strategy for operating reserves? How does that measure up against immediate programmatic needs or our drive to buy a building? What's our strategy for strategic reserves: having the funds to take advantage of innovation opportunities or to purchase new equipment?" And then, "What's our strategy for long-term sustainability?" The general misconception is that acceptable, annual financial performance and operating performance equals sustainability, and it doesn't. It's great to have acceptable financial performance on an annual basis, but that doesn't make an organization sustainable. And so the capitalization strategy must be addressed.

NPQ: *How about pricing? How aware are organizations of the relative costs and benefits of their behavior and the*

relationship with their value proposition and mission?

DB: Pricing is a topic unto itself, I think. First of all, pricing by nonprofits tends to be haphazard. It's often an emotional decision based on anecdotal information rather than part of a strategy. Second, pricing is oftentimes not aligned with the value proposition and mission. An organization can have a very powerful value proposition and can dominate its market but, for some reason or other, is charging either way too much to accomplish its mission or way too little in recognition of its value. The organization doesn't really have an understanding of the implications of pricing on its value proposition, mission, and sustainability.

NPQ: *Can you give an example of this lack of understanding?*

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leadership level.**

DB: Yes. In fact, I'll use a classic example: An organization we work with is trying to improve its visibility in the community and to establish a reputation for excellence in its service. It has been largely grant funded but wishes to—and in fact must—move to a fee-for-service model to diversify its funding and survive long term. It has been giving its services away for free or charging nominal fees arbitrarily set at what it considers to be "reasonable." It is gaining visibility and getting better known. But it has not considered whether it is undermining its value

proposition and, quite simply, training its market to expect everything for free, keeping it dependent on grant funding and making it more and more difficult to change its pricing practices in the future.

PB: We can give another example of an organization that provides services to schools. Its pricing strategy was set at what it perceived the market would bear, resulting in net operating deficits that were "plugged" by a few primary grant funders.

The longer-term implications of that practice became apparent as the organization grew. When the organization was relatively small, it could fairly easily plug the hole with contributed money, but as it expanded, the deficits represented larger and larger dollar amounts that exceeded its fundraising capacity. It was a major aha moment when we told the organization that it was pursuing a risky financial strategy and needed to reduce its dependence on contributed funds from the current 70 percent of total revenues. As a result of that insight, the organization did some hard work to develop a pricing strategy that made sense relative to the value delivered and that it could rationalize to its clients.

NPQ: *What's the most broken business plan or financial model you've ever seen?*

DB: "The most broken financial model I've seen was created by an institution's inability to understand the causes of poor financial performance. This was exacerbated by a lack of accountability at the leadership level and the board's willingness to use endowment to offset operating deficits. Eventually, the auditors raised the possibility that the institution would not pass the "going concern" test and this is what finally forced the board to confront reality. The institution has made great progress since then but remains financially fragile despite its substantial endowment."

NPQ: How would a small organization take on this business planning work?

DB: The smaller the organization, the more difficult it is to spend time on strategy and business planning, because it's a one-armed paper hanger: it's doing everything. The questions are, How much is enough? How much strategy and planning work is enough to meet the needs of the organization?

PB: Even the smallest nonprofits can benefit by thinking strategically, defining their goals, and planning how they are going to implement and measure their success. However, strategic and business plans don't have to be long, elaborate documents or projects. For many clients, we do plans in the form of PowerPoint presentations that clearly depict the priorities and focus. The better you do the strategic and business thinking, the more successful you're likely to be in generating the resources you need.

NPQ: What should organizations expect to pay for business planning? We've heard that some firms charge up to \$250,000 for a plan.

DB: There is no right price, because every institution is different, every organization

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has different needs. My sense is that most organizations can do this planning on their own. Most might benefit from a little bit of outside assistance or facilitation, but the thought of paying \$250,000 for

assistance with a strategic plan is laughable in my view. Those organizations that have a broader need—where there is a need for alignment of strategy, business planning, and financial planning—are those for whom outside help is particularly helpful. If an organization needs significant work in all three areas, it is definitely better to go outside, find somebody you're comfortable with, bring them in, and assign them to the task. It just gets done faster that way. And the good news is that once you do this, you have a template that you simply have to update and revise over time.

DAVID BROWN and **PAMELA BROWN** are the principals of Brown Performance Group, a firm with more than 30 years of senior management and consulting experience working with nonprofit and for-profit organizations.

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