The Bridgespan Group

Funding Large-Scale Growth

National Center on Nonprofit Enterprise

September 27, 2007

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Nonprofits often want to change the world and want to grow in order to do so . . .

Greenpeace Canada seeks to Protect biodiversity in all its forms; Prevent pollution of the earth's oceans, land, air and fresh water; End all nuclear threats; Promote peace, global disarmament and non-violence.

The World Humanitarian Fund…. to once and for all generate enough cash flow to actually attack and eradicate global poverty, hunger, and AIDS and to find a solution to curtail and reverse global warming.

PATH's Mission: Empowering children and families to achieve lifelong successes.

Source: "The Looking-Glass World of Nonprofit Money: Managing in For-Profit's Shadow Universe;" Clara Miller, Nonprofit Financie Fund

Yet, contemporary examples of big growth seem few and far between

Non-Profit Times
Largest 10 Non-Profits in 2005

	Year Founded
YMCAs in the United States	1851
Salvation Army	1865
American Red Cross	1881
United Jewish Communities	1895
Goodwill Industries International	1902
Boys & Girls Club of America	1906
Catholic Charities USA	1910
Shriners Hospitals for Children	1922
Habitat for Humanity International	1976
Feed The Children	1979

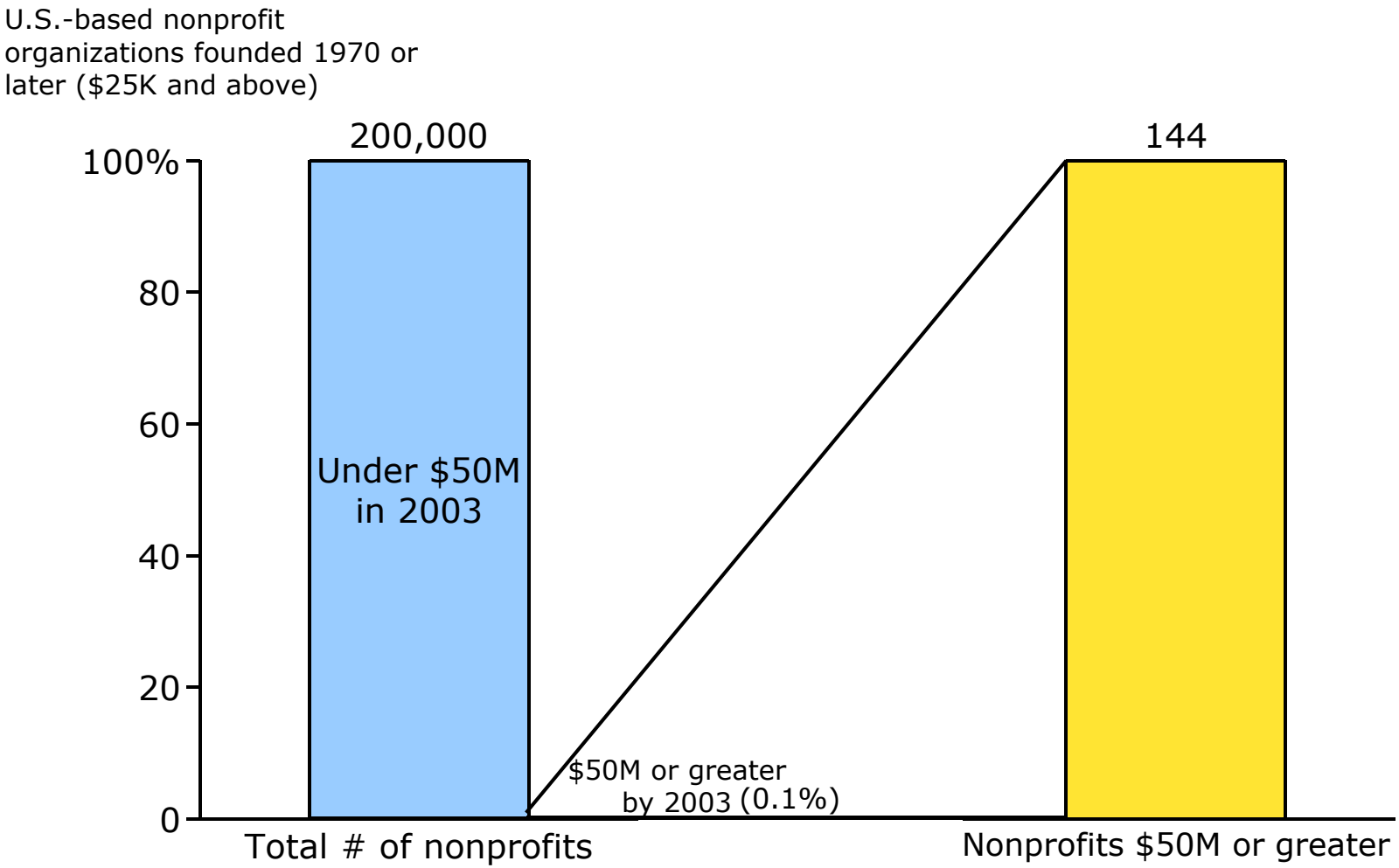
Unfortunately, money seems to flow in confusing ways and . . . *no money, no mission*

Step into the nonprofit sector and you enter a new and irrational world. – Clara Miller

- The consumer does not buy the product
- Money received is often restricted in its use
- Price is not set by supply and demand
- Nonprofits that lose money on every unit continue to operate
- Surpluses can result in reduced future reimbursement
- Investment in infrastructure can undermine growth in revenues
- Overhead is generally viewed as a negative regardless of business type or life stage

Source: "The Looking-Glass World of Nonprofit Money: Managing in For-Profit's Shadow Universe;" Clara Miller, Nonprofit Financie Fund

A small percentage of nonprofits founded since 1970 have reached $50M in size . . . but there are almost 150



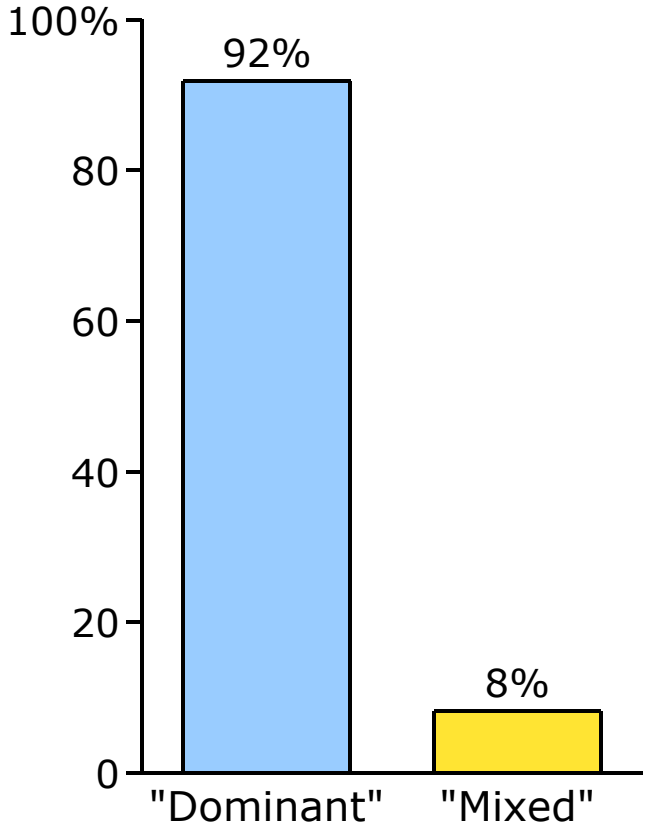
Source: National Center for Charitable Statistics 2003 data, Bridgespan analysis

Some of these organizations are household names, many are not

Finding # 1: *Myth of diversification*

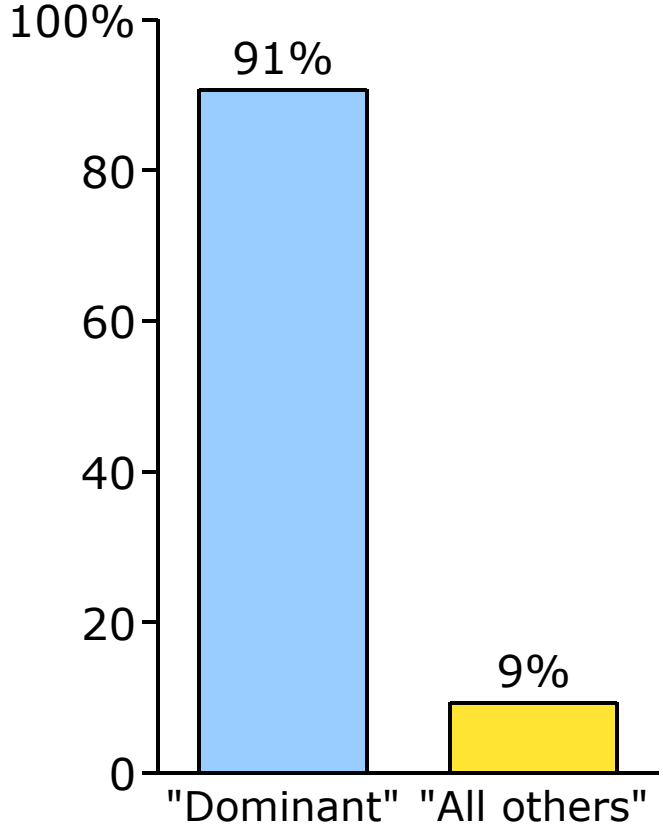
Large organizations relied on concentrated sources of funding

NP's by degree of diversification



(N = 110)

Financial contribution by source



(N = 101)

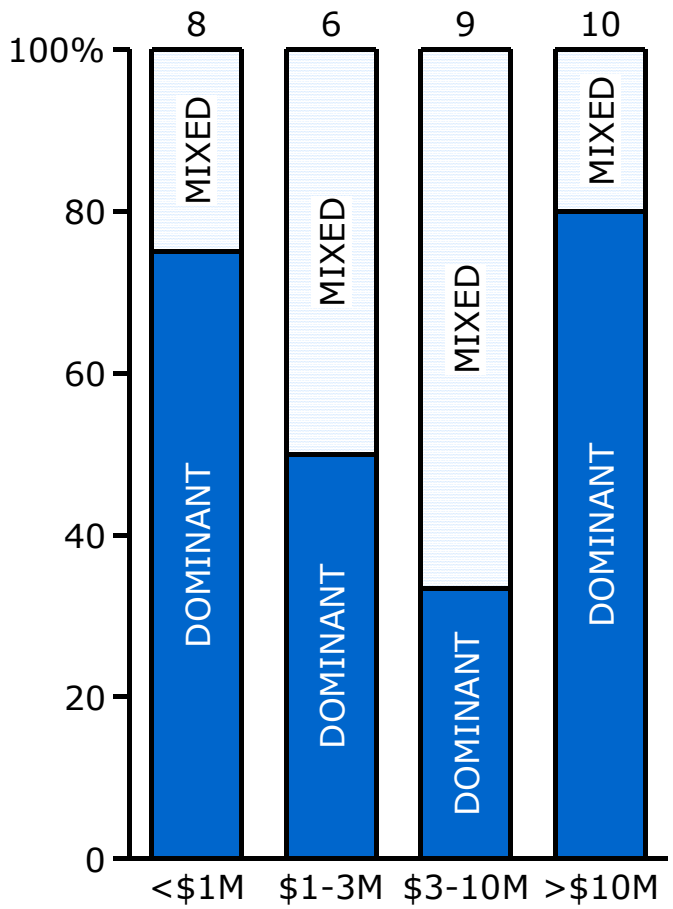
Note: "Dominant" is defined at 60% or more of funding from government, individual, earned-income, corporate, or foundation alone. Data from 2003
Source: Published financials, selected organization interviews

Finding # 1: *Myth of diversification*

Across sizes, concentration seems to follow a "U-shaped" pattern

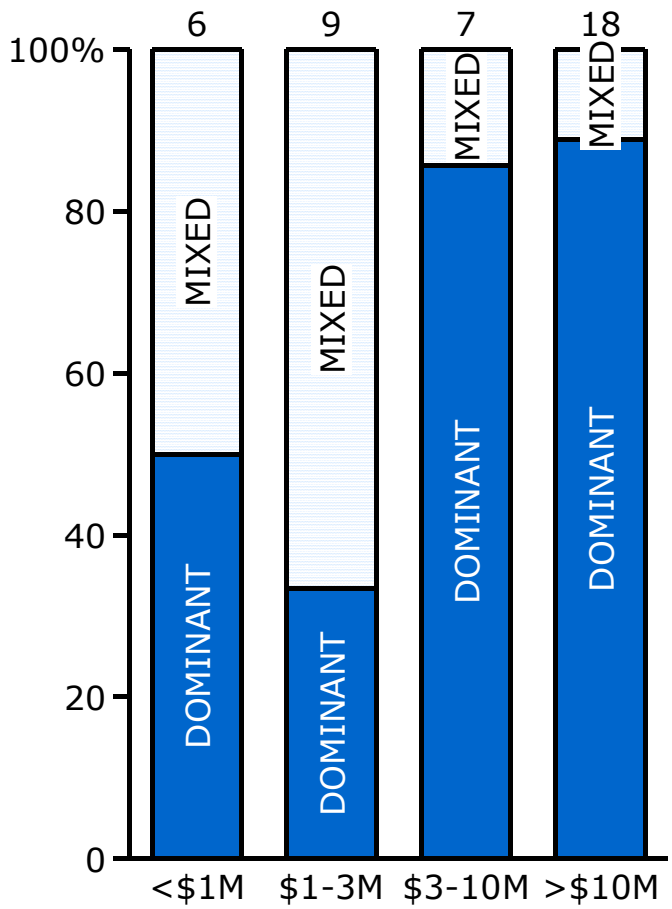
Environmental

% of orgs with >50% of revenue from source



Youth service

% of orgs with >50% of revenue from source

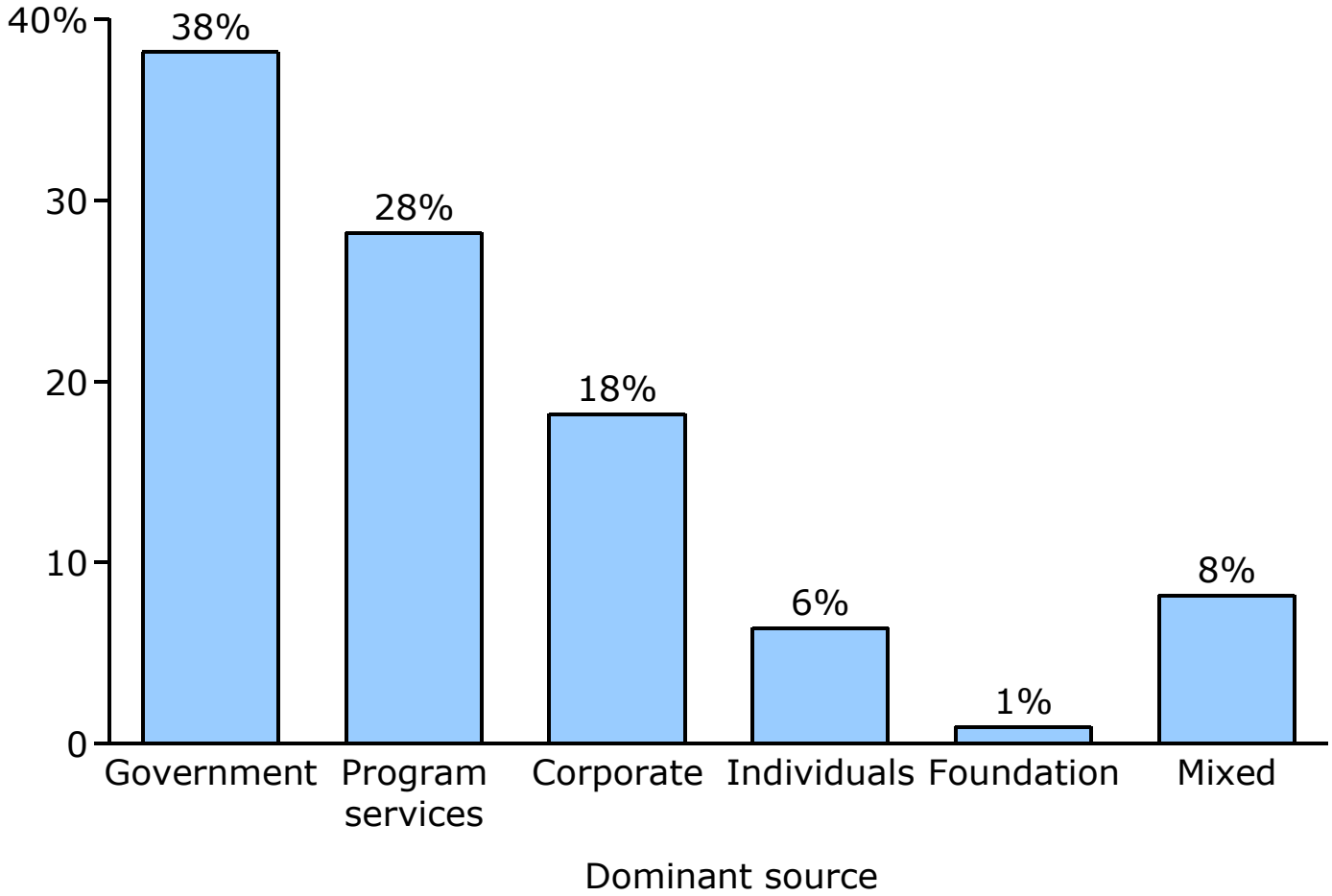


Note: I: Individual; F: Foundation; G: Government; C: Corporate; E: Earned Revenue
Source: Data requests; Annual Reports, Public Interest Profiles

Finding # 2: *The right match matters*

Some sources were far more common than others

Percent of high-growth nonprofits, N=110 (2003)



Note: Foundation only includes PATH; Stowers has foundation as a dominant source as well, but detailed financials were not available

Finding # 2: *The right match matters*

Certain sources are more likely to support certain activities

Government

- Almost exclusive funder of education & employment
- Fund >70% of organizations serving low-income America
- More specific patterns by federal, state, and local

Individual

- Major funder of environment and medical research
- Organizations addressing issues of middle-class
- Heavily weighted toward small donations

Program Services

- Major funder of health, and employment
- Almost always government related (>90%)
  - (e.g. Medicaid, loan guarantees, JWOD)

Corporate

- Major funder of international and food
- Generally in-kind donations (85%)

Note: Almost exclusive includes government backed program service revenue – see comments on program service revenue
Source: Published financials by organizations included, interviews with subset

Finding # 3: *Building the economic model*

Distinct professional skills and capacity were required for each economic model

National Wild Turkey Federation

- Special events raising small individual donations
- NWTF provides a turn-key "banquet in a box"
- Over 2,000 special events across the country each year
- Over time NWTF has reduced the cost of supplying a "banquet in a box" by 70%
  - From multiple to single package, from U.S. retail to sourcing in China

Youth Villages

- Business development staff that helps states design RFP's
- In-house expert on funding regulations
  - Title IV-B, Title IV-E, Title XIX, Title XX, TANF, SSI
- IT system to track relevant data by state (e.g. hours, contact points, etc.)
- 10+ person finance staff

Implications for…

Nonprofits

- Large-scale expansion not for everyone
- Funding at a large-scale is not idiosyncratic
- Options exist but have constraints and vary by mission and domain
- Robust "business models" are needed
- Deep capabilities are required

Funders

- Pushing for "scale" or "sustainability" may not always be realistic
- Funders must understand whether they are playing the role of "investor" or "customer"
  - Adjust strategy and expectations accordingly
- Certain sources can only take nonprofits so far
  - Capacity support may be key role at transition points