Venture Forth!

The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization

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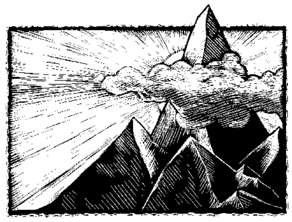


Introduction

Many nonprofits are adding another tool to their funding toolbox . . .

- The American Diabetes Association produces Gift of Hope, a holiday card and gift catalog. Proceeds of nearly $1 million per year support research to find a cure for diabetes.
- Families First, Inc., a social service agency in Atlanta, Georiga, created Trans-Parenting, a program that teaches effective techniques for parenting after a divorce. The local court system pays for the workshops on a fee-for-service basis. The nonprofit also sells the training and materials to more than 180 agencies nationwide.
- Project Turnabout, a residential compulsive gambling and substance abuse treatment facility in Granite Falls, Minnesota, bought a small motel to provide temporary off-campus housing for program clients. The agency earns income by renting out half of the rooms to the general public.

Each of these organizations is borrowing skills and techniques from the private sector. They are, in effect, running a business, attracting customers, and earning income like a private company, while pursuing both financial and mission-related goals. Also known as *nonprofit business development, earned income ventures, social entrepreneurship, social ventures,* or *social purpose businesses,* these activities help many nonprofits diversify funding, build stronger relationships with constituents, and improve visibility in the community.

What is a Venture?

A *venture* is any activity that involves selling products or services to customers. Three such ventures are listed above. Ventures developed by nonprofit organizations often have additional, mission-related objectives. However, the goal of earning income from sales to customers is what makes a venture different from other nonprofit activities.

Venture development is the process of finding and converting good venture ideas into a business. Building on the experience of many organizations, this workbook presents a time-tested approach for finding, testing, and launching a successful nonprofit venture.

For nonprofits, many business techniques transfer directly from the private sector, but others require tuning. This book offers a practical, step-by-step guide specifically for nonprofits, presenting what managers need to bring venture development into their organizations. It will help you decide how venture development fits into your organization, where to look for good venture ideas, how to determine if they are feasible, and how to write a strong business plan to start a successful venture.

> *"Most nonprofits have plenty of ideas on how to earn more money. What they need is help finding and following a structure, discipline, and process to move forward with their best ideas."*
>
> *— Jim Thalhuber, president, The National Center for Social Entrepreneurs*[1]

Why Pursue Ventures?

The most obvious reason to pursue ventures is to increase your funding base. Ventures generate dollars that help diversify your nonprofit's finances or pay expenses for which funding is difficult to come by.

There are several other good reasons to learn venture development skills. Nonprofits today operate in a dynamic world. Needs change, funders discover new interests, competitors emerge from unexpected places, and new service opportunities arise. Venture development can help you manage the inevitable changes by giving you skills to evaluate opportunities and risks from a business perspective.

Venture development techniques can also reduce your risks. An important part of the venture development process is gathering information—about your organization, your constituents, your allies and competitors, and the environment you operate in. Venture development provides a guide to gathering the right information and a framework for analyzing it. In this way, you can make decisions based on data rather than impressions.

Finally, the venture development process can help you allocate resources more effectively. By finding out what activities really cost—in money and staff time—you will be in a better position to decide where to direct your organization's energies.

The steps presented here have been used with dozens of organizations, and experience has shown that they work for both large and small nonprofits.

Who Should Pursue Ventures?

This book is for nonprofit managers and board members who want a hands-on guide to business planning and venture development. Others who work with nonprofits—including consultants, lawyers, accountants, trainers, and funders—will also find this book useful. The steps presented here have been used with dozens of organizations, and experience has shown that they work for both large and small nonprofits, and for nonprofits that take a variety of legal forms. While this book presumes that an organization is currently contemplating a new venture, organizations already operating a venture will find these steps useful for evaluating, expanding, or improving their current offerings.

How to Use This Book

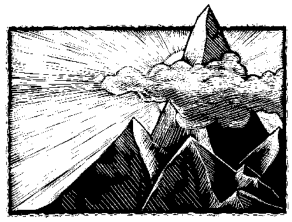
This workbook is divided into four chapters that cover seven steps to developing a nonprofit business venture.

- *Chapter One: Venture Development Overview* explains what ventures are, what benefits and risks are involved, and what venture development looks like.
- *Chapter Two: Prospecting for Ventures* takes you through the first three steps of venture development. You'll get organized, which includes selecting a venture team and a project leader. You'll conduct a venture audit, which involves candidly assessing your organization's entrepreneurial capabilities and clarifying whom you serve and what you do best. Finally, you'll brainstorm venture possibilities and then screen those ideas to find the most promising ones.
- *Chapter Three: Testing the Feasibility of Your Venture Ideas* takes you through Steps 4, 5, and 6. You will put your best venture ideas through a quick market test to select the one most likely to succeed. You'll do the really heavy lifting of venture development—market research and financial analysis.
- *Chapter Four: Business Planning* ties together all the work of the previous steps. You'll write a compelling and detailed business plan, gain approval and financing for it, and get ready to embark on your new venture.

Each chapter contains worksheets, examples, and tips to guide you through the seven steps. To gain the most from this book, take the time to review and complete each worksheet. The worksheets break the work into manageable pieces. By working through them carefully, you won't miss anything important. The worksheets also tie together neatly to form the bulk of your business plan—all you need do is clean them up for your final audience. If you fill them out using a word processing program, you should be able to cut and paste them quickly into a business plan.

Appendix G contains blank copies of all the worksheets for you to copy and use for your own venture ideas. These worksheets are also available for downloading from the Wilder Publishing Center's web site. (Instructions for accessing the worksheets online are provided in Appendix G.) The appendices also include a bibliography and a list of helpful resources, such as venture-related Internet sites.

Before you do anything else, set aside a couple of hours and read through the book. Go ahead and skim, but read carefully enough to get the big picture. Be sure you are clear on the differences between a venture audit, a feasibility analysis, and a business plan. Then, when you're ready, sharpen a pencil or two, and dive into that first worksheet. Good luck!



Chapter One

Venture Development Overview

This chapter gives you a broad perspective on venture development. It identifies the benefits and limitations of doing ventures, and describes the differences in how nonprofit and for-profit companies approach this topic. Finally, it summarizes and gives a time estimate for each of the seven venture development steps.

By the end of the chapter you should have a better understanding of the issues surrounding venture development, and of the process presented in this book for developing your own ventures.

Nonprofit Ventures: An Oxymoron?

Since one purpose of a venture is to earn money, it may seem like a contradiction in terms for a *non*profit to go into business. However, nonprofit organizations are permitted to earn money, including profits; their nonprofit status simply precludes distribution of any surplus to those with a controlling interest in the organization, such as officers, directors, or staff.

Moreover, earning money is hardly a new concept for nonprofit organizations. Your organization already engages in venture activities if, for example, you charge fees for some services, you make publications available for sale, or you sublease space to another organization. In fact, depending on the category of nonprofit organization, the national averages for earned income as a percentage of budget ranges from 19 percent to 56 percent.[2]

Interest in nonprofit ventures has been growing. Government funding of nonprofits has been declining while the need for nonprofit services has been increasing each year. Many foundations would like to see nonprofits diversify their funding sources through venture development; a few have even helped fund these efforts.

Moreover, many nonprofits are experiencing competition from for-profit companies in areas that were previously the exclusive domain of the nonprofit sector. The Discovery Channel, for example, competes unabashedly with the Public Broadcasting Service.

An often quoted (but never officially documented) guideline is that unrelated business activities are not a problem as long as they represent no more than 20 percent of the nonprofit's activity, measured, for example, by budget or staff.

Can nonprofits go into business?

In a word, yes. Most nonprofit organizations are free to engage in ventures as long as proceeds are used to support the organization's mission. Moreover, if these activities are *related* to the nonprofit's tax-exempt purpose—for example, a senior center selling a guide to senior health care services—ventures generally can be engaged in without limitation and without incurring income taxes.

Nonprofits can also engage in business activities that are deemed *unrelated* (for example, opening a coffee shop next door to the senior center). In these cases, the nonprofit must pay income taxes on profits derived from those activities. The Internal Revenue Service calls these taxes *unrelated business income taxes* (UBIT). Some nonprofits operate ventures that sell a mixture of related and unrelated products, paying UBIT on the unrelated portion. (Appendix E contains information from the IRS's web site on the unrelated business income tax issue.)

Unlike private sector firms, nonprofits face limitations on the amount of unrelated business activity they can engage in and still maintain their tax-exempt status. Unfortunately, no hard-and-fast rules govern this amount. An often quoted (but never officially documented) conservative guideline is that unrelated business activities are not a problem as long as they represent no more than 20 percent of the nonprofit's activity, measured, for example, by budget or staff.

If the unrelated business activity becomes too big, one option for the nonprofit organization is to establish a for-profit subsidiary, which allows the tax-paying venture to grow without threatening the nonprofit's tax-exempt status. But don't rush out to create a for-profit subsidiary unless it's necessary; in a variety of expected and unexpected ways it can be expensive to form and maintain a separate company.

Finally, in rare cases, some nonprofits are restricted from doing ventures of any kind because of their organizing documents or their contractual relationships with a major funder. Be sure to discuss these issues with qualified legal counsel.

Differences from private business

A nonprofit venture is fundamentally different from a for-profit business in that its earnings are not available to enrich those who control the organization. Also, nonprofits generally avoid offering products that conflict with their mission, even if doing so reduces income. No one is surprised if a hospital doesn't sell cigarettes in its coffee shop.

Another difference is that attitudes within nonprofits can hinder the ability to make money from venture activities. At issue often is whether earning income is appropriate in the first place. Some staff and supporters of nonprofits feel they should not be concerned with making money; in their thinking, making money is the role of the private sector. They believe that the nonprofit's mission transcends such concerns, or that the application of business principles will inevitably diminish, rather than expand, the organization's ability to serve. While there exist many examples of nonprofits that excel at both mission and profit, this concern still persists in some nonprofits.

> The information presented in this section should not be construed as legal advice. For more information, review Internal Revenue Service documents, such as Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, or visit the IRS website at www.irs.gov. Be sure to consult with specialized legal counsel before making final tax and legal decisions.

A similar controversy concerns marketing and promotional efforts. Most nonprofits find that insufficient funding, not insufficient promotions, limits how much they can accomplish. For that reason, some staff may be uncomfortable with diverting scarce resources into promotional activities, in effect taking dollars away from achieving their mission. These staff members also might believe that competition is something to be avoided, that there is no need to pursue an idea if another organization in the community is doing something similar.

Venture activity turns each of these attitudes upside down. Profits earned to support the mission, marketing to improve relationships with constituencies, and competition that pushes the nonprofit to improve service and efficiency are all desirable elements of the venture mind-set. The point is, to fully benefit from the concepts described in this book, your nonprofit may need to work as much on attitudes as it does on activities. This kind of cultural change takes time, and a good way to start the process is to follow the steps in this book.

Similarities with private business

In most ways, managers of a nonprofit venture address the same issues faced by their counterparts in the for-profit sector. You must determine what customers want, find a cost-effective way to provide it, and persuade them that your product or service is the better choice among similar offerings. To stay in business, the venture's revenues must exceed costs. Competitors will try to win over your customers, and you will want to attract theirs. You and your competitors will also look for ways to become more efficient and to provide more of what customers want while eliminating things that they do not value.

Quick profits are a rarity in private business, and they are just as rare in the nonprofit sector. Starting and growing a venture is usually a long-term proposition. Ventures incur costs before they get their first customer, and most lose money—sometimes for years—while they pursue profitability.

No matter how much research and preparation you do, uncertainty lurks around every entrepreneurial corner. Thus, although a key purpose of ventures is to earn money, there is the risk of losing money. Following the steps in this book will increase your chance of success. Still, there are no guarantees.

Perhaps most important, the greatest similarity with private business is a single-minded focus on pursuing *opportunities* wherever they may lead. Often, with careful research, planning, intuition, and creativity, nonprofit managers can use ventures to inspire staff, serve constituencies in new ways, and provide the nonprofit with additional dollars.

Venture Benefits

A successful business venture can nourish a nonprofit in a variety of ways that enable it to extend its reach and effectiveness.

Improve finances

Ventures can help pay for expenses that are difficult to cover through fundraising, such as overhead and administrative expenses. Ventures can also subsidize programs for which funding is unavailable or too limited. Once money is earned from a venture, the nonprofit is generally free to spend it in any manner consistent with its mission and without the restrictions and reporting requirements that come with grants.

For most nonprofits it is unrealistic to expect that ventures could ever completely replace traditional funding sources. Even the most successful ventures seldom provide more than one-third to one-half of an organization's annual budget. Thus, it

Thrift shop shifts focus from volunteers to customers

A women's center in Pennsylvania wanted to have a thrift shop, according to Karen Simmons, director of La Salle University Nonprofit Center—"just a little thrift shop that our volunteers could run, so we could earn a bit more money to support our domestic violence and hotline work. The shop became so popular that our dedicated volunteers couldn't keep up. For example, the public wanted our shop open nights and weekends, but the volunteers only wanted to work days. We had to shift our focus from the volunteers to the market, and it caused tremendous internal angst. Now that we've come through the changes, we're clear that this is a market-based activity and we have to keep our ear to the ground to meet market demands. The market is primary, and our volunteers are secondary. This was a huge shift for us, but one that needed to be made in order to be successful."[3]

is important to look at ventures as an opportunity to *expand* the earned-income portion of your budget and to *reduce* your dependence on grants and other traditional nonprofit funding sources. A common long-term goal for many nonprofits pursuing venture development is to increase earned income by an amount equal to ten or fifteen percentage points of their annual budget.

Even if they do not intend to earn unrelated income, many organizations improve their finances by using venture techniques to evaluate existing programs. For example, SENIORS FIRST, INC., an Orlando, Florida, nonprofit with an adult day care program used market research to discover that (1) it was not the preferred local provider of this program, (2) the adult day care cost more to run than the organization was receiving from fees and grants, and (3) its competitors had extra capacity. Based on its research, which was performed during a project with The National Center for Social Entrepreneurs, the nonprofit cancelled the adult day care program. Current customers were referred to competitors having extra capacity and equal or better quality. The nonprofit then used the substantial annual savings and the freed staff time to launch a new program to address an unmet community need.

"We had to shift our focus from the volunteers to the market. Now that we've come through the changes, we're clear that this is a market-based activity and we have to keep our ear to the ground to meet market demands."

Strengthen relationships with existing constituencies

Nonprofit organizations routinely seek additional ways to connect with members, funders, clients, volunteers, and other constituents to foster relationships and increase the nonprofit's impact. As described later in this book, one of the first places to look for customers is among your existing constituents. This broadening of relationships may bring them closer to your nonprofit and its purpose.

More and more nonprofits now offer food and beverages within their facilities as a way of strengthening relationships. A restaurant in a museum encourages visitors to stay longer and explore more exhibits. In some cases, such as a coffee shop located inside a public library, the venture also becomes a destination that attracts people to the nonprofit. A latte and that library book to go, please.

Increase visibility

Ventures can help nonprofits secure favorable press coverage and increase public awareness, thus raising the organization's name recognition. This enhanced visibility can be leveraged to attract volunteers, board members, fundraising dollars, and committed staff, and generally to help the nonprofit get its message out. For example, the Saint Paul Neighborhood Energy Consortium, a nonprofit environmental organization, manufactures a line of attractive garden products from used wood diverted from landfills. Sales of these products at gardening stores underscores the consortium's message that taking good care of the earth involves what you buy as well as what you place on the curb on recycling day.[4]

Combine financial and mission goals

Nonprofit ventures are often designed to pursue a combination of financial and mission-related goals. Some are formed with the explicit purpose of providing employment or job training to needy clients. For example, sheltered workshops hire individuals with physical or mental handicaps; venture managers are able to sell the services of these workshops partially on the basis of the social benefits they offer. Such socially beneficial, "affirmative" businesses serve an important social mission, and, while revenues rarely cover all their costs, the sales dollars they do generate help reduce dependence on grants.

Look at ventures as an opportunity to *expand* the earned-income portion of your budget and to *reduce* your dependence on grants.

Some ventures based on mission turn out to be good business decisions as well. For example, Dharma Publishing, located in Berkeley, California, was founded to promote Buddhist education and attitudes in the West. To help support this mission financially, several of its members launched a commercial printing shop. The members of the Buddhist organization who worked at the shop appreciated its unique atmosphere and philosophy that supported their religious practice. In turn, they were willing to work for moderate wages. The shop became known for the quality of its work furthered by the good attitude and willingness of its workers. Over the course of a ten-year period, the printing shop venture provided about $8 million of support to the nonprofit.[5]

Venture Limitations

Ventures are not for everybody, and they don't always work out as expected. Entrepreneurial efforts can lead to unpleasant surprises.

Profitability is not guaranteed

Some ventures flourish, others fail. A certain number of small businesses start with great promise, never become profitable, and then quietly shut down. Ventures started by nonprofit groups face similar uncertainties. While there are many examples of successful nonprofit venture development, there are also many cases where the effort failed, consuming resources that could have been used elsewhere.

Getting the right person to run the venture, performing the necessary research to complete a realistic business plan, and constantly improving the venture as your understanding of customers and competitors improves—issues that are addressed in this workbook—are key predictors of success in venture development. But they cannot guarantee success. The best-made plans of even the most skilled entrepreneurs can be dashed by the unpredictable swings of the marketplace.

Venture development may not suit your nonprofit

Some nonprofits are well suited for ventures, others are not. Ventures require flexibility in staffing, budgets, and decision making. It is better to discover early on that ventures are not appropriate for your organization or that the timing is not right. The sidebar "Do ventures fit with your nonprofit" on page 12 shows characteristics of nonprofits most likely to succeed with ventures. This topic is addressed in more detail in Chapter Two.

Ventures may clash with your culture or values

Nonprofits are typically formed to address an unmet need, advocate an important cause, educate constituents, or provide important social services. A venture, on the other hand, is charged with earning income from paying customers. When a nonprofit manager sets out to introduce attributes of the for-profit sector into the organization, internal friction often emerges. Some staff may believe that the organization's core values will disappear as the organization changes. It is often difficult and time-consuming to change the internal culture of a nonprofit to embrace ventures.

Similarly, nonprofit groups may also receive public criticism for pursuing ventures as an alternative source of revenue. Paradoxically, such criticism typically accompanies success. In today's shifting economy, nonprofits may find themselves in direct competition with a for-profit company, one that might not appreciate the rivalry. And, if the nonprofit is able to avoid paying income taxes on the venture, claims may surface about "unfair" competition.

Social Return on Investment (SROI)

Social return on investment, or SROI, is an emerging field of study that strives to quantify the social benefit that nonprofit endeavors create. SROI might enable a nonprofit to measure a venture's social return with the same currency, dollars, that it uses to calculate financial return. A nonprofit could use this metric to demonstrate the value of a venture to its board or to a potential philanthropic funder. Further details on SROI are available from the Roberts Enterprise Development Fund at www.redf.org.

Ventures may generate unfavorable publicity

In recent years, many YMCAs and YWCAs have constructed fitness facilities that rival those found in private health clubs. The competition has prompted complaints leading to congressional hearings and increased IRS review of nonprofit fitness centers. It is not unusual in such cases for articles criticizing the nonprofit to appear in local papers. While some organizations have policies against operating ventures that compete with for-profit companies, most recognize that in business you can't please everybody. Ventures are not for the weakhearted.

Start-up financing may be difficult to find

Most banks and other lending institutions are unfamiliar with nonprofit ventures, and tend to shy away from making loans for this purpose. In addition, they are understandably worried that if the nonprofit defaults on the loan, attempts to collect on the collateral would expose them to accusations that they are harming a valued community service.

Foundations and other philanthropists are also reluctant to provide start-up funding for nonprofit ventures. This is changing, slowly. The start-up cash crunch can make it difficult for a nonprofit to launch a venture.

On the other hand, it's a fact of business life that most start-up companies *are* strapped for cash when they first open their doors. Many successful small businesses turn this into an advantage, encouraging creativity and efficiency not often found when resources are plentiful.

Here's what one successful entrepreneur said:

> *"Start as small as possible: To achieve 100 percent success, you need to grow organically. Pass up outside financing until you know that you can run the company. Starting with limited financing forces you to learn every single aspect of the business: how to balance a ledger, how to collect receivables, how to draw up contracts. If you don't understand all aspects of your business, you've set yourself up to fail."*
>
> *—Richard Foos, president, Rhino Records*[6]

Do ventures fit with your nonprofit?

Ventures are generally a good "fit" if your nonprofit has

- Support and encouragement for ventures from the leadership
- Adequate flexibility in budget and staff time to allocate to venture activities
- Slow turnover of key personnel
- Ability to make quick decisions
- Recognition of uncertainty and long-term nature of ventures
- Constituents and customers with disposable income

Ventures are likely to be a poor fit if your nonprofit has

- A tight, inflexible budget or an immediate funding crisis
- Overworked and stressed-out staff
- Poor support for ventures from senior staff or board
- Funders, regulators, and other key constituents who would undermine venture efforts
- Low level of innovation, risk-taking, or creativity
- Constituents and customers without much disposable income
- Unrealistic expectations of a quick result

Earnings may be taxable

As described earlier in this chapter, under certain circumstances, earnings from nonprofit ventures are subject to unrelated business income taxes (UBIT). In addition to the tax, there may be an administrative burden of tracking taxed versus untaxed sales revenues. Indeed, some nonprofits have a flat policy against *any* unrelated venture income because they don't want to deal with these tax issues.

However, paying income taxes should not be considered a calamity. If your venture gets to the point of paying income taxes, it has achieved profitability, which is worthy of celebration. Some of those after-tax profits will be available to support the nonprofit's activities, which is one of the reasons you went into ventures in the first place.

How to Start a Venture

There are many ways to start a venture. Some nonprofits spend months, even years, deciding whether, when, and how to launch one, while others jump in with little more than a hunch. While problems often result from both extremes, most successful ventures begin only after some careful planning has been done. How much planning you need depends on the idea and on your organization.

If your organization already knows a great deal about a venture idea and how its products or services will be valued by customers, and if the start-up costs and risks are low, a shorter planning process is appropriate. Some venture ideas involve relatively simple extensions of current activities. For example, a nonprofit that provides free training may begin charging for the service, provided the participants (or others) seem willing to pay for it, and the costs and risks to turn the activity into a venture are relatively low. The nonprofit might also establish a venture by offering its training activities to a wider customer base for a fee. Starting small with a pilot project that is a simple extension of existing activities can be a great way to learn more about a market, as well as to encourage your organization to operate in a more entrepreneurial manner.

Ventures are not for the weakhearted.

On the other hand, if your nonprofit plans to provide new products or services, or the start-up costs and risks are significant, then success is more likely if you take the time to adequately evaluate the issues before stepping into the competitive marketplace. To take on the risks of a new venture without careful planning would not be prudent.

The venture planning process outlined on these pages is appropriate for a wide range of venture start-ups. Practical suggestions for shaping this process to fit your organization and your venture ideas are noted below.

Time estimates for the venture development process

Typically, it takes six months to a year and at least two hundred hours of work to complete a venture planning process resulting in a business plan for a new venture. If this is your first foray into venture development, two hundred hours may seem like a lot of time; but, in fact, this is a conservative estimate. Most successful nonprofit entrepreneurs, if they actually added up the hours they spent developing a venture, would conclude that this figure was on the low side.

Of course, actual times may vary, depending on your nonprofit's prior venture experience, how your organization makes decisions, and the complexity of the venture ideas you are pursuing. Most managers want to get things going faster, and nearly all end up taking longer.

There's nothing wrong with developing your business plan more quickly, if the circumstances are right, such as if you

- Keep to venture ideas that are simple extensions of what you already do
- Know your target customers and the competition
- Have low start-up costs (including no need for outside financing)
- Hire a consultant with expertise in business development

Below is a summary of the venture development process presented in the rest of this book. Specific details of how to accomplish each step will be presented in the chapters to come.

Typically it takes six months to a year and at least two hundred hours of work to evaluate and write a business plan for a new venture.

Of course, actual times may vary, depending on your nonprofit's prior venture experience, how your organization makes decisions, and the complexity of the venture ideas you are pursuing.

Minimum times are listed for each step. Some organizations sail through the steps faster than the listed minimums. This is particularly true the second time around. However, most find they need to push themselves to keep on this schedule.

Some organizations want to skip steps if they have already decided on the specific venture idea they wish to evaluate. The steps in the book are flexible enough to allow you to do that, but it's still recommended that you consider many ideas before getting too focused on one. In practice, the first idea is often *not* the best one, which a comparison with other possibilities will demonstrate.

Steps of the venture development process

Step 1: Get Organized

Two to four weeks, 8–16 hours

The first step is to organize the venture planning effort. Your organization will select a project leader and venture team to assess how ventures fit with the organization's strategic plan, specify the purpose and overall objectives of ventures for the nonprofit, and secure support from the organization's leadership, including the board of directors. After becoming familiar with the venture planning steps, the team will customize the process and develop a timeline and responsibilities that fit your organization.

Step 2: Conduct a Venture Audit

Three to six weeks, 32–64 hours

This step involves assessing the strengths and weaknesses of your organization for venture development. The venture team will also look for potential customers among current constituents and determine what your organization does best. It is important to identify this information because the best venture opportunities usually build on current constituents and core competencies. This analysis will help determine what kinds of business skills your staff and board of directors possess, and how current constituents and funders will likely respond to proposed ventures. This step also helps you evaluate how much is already known about possible customers, products, and services; and the organization's access to unique products, skill sets, or brand names that would be of interest to those customers.

Step 3: Brainstorm and Screen Venture Ideas

Four to eight weeks, 16–32 hours

At this point, the venture team will decide if outside consulting help is needed, and the executive director will recruit an entrepreneurial committee that includes local business people to challenge and inspire entrepreneurial thinking.

Now the fun begins. The entrepreneurial committee will look over the results of the venture audit, and, keeping those findings in mind, brainstorm venture ideas. Brainstorming will start with the potential customers the nonprofit knows best: your current constituents or others you work with on a regular basis. What unmet needs do they have that match up with your nonprofit's core competencies? Next, the team will think about additional customers and markets to whom you could sell your products or services. After discussing numerous possibilities, the team will narrow the list to the three most promising ideas.

Step 4: Perform Quick Market Tests

Four to eight weeks, 40–80 hours

The venture team will take the three ideas and put them through a quick market test. From written materials and interviews, the team will gather enough external, market-based data to enable it to make a quick judgment on each venture idea. If the results are promising, the team will select one to undergo the more thorough feasibility market research in Step 5. Even if you're looking at just one venture, it's a good idea to use the quick market test to see whether it's sufficiently promising to take it to Step 5.

Step 5: Do Feasibility Market Research

Five to ten weeks, 50–100 hours

Here's where the heavy lifting begins. Feasibility market research, followed by the feasibility financial analysis in Step 6, involves an objective evaluation of a venture idea to determine the likelihood of success and the conditions required to achieve that success. This step takes the most analysis, time, and hard work. It is extremely important, and the failure of nonprofit ventures often can be attributed to inadequate feasibility work. The best venture idea from the previous step is tested against the marketplace by gathering in-depth information on prospective customers, markets, and competitors and comparing that information with the organization's unique strengths and realistic weaknesses. By thoroughly studying the feasibility of a venture idea, you will be able to determine whether you should turn it into a business.

Step 6: Prepare Feasibility Financial Analysis

Three to six weeks, 20–40 hours

This is the point in the feasibility process where the team translates its research into a budget and financial projections, and identifies the remaining uncertainties facing the venture. When this is completed, the organization should have all the information needed to decide whether to launch the venture.

Step 7: Write a Business Plan

Four to eight weeks, 30–60 hours

This step converts the analytical work of the feasibility study (Steps 5 and 6) into a practical implementation plan or, in other words, a business plan. The business plan involves making key decisions about staffing, location, and equipment. It includes specific plans for operations, marketing, and financing. In practice, it takes less time than the feasibility study, but in some ways it is more difficult, requiring tough decisions that will impact what happens when the venture starts up.

As you progress through the venture development process, you may start with an impressionistic, internal perspective based on what you already know. As you consider many venture possibilities, you will move to an external, market-based perspective. Research and analysis will sharpen your focus onto one idea. You will get to know that idea in great detail—as you should, for it will most likely become your new venture.

Seven Steps to a New Venture

Step 1: Get Organized

- Select project leader and venture team
- Clarify why you are pursuing ventures
- Outline a process and timeline that fits your organization
- Decide if additional resources are needed
- Get commitment of key people to proceed

Step 2: Conduct a Venture Audit

- Identify your core customers and core competencies
- Determine your organization's venture capacity
- Anticipate how allies and others will respond

Step 3: Brainstorm and Screen Venture Ideas

- Create an entrepreneurial committee
- Brainstorm venture ideas
- Select three venture ideas for further study

Step 4: Perform Quick Market Tests

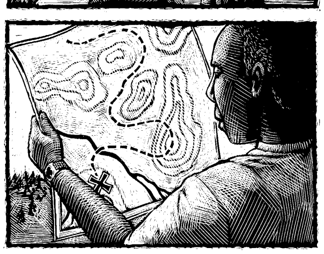
- Analyze customers, advantages, and the business model for each venture idea
- Develop research plan for the quick market tests
- Evaluate your ideas; select one for more in-depth feasibility analysis

Step 5: Do Feasibility Market Research

- Develop a feasibility market research plan
- Analyze your customers and competition; identify success factors
- Identify requirements for marketing, operations, pricing, and other factors

Step 6: Prepare Feasibility Financial Analysis

- Create an expense budget and calculate breakeven
- Prepare financial projections and evaluate risks
- Prepare feasibility recommendations



Step 7: Write a Business Plan

- Identify the people who will be in charge and the audience for the plan
- Write the business plan; make final decisions on marketing, operations, and finance
- Get the plan approved

The role of intuition

A note regarding the role of intuition in venture development: Undertaking a complex process such as venture development tends to lead planners down the path of step-by-step, research-based, incremental thinking. To be successful, most businesses need to incorporate that kind of approach into their venture development activities. And certainly, it would be irresponsible to start a venture without first building a solid understanding of why you are taking that action and what the likely consequences will be.

Most successful entrepreneurs use intuition to bridge the gap between what they know or can find out through research, and what they would like to know in order to make good decisions.

Yet anyone who has worked with small-business owners observes that they do not tend to be step-by-step, research-based, incremental kinds of thinkers. They often act as much on intuition and instincts as they do on analysis—pragmatically jumping from point A to point E if that's what it takes to get the job done. Sometimes they will take that jump despite a lack of data to support it, even against the advice of experts. They are not always right, but it is amazing how often they are.

Most successful entrepreneurs use intuition to bridge the gap between what they know or can find out through research, and what they would like to know in order to make good decisions. Such good business instincts often take years to develop, following extensive experience with both success and failure. Unfortunately, a book may not be the most effective way to acquire that kind of wisdom. This book does offer a reasoned process for approaching venture development, which, in conjunction with the business advice you garner from others, will increase your odds of success.

So, although carrying out the steps outlined on these pages is important and necessary to help your venture get started on the right foot, that will only be sufficient if you also discover ways to supplement the steps with your own intuition backed by personal experience. As you pursue ventures, be sure to go through the steps described in this book, gather the important data identified in each step, and to listen to your intuition and the intuition of others you respect. The business owners on your entrepreneurial committee (Step 3) will be a great resource for this.

As you plan, work, and research your way through this process, also remember how important intuition is to human endeavors. Albert Einstein said,

> "*I believe in intuition and inspiration. At times I feel certain that I am right while not knowing the reason. Imagination is more important than knowledge. For knowlege is limited, whereas imagination embraces the entire world, stimulating progress, giving birth to evolution.*"[7]