Acknowledgements
Healthcare Georgia Foundation would like to recognize and thank those who contributed greatly to this publication, including author Cindy Coney, M.Ed., consultant, MissionWise, and Avatar Communications for graphic design.

Recommended Citation:
Traditionally, nonprofit organizations raise the funds needed to operate and deliver their services by garnering donations and applying for grants from foundations, corporations, and government bodies. Increasingly, however, nonprofits are entering the world of earned income, a dynamic and powerful way for an organization to further its mission while cultivating its fiscal wellbeing. Earned income ventures by nonprofits is legal and can reduce the reliance on grants and donations, and provide a source of unrestricted income that can be used wherever the organization finds most useful and effective. Unlike contributions and grants, earned income can lead the organization into long-term sustainability and self-determination.

For many who work at nonprofit organizations, earning income is a new way of thinking. Nonprofit staff are accustomed to persuading people to donate, or raising funds through events and appeals. But most nonprofit organizations have the ability to sell a service, product, or set of ideas for revenue. Although thinking in this way may take some getting used to, it can be a secure, powerful, effective way of ensuring the long-term financial stability of your organization.

**WHAT IS EARNED INCOME?**

There’s no question that it takes dedication, hard work, and effective operation to inspire donations and receive grants. But while it may seem to those doing the work that these revenue sources are earned, they are very different from earned income. Earned income is any money that’s received in exchange for a good or service.

An agency serving the homeless that publishes and sells a monthly newspaper focused on poverty issues; an educational organization that sells its curricula and other classroom materials; a senior-citizens’ center that rents out space for community meetings and events; a clinic for low-income families that receives full or partial reimbursement from patients or the state; all of these are examples of nonprofit organizations leveraging their assets in order to increase and diversify their revenue. While the traditional nonprofit model allows the organization to cover its costs, engaging in an earned-income venture can bring in funds that will go further to support the organization’s mission.
DEFINITIONS

- **Social Enterprise**: Any earned-income business or strategy undertaken by a nonprofit for the purpose of generating revenue in support of the nonprofit’s social mission.

- **Financial Sustainability**: The extent to which a nonprofit is able to pursue its mission indefinitely through any or all of the following: earned income, charitable contributions and public sector subsidies.

- **Self-sufficiency**: The extent to which a nonprofit is able to pursue its mission indefinitely through earned income alone without relying in whole or in part on charitable contributions or public sector subsidies.

- **Double Bottom Line**: The definitive benchmark for a social purpose business venture—the simultaneous creation of both a financial and social return on investment.

- **Unrelated Business Income**: Earned income derived from the sale of products or services that are not directly related to the charitable purpose of a nonprofit organization. Such revenues may be subject to federal tax and, at significant levels in proportion to total nonprofit income, may jeopardize the tax-exempt status of a nonprofit corporation.

Definitions from The Social Enterprise Alliance in cooperation with Jerr Boschee, Institute for Social Entrepreneurs.

IS IT LEGAL FOR A NONPROFIT TO EARN INCOME?

Making a profit through an earned-income venture does not have to compromise your tax-exempt status. While nonprofit organizations cannot conduct ongoing commercial or other activities that profit an individual or outside interest, they are generally free to operate a business venture that is directly related to the social mission of the organization. Many nonprofit organizations operate earned-income ventures and businesses that provide a solid unrestricted revenue stream that allows that organization the fiscal security to provide nonprofit services and advance its mission.

Of course, along the way it’s important to consult an attorney who can advise the organization on the intricacies of local, state and federal tax and business laws. For instance, generally the income is tax-exempt if it’s earned from an activity that is mission-related, and taxable if the activity is not mission-related.

TYPES OF EARNED INCOME

There are three forms of nonprofit earned income: **capital, products/services/programs**, and **intellectual assets**. Let’s take a look at each form in detail. We’ll also examine some case studies of organizations that developed successful earned income streams by working with MissionWise, a consulting group that helps health-and-human-services organizations recognize and capitalize on their strengths, become stronger and more sustainable, and maximize their mission impact.

**Capital** refers to any asset or wealth in the form of money or property, used or accumulated in a business by a person, partnership, or corporation. Capital might take the form of facilities, buildings, contracts or leases, equipment, etc. One organization
generated capital earned income from its building by leasing its rooftop for a cell-phone tower, and by renting some of its office space for group meetings. (Note that this income, because it was not earned in a mission-related activity, is taxable.)

**Products, services, and programs** can encompass a wide range of valuable sources of earned income. Examples include software; books; pamphlets; instructional materials; trainings; manufacturing or service systems; unique evaluations, assessments or treatments; special access to clients or customers; low-cost production techniques, and certifiable and/or accredited systems or processes. A large organization in Seattle generated this kind of earned income through curriculum sales, distribution and licensing agreements, and training.

**CASE STUDY:**
**Students Run Philly Style**
*(Goods earned income)*

Cascade AIDS Project (CAP) provides HIV services, housing, education and advocacy in Oregon and southwest Washington State. Its mission is to prevent HIV infections, support and empower people affected and infected by HIV/AIDS, and eliminate HIV/AIDS-related stigma. CAP provides outreach, education, housing, prevention, life-skills training, support for children and families, and two statewide hotlines.

In looking to diversify its revenue stream, CAP focused on its Kids’ Connection program, which provides comprehensive services for children and youth whose parent or primary caretaker is HIV-positive and whose physical wellbeing, mental health, and personal safety are at risk. Working with MissionWise to develop an attainable business plan and earned-income strategy that could serve as a pilot for the rest of the organization. CAP created a new line of products called “Revolution Begins Here: Slogan-Based Merchandise With a Mission.” CAP expanded the organization’s capacity by helping the Kids’ Connection director and staff to develop new skills. And merchandise sales became a new revenue stream for CAP, supporting their programs and raising the organization’s capacity.

**Intellectual assets** are the knowledge, experience, and skills of an organization’s staff. They might include special talents or expertise; market access or knowledge; access to key leaders, decision makers or inventors; relations with vendors or suppliers; and technological advances. A national nonprofit that developed prevention programs for students generated earned income from intellectual assets by collecting licensing fees from distributors of its programs.

“The business ventures being started by nonprofits today are...emerging directly from their core competencies and basic strengths—from their missions, the programs they have already perfected, and the assets they have developed in the process. This also avoids trouble with the IRS, since their ventures are mission-related and no threat to their tax-exempt status.”

– Jerr Boschee

“Eight Basic Principles for Nonprofit Entrepreneurs”

HEALTHCARE GEORGIA FOUNDATION
CASE STUDY:  
National Wraparound Initiative  
(Intellectual Assets Earned Income)  
National Wraparound Initiative (NWI) is a national organization that has built a system of services and support for children with complex mental health needs and their families. NWI focuses on teaching stakeholders how to improve child and family outcomes and how to use existing resources more effectively. Their vision: All children and families, regardless of the complexity of their needs, have timely access to appropriate services and support, helping them to be healthy and have positive development.

As with many nonprofit organizations, NWI was challenged to charge for goods and services that had been offered for free in the past. NWI engaged MissionWise to help define a paid membership program for access to the online materials and information that individuals and organizations had previously accessed at no charge.

Through working with MissionWise over a 10-month period, NWI has been able to capitalize on its intellectual assets by creating a Membership/Sponsorship Plan, marketing its Wraparound materials (inventory of products), and developing an organizational sustainability plan that includes earned income.

Here are some more examples of sources of earned income for nonprofit organizations:

- Tuition and fees for service
- Commercial products or services
- Government contracts
- Consulting fees
- Membership dues
- Sale of intellectual property
- Agreement to use nonprofit’s identity
- Property rentals

WHY IS IT A GOOD IDEA TO EARN INCOME?

During insecure economic times, when many nonprofits are experiencing budget cuts, decreased contributions, and tough decisions that often affect services and clients, it can make all the difference for an organization to create a revenue stream that’s not reliant on dwindling donations and grants. Chosen well, an organization’s source of earned income can help the organization stay true to its mission and avoid “mission drift.”

There are many benefits of earned income as a revenue stream:

Financial Stability: An earned-income revenue stream helps your organization become less dependent on grants and contributions and stabilize its income level, especially during economically challenging times.

Mission Impact: Earned income can underwrite the offering of new direct services, and bolster existing ones, allowing the organization to serve more of its constituents with broader or deeper offerings.

Increased Traditional Income Streams: Engaging in a successful earned-income venture can demonstrate the effectiveness and sustainability of your organization, which in turn may inspire increased donations and grant funding.

Increased Capacity: Developing a business plan, creating the capacity to carry it out, and then launching and sustaining the venture are all capacity-building activities that can strengthen the organization, both in resources and in the capabilities of its staff.

Invigorated Board: Business leaders on the organization’s board may be invigorated by connecting with a process that is familiar to them and where they may have untapped expertise.
Reputation: Running a successful earned-income venture can allow an organization to share “best practices” on a large scale with other nonprofits, funders, and constituencies, positioning the organization as an expert and a leader in its field, and increasing mission reach.

Innovation: If conducted effectively, inventorying the organization’s current assets, developing new ones, creating a business plan, and running an earned-income venture can all promote innovation within the organization. This in turn can inspire staff and leadership while sending the message to the public that the organization is at the forefront of social change.

WHAT ARE THE CHALLENGES?

Of course, there are also challenges, risks, and barriers to entering into an earned-income venture. Following are some areas to consider before deciding to create an earned revenue stream.

RELUCTANCE TO FOCUS ON EARNING PROFITS

Sometimes, organizational leadership thinks of for-profit strategies as a betrayal of the organization’s mission and philosophy. Because running a nonprofit requires a great deal of work and commitment to raising donations from individuals, foundations, governments, and other granting bodies, nonprofit leadership naturally come to view the organization as the recipient of community generosity in exchange for services provided. It’s important to realize that for-profit strategies do not need to detract from the organization’s mission and standing in the community. It can be legal and consistent for a nonprofit organization to earn income—and when mission-driven, that revenue stream can increase the organization’s impact in a way that wasn’t possible when relying solely on generosity.

Similarly, the organization’s board of directors may not support this new direction. Directors may be invested in traditional methods of nonprofit fund development—auctions, galas, golf tournaments and the like. Many are probably quite talented at and experienced in holding these fundraising events, whereas earned income might represent a completely new kind of strategy that is unfamiliar and possibly threatening or worrisome. Board buy-in will be crucial; the organization requires the support and advocacy of the board when embarking on a new venture. Listen to your board and address their concerns and questions; provide training and examples of other organizations’ successful earned-income strategies; show them that you have done or will do the necessary research and preparations. In addition, keep earned income in mind when recruiting new board members: there may be candidates in your community who have experience with various facets of nonprofit earned income.

LACK OF A RELIABLE BUSINESS PLAN

It’s helpful to see an earned income venture as a separate business: it requires a thorough business plan and financial projections in order to enter prepared and with a stable foundation. Without a sound business plan based on a solid financial footing, the venture is likely to falter.

EXPERTISE NEEDED

As you explore a potential revenue stream, make a careful inventory of the expertise
required. While your organization may already have this expertise in its staff, it’s likely that there are some areas where expertise needs to be developed or brought in. Will you do this by obtaining additional training for staff? Or will it make more sense to hire this expertise from consultants, and benefit from their existing experience in your field of choice? Business expertise is crucial, and it’s unlikely that nonprofit direct-service staff can be the sole source of this. Consider where you might find the best sources of consulting, training, and mentoring.

NONPROFIT CULTURE

Your organization may not be used to the assertiveness required in earning income—or, like many nonprofits, it may feel alienated by the idea of selling something. It’s important to take a clear-eyed look at how the organization’s staff and leadership work together, and assess whether a shift might need to take place in their working assumptions and work culture.

NOT ENOUGH CAPITAL

Like any new business, a nonprofit earned-income venture requires a healthy foundation of capital in order to survive. Your business plan will likely need a capital investment, to avoid straining scarce resources. Has the organization adequately explored how much capital will be needed? Can this come from the existing budget without hurting current operations, or will it need to be raised before you can launch your venture?

STRAIN ON STAFFING

Starting a new income venture will require staff time, possibly diverting staff from other activities. Do you have the staff to devote to an earned-income business? Will this strain your organization’s internal resources? Does your business plan include the hiring and supporting of the necessary staff? What about the organization’s current staffing—do staff members have the resilience to grow with the organization, and to support it in its new direction?

FINANCIAL INSTABILITY

Many new businesses lose money initially. Does your business plan allow for a realistic period of deficit until your earned-income venture matures? Has your organization explored all the true costs of starting a new venture, including hidden strains and burdens? Can the organization sustain a period of financial hardship?

MOVING FORWARD

You’ve considered the risks and benefits of earned income, and examined whether an earned-income venture might be a good fit for your organization. Now it’s time to take a close look at what your organization has to offer, and how you might take the first steps into earning a new unrestricted stream of revenue.
EXERCISE 1: INVENTORY YOUR ASSETS

The first step in venturing into earned income is to survey your organization’s assets. Some of your most valuable assets may be overlooked or taken for granted. One way to start is to examine your organization’s core competencies. Take some time to answer the following questions in writing, and to solicit answers from the others across the organization. (You may find it helpful to do both Exercises 1 and 2 with your staff and board.)

• What is your organization especially good at?
• Which skills is your organization especially known for?
• Are there areas of deep competency that are currently going untapped in your organization?
• What do you have that is of value to others?
• Are there activities that other nonprofits or organizations are calling you to do?
• Are there other organizations or other bodies—perhaps with similar interests and/or different skill sets—with whom you might partner in an earned-income venture?

Next, use this chart to brainstorm and list, under each category of earned income, assets that your organization currently has or can easily develop.

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ORGANIZATIONAL READINESS

It’s crucial that your business plan is realistic. Starting an earned-income project is exciting and promising, but it must be built on a solid foundation of market research, financial projections, and an unwavering look at your organization’s resources and capacity. How can you know whether your organization is ready to begin an earned-income venture? Explore each of the following areas to assess how ready your organization is now, and what remains to be done in order to achieve your goal.

MARKET RESEARCH

As you consider what your organization may have to offer in exchange for revenue, ask yourself how well the organization knows the needs of its market and clients. Does your organization test its assumptions on a regular basis? If so, how? If not, how could you do so? Rather than relying on untested perceptions or outdated assumptions, it’s important to assess the real and current needs of your intended market before you venture into committing to earned income. Consider who your competitors might be, and how you’ll determine how much demand there is for your service.

BOARD SUPPORT

Take time to evaluate how ready your board of directors is to support an earned-income business. Will the board support the reallocation of staff time, and potentially the creation of new staff positions? Is the board prepared to not only support but also to help create and maintain the necessary capital investment? Will they be supportive of all the necessary resources used for marketing, development, inventory, and staffing?

ORGANIZATIONAL CAPACITY

In addition to capital and board buy-in, does your organization have the necessary internal resources? Developing and then running an earned-income enterprise requires a great investment of time; who in your organization has the time to devote to your new venture? Who has the expertise you’ll need? Which skills will your organization need to develop, deepen, or add to in order to move forward with an earned-income strategy? Consider these areas, each requiring a different set of skills and expertise:

- Business planning
- Research & development
- Marketing
- Financial management
- Taxes, including tax law and the implications for protecting your nonprofit status
- Legal, including licensing, contracting, filing copyrights and trademarks, and other intellectual property issues

FINANCIAL READINESS

A successful business venture starts with a strong, well-thought-out business plan. While writing a business plan may be new to those in the nonprofit sector, it’s not unlike writing a grant application: it includes thoroughly detailing your goal and how you will accomplish that goal. A business plan will identify your short-term and long-term goals, allocate staff time, and make realistic financial projections.

Be sure that your business plan includes the cost of goods or services versus your projected revenue. Does your organization’s current budget allow for the necessary investment of capital, or will it need to be raised? Do you have a solid plan in place to ensure enough capital investment? Be sure to consider not only long-term revenue, but cash flow—the promise of future revenue and solid investment cannot make up for the lack of cash to keep the business running from day to day.
**EXERCISE 2: ASSESS YOUR ORGANIZATION’S READINESS**

1. Select one of the ideas from Exercise 1 that you think might hold promise. Write it here:

2. Assess the strengths and weaknesses of that idea:

   | Strengths | Weaknesses |
---|---|---|

3. Do you have capital to invest in the marketing, inventory or consulting services you may require? Describe how you'll determine where this capital will come from and how much capital will be needed.

4. How will you determine whether there's a demand for your product or service? Who will your target audience be?

5. Describe the staffing needs of your new venture. How will you meet these needs?

6. What will be required from your board of directors in order to launch and sustain the venture? Do you have the support and expertise you need from your current board? How do you know? If not, how can you address this shortcoming?
INTELLECTUAL PROPERTY

Your earned-income venture will most likely involve the creation and use of intellectual property—including the name of the business, the name of goods sold, logos, written content, products manufactured, artwork, videos, recipes, etc. All of these should have legal protection so that they cannot be used by another body without your organization’s permission. Legal protections of intellectual property include trademarks, copyrights, patents, and trade secrets.

COPYRIGHT ©

Copyright protects literary works, visual arts, music, and dramatic works—any original work of authorship. Note that what a copyright protects is the expression of an idea, not the underlying idea itself. Copyright does not need to be registered; it is vested upon creation of the work. Use the © symbol to indicate that your content is copyrighted and cannot be re-used in whole without express permission.

TRADEMARKS (TM)

A trademark is a brand name, image (including logos), or tagline that signifies the source of particular goods or services. You may use the “TM” mark on any mark, without registering it with the U.S. Patent & Trademark Office (USPTO). However, registering your trademark with the USPTO is recommended to protect your rights and give you solid legal recourse should the mark be infringed upon. Once a trademark is registered, you may use the ® symbol to indicate this protection.

PATENT

A patent protects an invention that is “novel” and “non-obvious”—that is, a new invention. A registered patent (granted by the USPTO) gives the patent holder the right to exclude others from “practicing” a specifically-designed “invention” for a limited time.

TRADE SECRET

A trade secret can be any valuable information, necessary to the production or offering of your good or service, that is not generally known. The Uniform Trade Secret Act (UTSA), adopted by many states, defines a trade secret this way:

...information, including a formula, pattern, compilation, program, device, method, technique, or process that: (a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

If your service offering relies on information that has economic value because of its secrecy, and if you take reasonable steps to keep that information private, then you have a trade secret. There is no registration of trade secrets.

“Despite all the popular rhetoric about a ‘double bottom line’ for social ventures, nonprofit leaders have only one ultimate bottom line by which to measure a venture’s worth. In the end, it all comes down to mission. Money is simply a means to an end.”

– J. Gregory Dees

“Putting Nonprofit Business Ventures In Perspective,” Generating and Sustaining Nonprofit Earned Income
WHAT'S NEXT?

Starting an earned-income venture can be an overwhelming undertaking. In many cases, it can be a good idea to start small, focused on a single area or offering; once those involved have mastered the skills, and once the venture is stable and successful, you can assess whether it’s a good time to expand.

In addition, don’t overlook the possibility of a partnership—teaming up with another organization, perhaps one with a similar or complementary focus, or one with a set of skills that pair well with those at your organization. Joining forces in a partnership can be a practical way to share resources and ensure a stable base of support for your venture.

Developing an earned-income revenue stream is a big project. Consider several different ideas for your new venture, and explore each one during this initial phase. If the first idea doesn’t turn out to be successful, you needn’t give up; every misstep has lessons to be learned and a chance to sharpen your skills when you apply them next time.

Take the process step-by-step. The more methodical you are in the early stages, the better prepared you’ll be at each step along the way. Be sure to include each of the touchstones we’ve discussed here:

- Enlist board and staff at the beginning; address their concerns so that they’ll be on-board as you proceed.
- Carefully identify your target market; do the research to make sure that there’s sufficient demand for your offering.
- Develop a business plan, under the guidance of someone with expertise in this area—either staff, board members, or outside consultants; be conservative and realistic in projecting your venture’s income.
- Allow your organization to start small and develop the skills and income needed to bring you to the next level.
- Celebrate your successes and share them with others.
RESOURCES

Here are some publications and Web sites to help you get started—or perhaps re-engaged—in the process of creating an exceptional, high-performing board of directors.

*Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies*


www.ssireview.org

*IRS Publication 598: Tax on Unrelated Business Income of Exempt Organizations*

*The Social Enterprise Alliance: an association for organizations pursuing a social or environmental mission using market-based strategies.*

www.se-alliance.org