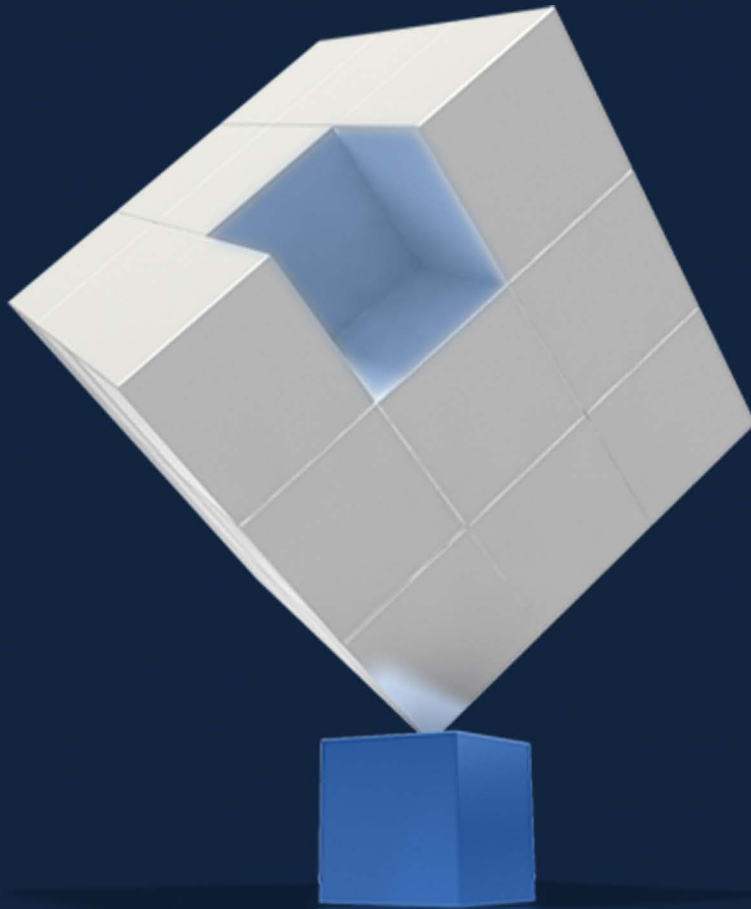


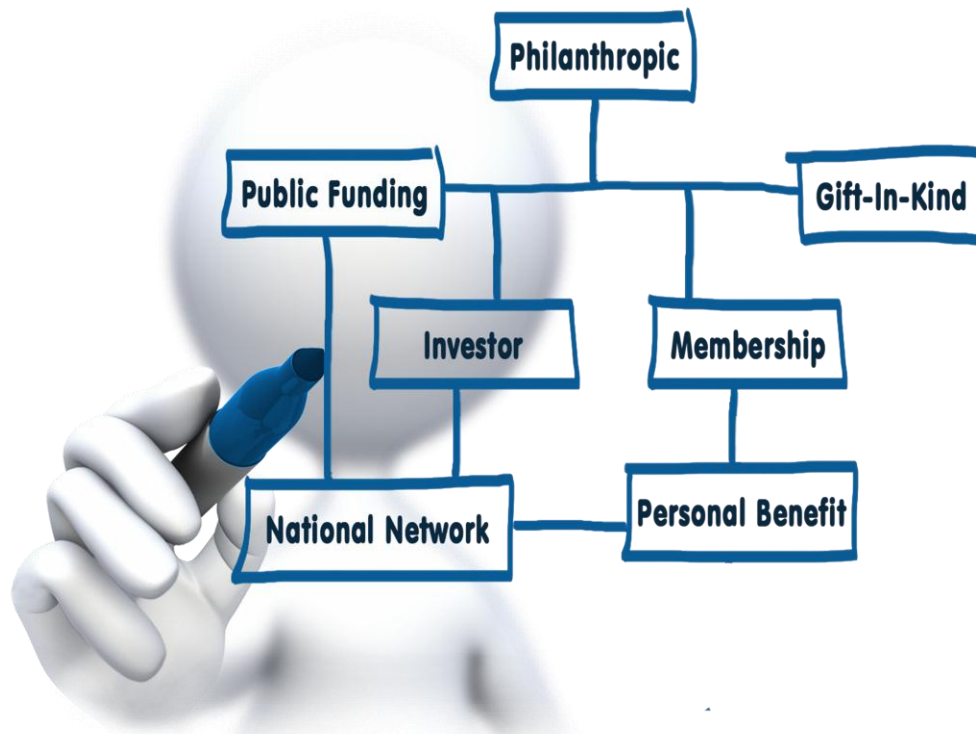
NONPROFIT INCOME MODELS SEVEN FUNDAMENTALS



***...an Overview of the Methodologies
Nonprofits Use to Fund Their Missions***

NONPROFIT INCOME MODELS

THE SEVEN FUNDAMENTALS



ALL NONPROFITS ARE INVOLVED IN TWO SEPERATE ENTERPRISES

Running a charitable organization is more complex than running an equivalent size for-profit enterprise. When a for-profit business finds a way to create value for a customer, it has also found its source of revenue...the patron pays for the value.

Fortunately, this is not true within the 501(c)3 sector.

I say “fortunately” because this dilemma provides the members of our world community the opportunity to collectively participate in advancing the common good.

When a nonprofit finds a way to provide value to a recipient (for example, supporting the addicted population with a recovery program or protecting a rain forest), it has not created a sustainable source of revenue.

Therefore, ALL NONPROFITS ARE IN TWO BUSINESSES.

- A. The Business of providing SERVICE DELIVERABLES
- B. The Business of generating OPERATIONAL REVENUES

The following pages overview seven income models that comprise the majority of revenues generated to accomplish a nonprofit's primary mission. It is based in part on Stanford's Graduate School of Business, "Ten Nonprofit Funding Models" authored by William Landes Foster, Peter Kim, & Barbara Christiansen. Significant additions to their work involve the folding of three of their models into the remaining seven and a re-branding of the model names.

This document creates a taxonomy that provides nonprofit leaders a framework they need to improve their service to the sector and will lead to the creation of new hybrids that further sustain our movement.

PHILANTHROPIC PROGRAM MODEL

Nonprofits using the *Philanthropic Program Model* focus on causes that resonate with the existing concerns of large numbers of people and create a structured way for these people to connect. Some of the more popular causes are in the human welfare, environmental, international and medical research areas. (They are different from nonprofits that rely on individuals with particular faith systems or political leanings who come together to form organizations in the course of expressing their interests). Organizations using this model build networks between volunteers/donors by involving them in the nonprofit's mission.

PARTICIPANTS:

Individuals are main source of funding and involve a broad and varied group of decision makers motivated by altruism.

CHARACTERISTICS:

Statement of mission has broad appeal. Benefits often touch the lives of donor's community, family or friends. Program connects donors to the cause through volunteerism or investment.

EXAMPLES:

Human Welfare (Salvation Army)	International (Compassion International)
Medical Research (St. Jude's Children Hospital)	Environment (Humane Society)

INCOME TYPES:

Special events	Telephone Campaigns	Direct mail	Payroll Deduction
Corporate sponsorship	Major Gifts	Online Giving	

Nonprofit executives making decisions based on the *Philanthropic Program Model* should consider the following:

- a. Can you communicate case for support in a compelling, simple and concise way?
- b. Can you create the infrastructure for at least one geographic prototype to attract and involve large numbers of supporters?
- c. Do you have a significant group of prospects who have already shown that they will fund organizations that address this cause-type?

NATIONAL NETWORK PROGRAM MODEL

There are a number of nonprofits that have grown significantly by creating a national network of locally based operations. These organizations focus on issues such as underfunded schools or children in need of adult role models. Their mission is important to local communities across the country specifically government alone cannot solve the problem. Most of the money for programs is raised locally, often from individuals or corporate donations and special events. Very little of the money comes from government agencies or fees. Very few local operations exceed \$5 million in size, but, in totality they can be quite large.

PARTICIPANTS:

Individuals and corporations provide funding. Decisions are made by multiple leaders and are motivated by altruism.

CHARACTERISTICS:

The issue is one of a few top priorities for improvement or success in a locality and is common enough to exist in many localities nationwide. The level of funding available in any single geographic area is usually limited.

EXAMPLES:

Youth Development (Boy Scouts of America)

Education (Teach for America)

INCOME TYPES:

Special events

Telephone Campaigns

Direct mail

Payroll Deduction

Corporate sponsorship

Major Gifts

Online Giving

Nonprofit executives making decisions based on the *National Network Program Model* should consider the following:

- a. Does your mission address an issue that community leaders consider a priority while compelling in locales across the country?
- b. Can you replicate your model in other communities?
- c. Are you committed to identifying and empowering high-performing leaders to run local chapters of your nonprofit in other locales?

GIFT-IN-KIND PROGRAM MODEL

Many human welfare type nonprofits base their funding on collecting in-kind donations and then distributing these donated goods to recipients who could not have purchased them on the market. Individuals and businesses are willing to donate goods because they would otherwise go to waste (for example, foods with an expiration date), or because the marginal cost of making the goods is low and they will not be distributed in markets that would compete with the producer (for example, medications in developing countries). Millions of dollars are raised annually based on the resale of gifts of furniture, clothing and appliances donated by individuals who benefit from the nonprofit providing disposal services. In-kind donations typically account for the majority of revenues though additional funds must be raised to support operating costs. The vast majority of these organizations are involved in food, agriculture, medical, and nutrition programs that are internationally focused.

PARTICIPANTS:

Individuals and businesses are main source of funding. Decisions are made by a comparatively small group of donors motivated by self-interest.

CHARACTERISTICS:

The nonprofit uses goods that are created in the market economy where there are inefficiencies that create a surplus (for example, food) or where the marginal costs to produce the product are low (for example, pharmaceuticals.)

EXAMPLES:

Human Welfare (Harvest Hope)
International (Food for the Poor)
Medical (MedWish)

INCOME TYPES:

In-Kind Giving

Nonprofit executives making decisions based on the *Gift-In-Kind Program Model* should consider the following:

- a. Can you implement a *Philanthropic Program Model* to secure the finances needed to underwrite operations?
- b. Can you secure products that will be given on an ongoing basis that ensure financial sustainability?
- c. Can you plan for industry trends so as to avoid fluctuations in donations?

MEMBERSHIP PROGRAM MODEL

Many nonprofits and faith denominations rely on funding from individuals (who are members of their organization) because the issues supported or the community created by the charity is integral to their everyday life and is something from which they draw a collective benefit. Nonprofits using the *Membership Program Model* do not create the rationale for group activity, but instead connect with members (and donors) by offering or supporting the activities that they already seek. These organizations are often involved in different faith movements, environment, arts, culture, and humanities.

PARTICIPANTS:

Individuals are main source of funding. Decisions are made by a multitude of donors motivated by collective interest.

CHARACTERISTICS:

Most of the benefits have a group orientation creating an inherent collective community that motivates individuals to give. This group uses the greatest variety of income streams to secure funding.

EXAMPLES:

Churches (Southern Baptist Convention)
Arts & Culture (National Public Radio)
Rights Issues (National Rifle Association)

INCOME TYPES:

Member Dues	Special events	Telephone Campaigns	Direct mail
Tithes	Corporate sponsorship	Major Gifts	Online Giving

Nonprofit executives making decisions based on the *Membership Program Model* should consider the following:

- a. Will your members feel that the organization's programs directly benefit them directly or collectively?
- b. Can you create the necessary infrastructure to engage your members in fundraising?
- c. Can you sustain your funding while remaining true to your member's ideals and goals?

PERSONAL BENEFIT PROGRAM MODEL

These organizations are reimbursed for services that they provide to specific individuals, but rely on people who have benefited in the past from these services for additional donations. Two of the best examples are hospitals and universities. Generally, the vast majority of these nonprofits' funding comes from fees that beneficiaries pay for the services the nonprofits provide. But the total cost of delivering the benefit is not covered by the fees. As a result, the nonprofit builds long-term relationships with people who have benefited from the service to provide supplemental support. Although these donations are often small relative to fees (averaging approximately 5 percent at hospitals and 30 percent at private universities), these funds are critical sources of income for major projects such as building, research, and endowment funds. Donors are often motivated to give money because they believe that the benefit they received changed their life. Organizations using a *Personal Benefit Model* obtain the majority of their charitable support from major gifts.

PARTICIPANTS:

Individuals are main source of funding. Decisions are made by broad group of donors motivated by self-interest followed by altruism.

CHARACTERISTICS:

The mission initially attracts individuals pursuing, and paying for, specific individual benefits. Mission creates a strong individual connection through the delivery of the benefit (for example, spending four years on campus or having one's life saved) Benefits are viewed as having important societal impact.

EXAMPLES:

Hospitals (Johns Hopkins)
Universities (Cornell University)

INCOME TYPES:

Fees-For-Service
Major Gifts

Nonprofit executives making decisions based on the *Personal Benefit Program Model* should consider the following:

- a. Does your organization's mission provide personal benefit to individuals that are also perceived to advance the common good?
- b. Do you have the infrastructure to cultivate alumni or individuals (who have benefited) engaging them in your cause and case for support.
- c. Do persons receiving personal benefit develop a commitment to the organization in the course of receiving your services?

INVESTOR PROGRAM MODEL

Nonprofits using this model rely on major grants from a few individuals or foundations to fund their operations. Often, the primary donor is also a founder, who wants to tackle an issue that is deeply personal to him or her. Although these groups often launch with significant financial backing already secured, there are other instances when an existing organization gets the support of a major donor who decides to fund a new and important approach to solving a problem. These nonprofits are often focused on medical research or environmental issues. The primary reasons that this model can attract sizable donations are two-fold. First, the problem being addressed can potentially be solved with a huge influx of money (for example, a vast sum can launch a research institute to cure a specific illness.) Second, the organization is using a unique and compelling approach to solve the problem.

PARTICIPANTS:

Individuals or foundations are main source of funding. Decisions are made by small group of donors motivated by altruism.

CHARACTERISTICS:

Majority of support comes from a small number of individuals or family foundations. Mission may be fulfilled within a limited number of decades (for example, finding cure to a certain disease.)

EXAMPLES:

Medical Research (Howard Hughes Medical Institute)
Environment (Conservation International)

INCOME TYPES:

Major Gifts

Nonprofit executives making decisions based on the *Investor Program Model* should consider the following:

- a. What foundations or individuals of wealth exist that are interested in your mission?
- b. Can a lasting solution to a major issue be solved in a reasonable period of time?
- c. Can a sound plan be developed that demonstrates how a significant influx of funding will achieve the desired goal?

PUBLIC FUNDING PROGRAM MODEL

Nonprofits using this model work with government agencies to provide essential social services, such as housing, human services, and education, for which the government has previously defined and allocated funding. In some cases, the government outsources the service delivery function but establishes specific requirements for nonprofits to receive funding, such as reimbursement systems or a request for proposal (RFP) process. Organizations using this model often seek other funding sources to augment their funding base.

PARTICIPANTS:

Government is the main source of funding. Decisions are made by local, state, or national authorities and are motivated by collective interest.

CHARACTERISTICS:

Provides services that are perceived as core government responsibility (for example, foster care.) Clear definitions exist of the services and processes that nonprofits must provide (for example, RFPs.)

EXAMPLES:

Human Services (Center for Children & Families)

Education (Reading is Fundamental)

International (United States Agency for International Development)

INCOME TYPES:

Government Contracts

Nonprofit executives making decisions based on the *Public Funding Program Model* should consider the following:

- a. Does your organization's mission align with multiple and existing government programs?
- b. Can you demonstrate that your nonprofit provides superior service deliverables than similar organizations?
- c. Do you have in place the infrastructure to secure contract renewals on a regular basis?

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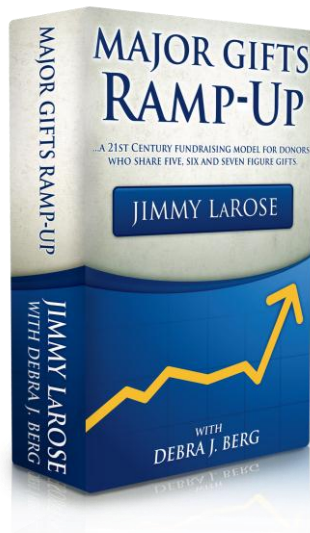
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James P. LaRose, CFRE, CNC known around the world as “Jimmy LaRose the Fundraiser's Fundraiser,” continues to transform nonprofit executives tasked with the raising of money in a tumultuous 21st Century economy. His passion for the nonprofit sector is without bounds and his love for the leaders who serve is unparalleled. His heroes are those men and women of the



charitable world who lay down their lives daily for the hurting and the hopeless. He’s spent the last twenty years supporting executives, volunteers, staff and board members across six continents who spend themselves in service to others. Jimmy is fond of sharing with professionals that, "Money chases after ideas, and there will always be generous people who will amply support a great dream backed by a sound plan." Jimmy is the founder of the National Development Institute, Development Systems International and ProPlatforms.com. He is the author of the internationally recognized fundraising series MAJOR GIFTS RAMP-UP and is the designer of the MAJOR GIFTS RAMP-UP CLOUD, a

complete back-office for nonprofit executives. Jimmy led the design team that established Certified Nonprofit Consultant (CNC), a credentialing process that supports nonprofit executives committed to sharing their management experience with their peers. He is the co-founder of the CauseCause.com platform, an online social media community network that supports citizens of the world committed to advancing the common good. He is the co-founder of DonorScope.com, a web-based research portal that identifies philanthropists, altruists, and leaders and their capacity to give to causes for which they personally care. Jimmy has been credentialed by the National Development Institute as a Certified Nonprofit Consultant (CNC) and holds the Certified Fund Raising Executive (CFRE) certification. He is the founding President of the Western Maryland Chapter of the Association of Fundraising Professionals (AFP) and is a



graduate of AFP's Faculty Training Academy (FTA) and has been named by the AFP as a “Subject Matter Expert” on the raising of money. Jimmy has also served as a specialist with the U.S. State Department's Speakers Bureau and has traveled the world working with embassies, foreign governments, and leaders to promote philanthropy and civil society in developing countries. He is a graduate of Indiana University's Executive Leadership Program, Indianapolis, IN, the National Planned Giving Institute, Memphis, TN, Tennessee Temple University, Chattanooga, TN and the Word of Life Bible Institute, Schroon Lake, NY. Rev. LaRose was ordained as minister of the gospel by the Ecumenical Church of Christ in 2010 to further support his service to the hurting and the hopeless around the world. Jimmy and his wife Dianne make their home in Columbia, SC and are blessed with three children and three grandchildren.



ADDITIONAL ONLINE FUNDRAISING RESOURCES:

www.JimmyLaRose.com

www.ConsultingCertification.org

www.DonorScope.com

www.PAXglobal.com

www.FundraisingFarmer.com

www.facebook.com/nonprofitdevelopment

www.MajorGiftsRampUp.com

www.NonprofitConferences.org

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