A BRIEF TUTORIAL ON BUSINESS PLANNING
FOR NONPROFIT ENTERPRISE
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Compared to the private sector, nonprofits rarely do enough research and business planning before beginning a new program. A structured process that culminates in the presentation of a formal business plan can separate the successful from the unsuccessful.

This brief tutorial offers answers to frequently asked questions and a list of resources on business planning for nonprofit enterprise.¹

What is a business plan?

The main tool for business development is the business plan. A business plan is a formal, written document that describes the business—what it does, how it does it, and why. It is the distillation of research into a comprehensive, coherent, and concise document. Emerging businesses need a written plan to force careful thinking, encourage discipline, forge internal communication, and enhance coordination and clarity of purpose among managers and investors. Business plans help us assess the amount of capital required by a venture, and help to raise it. And, once a business is operating, the plan provides a yardstick against which to define and measure progress.

The key issues addressed in a business plan include market demand, management, human resources, operations, and capitalization. It describes the extent of the relationship between the business venture and the mission of the parent organization. A nonprofit organization writing a business plan for an affirmative business (businesses that provide real jobs, competitive wages, career tracks and ownership opportunities to people who are mentally, physically, economically or educationally disadvantaged) will look different from one whose product or service is supplied by non-client personnel. A nonprofit organization writing a business plan for growing an existing enterprise, as opposed to a start-up venture, has the advantage of forecasts that are based on a financial and operational history. Whether planning for a new or ongoing enterprise, you must make your business plan both comprehensive and compelling.

Typical business plans have several components that, taken together, provide the reader with a complete picture of the financial and operational opportunities and challenges of the nonprofit enterprise. Please visit the National Business Plan Competition for Nonprofit Organizations to review the materials required for competing in The Partnerships on Nonprofit Ventures’ National Business Plan Competition for Nonprofit Organizations.

How does nonprofit business planning differ from for-profit business planning?

In the broadest sense, nonprofit business planning does not differ greatly from for-profit business planning. Both examine the industry and the market for the venture’s product or service, spell out operating and marketing plans, identify organization and management needs, and translate goals into monetary terms via pro forma financial statements. Both determine the purpose(s) for writing a business plan (e.g., to raise capital), and couch the writing in terms of the audience they wish to address.

Differences surface, however, when analyzing the goals of each. In general, the primary goal of private sector enterprise is to make money for its owners. Enterprise among nonprofits, on the other hand, often exhibits several equally important goals. The goals may not always be consonant.

For example, a home for youth ex-offenders may have two goals: to earn a profit through the sale of a product, and to manufacture the product and sell it using the nonprofit’s own clients. This dual agenda, mixing retail sales and manufacture with manpower training, will have an impact on every aspect of the business, from its legal structure and ability to raise capital, to its management team, operating procedures, marketing plan, and “bottom line.” Multiple goals make business planning more complex and harder to perform. Some of the issues associated with pricing products in the nonprofit sector are discussed in Oster, Pricing in Nonprofit Ventures.

Business plans for nonprofit enterprise often reflect a social commitment—the mission of the nonprofit organization is often incorporated into the plan. A nonprofit may seek to generate income, but not, for example, at the expense of the relationship between the nonprofit and the community in which it operates.

What is the purpose for writing a business plan?

A business plan is important because it forces careful thought and research, and facilitates realistic decision-making based on accurate, market-based financial projections.

Merely writing a business plan, however, will not ensure the success of your venture if it is not viable. It will not serve as a smokescreen for hiding management incompetence or financial incapacity.

What a business plan will do is provide management, investors and other stakeholders with the information necessary to substantiate current and future demand in the marketplace, and detail management and financial capacity. It will operationalize your financial and programmatic objectives, and provide you with a guideline for tracking performance and course correcting as required. Further, you can use it as a tool to market your enterprise and attract financing through loans, grantmakers, investors, and other sources.
How do we begin?

The business plan is the natural successor to the feasibility study, the document that examines various ways your business can operate and investigates the conditions that would make it profitable. You may write your business plan before start-up (to raise capital) or after start-up (to raise additional capital, for credibility purposes, or for managerial planning). In either case, you begin writing your business plan when you have gathered all the information necessary to prove that your business will succeed.

How long should it take to complete our business plan?

Recent research with nonprofit organizations indicates that it takes a nonprofit between three and twelve months to research and write a business plan for a nonprofit enterprise.

The time it takes to complete a business plan can vary, however, depending on a number of factors. It depends on the status of the enterprise, as well as the number of staff and/or board members who are participating in the process. It depends on whether you have conducted a feasibility study and, therefore, have data to support that your business concept is solid and market driven, your financial projections are realistic, and your management has the requisite talent and experience. If these components are wanting, the length of time to complete your business plan will depend on how many aspects of the research and writing you need to do, and how many you can do simultaneously.

Clearly, all key parties who will be involved in your venture should weigh in. It does no good to prepare a plan unless it is based on a realistic appraisal by those who will implement it. Our experience is that the entire process goes most smoothly when the organization designates an enterprise “champion” to manage the process and move it forward.

Who should write our business plan?

Several possibilities exist. One is for you to select a staff member, perhaps the potential new business manager, and assign him or her the task of developing the plan. Another possibility is for several staff to jointly write the plan. The team might include the executive director, the financial director, the development officer, the special projects manager, and even board members. Lastly, many organizations work with business consultants to help them research and write their plans—you might want to consider this option as well.

Technically, anyone with a thorough understanding of the business, familiarity with the construction of financial statements, and strong writing skills is capable of writing a business plan. The three most important considerations in determining who writes your business plan are the requisite skills, the available time, and a clear understanding of the relationship and interplay between the business and the exempt mission of the organization.
How long should the business plan be?

Your business plan should be as many pages as necessary to describe your venture and provide the details required to convince the reader that it will succeed. That said, good business writing is succinct and to the point. For example, in describing what business you are in, you should be able to describe it in no more than one or two sentences. Typical business plans for nonprofit enterprise are 40 to 60 pages long.

Should our business plan incorporate a Social Return on Investment (SROI), and if so, how?

The Social Return on Investment (SROI) calculation is a non-financial return sought by a social entrepreneur. These returns vary depending upon the type of business activity, but are found frequently in affirmative businesses (businesses that provide real jobs, competitive wages, career tracks and/or ownership opportunities to people who are mentally, physically, economically or educationally disadvantaged). An example of an SROI is the number of jobs created through an enterprise.

In their financial forecasting, some nonprofit organizations calculate a dollar amount that the SROI represents. For example, calculating the dollars saved by government because a number of personnel are able to withdraw from the welfare roles by virtue of their employment in the nonprofit's business venture.

According to some investors, calculating a SROI improves the “bottom line,” and presents a very compelling argument for funding and other types of support. If applicable to your enterprise, you might want to include an SROI in your business plan. Developing the SROI calculation depends on the nature of your enterprise. For more information on how-to’s, see the list of resources below.

What resources will show us how to write a business plan, and where can we see examples of well researched and written business plans?

There are numerous business planning guides on the market that provide guidance on writing a business plan. Although the sequence and details may differ, most provide outlines for covering the same general categories. A visit to a local library or bookstore will prove a useful way to begin your search.

Most of these guides, however, are geared toward enterprise in the private sector. They do not include components important to nonprofit enterprise, such as a description of the mission of the nonprofit, the purpose and goals of its business venture, and the operational, financial, and legal relationships between the nonprofit and the new business venture. Clearly, they do not provide guidance to businesses that incorporate the double bottom line—enterprises that combine the strategies of business with social purpose mission.
Yet, a number of authors and practitioners have done just that. Although not always found in libraries and bookstores, their writings are directly targeted to the goal of business planning for nonprofit enterprise.


