

## Upfront

# **The Profitable Nonprofits** **Almost half of revenue-seeking organizations are in the black**

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## SOCIAL ENTERPRISE

# The Profitable Nonprofits

*Almost half of revenue-seeking organizations are in the black*

There is a buzz about social enterprise. The promise of nonprofits being able to sustain themselves and becoming masters of their own future is indeed alluring. But is there substance beyond the sizzle? Are these enterprises delivering on their promise of revenues? And are the goods or services offered by these enterprises consistent with the missions of the parent nonprofits?

To find out, Community Wealth Ventures (CWV), a consulting firm, conducted a telephone survey of executive directors of nonprofits with for-profit ventures. One hundred and five executive managers completed the survey.

The study dispels a number of myths about social enterprises. The survey found that most of the organizations that now run social enterprises did not plan for them. Indeed, more than 43 percent of nonprofits surveyed professed to having minimal or no business experience at launch. For example, Common Ground Community, a nonprofit that develops housing for the homeless in New York City, did not set out to be a social venture business operator. But now, after years of operating a Ben & Jerry's PartnerShop, founder Rosanne Haggerty views Common Ground's for-profit venture as "a critical element of our financial strength and our ability to broaden our work into new programs serving the homeless."

How common was it for other nonprofits to operate ventures that were tied to their mission? An overwhelming majority of nonprofits (78



percent) say that they engage in business ventures closely aligned to their mission statement. The reason for this may be pragmatic. Such business ventures may be easier to launch and may raise fewer eyebrows from skeptical donors and other funders. The top five most popular business types are thrift stores, employee training, clerical services, light manufacturing, and consulting services.

The nonprofits reported that on average, a \$200,000 investment is needed to start the business venture. How likely was it for a nonprofit to recoup its money after that investment? Forty-two percent of executive directors reported that their social ventures were profitable. Twenty-seven percent broke even, and 13 percent admitted to losing money. Orga-

nizations took an average of two-and-a-half years to break even. When taking into consideration Small Business Administration statistics that indicate about half of all new businesses fold within four years, these ventures seem to be faring above average.

Like most business startups, it pays to have capital. Annual gross revenues from the ventures were related to the size of the parent nonprofit organization. For smaller organizations (under a \$1 million operating budget), ventures generate average annual revenues of \$167,000. For \$1 million to \$5 million organizations, annual gross revenues from ventures average about \$600,000. For organizations with annual budgets over \$5 million, the ventures tend to be much larger. About 25 percent of these organizations reported annual gross revenues of \$5 million or more.

Although larger and better-financed nonprofits are likely to be more profitable, that doesn't stop the small guys from jumping into the moneymaking fray. According to CWV, one in three organizations surveyed operate with budgets under \$1 million and about half (46 percent) are community-based.

—Miguel Unzueta