

## Upfront

### **Listening is Lucrative** **The most successful nonprofits pay close heed to their markets**

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## Listening Is Lucrative

*The most successful nonprofits pay close heed to their markets*

On a chilly Friday evening this October, more than 9,000 San Franciscans gathered at the city's Civic Center Plaza to watch a simulcast of *Rigoletto*, Verdi's classic opera. As the San Francisco Opera performed indoors at the nearby War Memorial Opera House, huge LED screens and concert-quality speakers simultaneously projected the performance to the masses outside. To bring in as many people as possible, the San Francisco Opera not only charged no admission to the simul-

cast, but also doubled its efforts by broadcasting *Rigoletto* 36 miles to the south at Stanford University's Frost Amphitheater. At this second site, some 3,000 more people gathered to watch and listen.

The San Francisco Opera hasn't always been so people-pleasing. Five years ago, the organization almost went bankrupt, relates Keith Cerny, its executive director and chief financial officer. Since that time, the organization has launched two major

research projects to broaden its reach and increase its revenues, he says.

For the first project, a team regularly e-mails patrons with surveys to find out what they want to see, how they want to see it, how much they are willing to pay or donate, and what they expect in return.

The second project, a high-tech pricing study, reveals how much patrons will pay to sit in different sections of the 3,148-seat house. Using the results of the pricing study alone, the opera company has raised ticket revenues more than 5 percent, Cerny reports.

Not all nonprofits are as market-oriented as the San Francisco Opera. But they should try to be, suggest the research findings of Aviv Shoham, Ayalla Ruvio, Eran Vigoda-Gadot,

## A Tarnish on Green Goods

*Why eco-friendly products may be bad for the environment*

Not so fast, dear Prius-driving, Fair-Trade-coffee-drinking, organic-produce-eating, hemp-wearing, solar-energy-using, wind-up-radio-listening *SSIR* reader! Green products may not save the world after all, shows Matthew J. Kotchen, an assistant professor in the Donald Bren School of Environmental Science & Management at the University of California, Santa Barbara. Indeed, if green products crowd out money that used to go to environmental nonprofits, they may actually make the environment worse, he writes.

Kotchen presents his findings in the August 2006 issue of the *Journal of Political Economy*. Like many theoretical economists, he bases his findings on mathematical models, rather than on observations of people's behavior. Starting from the fact that green products usually cost more than conventional products, Kotchen's model suggests that people who would ordinarily make donations to environmental nonprofits may now redirect that cash to cover green products' higher prices. If the green products do a worse job of protecting the envi-

ronment than did the nonprofits, then the environment will ultimately suffer.

"Consumers need to be more interested in what the technology of a green product really is," says Kotchen. "They should also be cognizant of how their use of that product affects their charitable giving." Governments too should be more cautious of green products, he says: "There is a big push to having a more decentralized approach to environmental policy. But even if firms innovate on their own, their products could be detrimental to the public good."

Other social innovations may likewise have a dark side, notes Kotchen. Goods produced by social enterprises, investments in socially responsible companies, and campaigns that donate a percentage of a firm's profits to a charitable cause, such as the Gap's Product Red campaign, may similarly compete with nonprofits for donor dollars.

"On balance, I am optimistic that green products will have a positive effect," says Kotchen. "But we have to be careful."

—A.C.S.

and Nitza Schwabsky, all of the University of Haifa in Haifa, Israel.

These researchers conducted a meta-analysis of existing studies to find out whether nonprofits' marketing orientations – that is, how well they get and use information about their customers and competitors – affect their performance. Because meta-analyses account for the results of many different studies, their findings are often more reliable than those of any single study.

The meta-analysis appears in the September 2006 issue of the *Nonprofit and Voluntary Sector Quarterly*. For it, the authors combine findings from 11 prior studies that explored whether organizations that monitor their markets are more successful. The studies included a total of 1,589 nonprofit organizations, representing six nations and the domains of higher education, the arts, healthcare, and local government. They used sundry scales to measure market orientation, as well as sundry indicators to measure performance. For example, one study of universities used high numbers of students and applicants as indicators of good performance, while another study of theaters used good reviews of plays and hefty donations as its markers of success.

Using sophisticated statistical techniques, the authors find that, across these studies, the more market-oriented an organization is, the better it performs. "Some say that market orientation is a buzzword," says Shoham. "But most studies find that it is worthwhile to invest in it and maintain it."

Shoham offers concrete advice to nonprofits that want to be more responsive to their beneficiaries and donors. "First, you need to measure your organization's market orienta-

The San Francisco Opera drew more than 12,000 people to outdoor simulcasts of Verdi's *Rigoletto*. To learn its patrons' desires, the company conducts extensive marketing research.



tion on a regular basis," he says, perhaps using one of the self-report measures that are most popular with marketing researchers.

Cerny partially agrees. "I don't use those instruments, but I think that way," he says, partly because he developed similar measures in his past jobs at Accenture and McKinsey & Company. In lieu of these self-report measures, "we have a lot of sophisticated sales tracking and reporting tools," as well as the other surveys, he says.

Shoham also advises that "top management needs to create an awareness that the organization needs to be market-oriented."

Finally, he recommends that organizations keep an eye on their competition. "Ask your stakeholders to rate other organizations that are similar to yours in mission and operations," he

says. "You always want to be the best, subject to cost."

The San Francisco Opera is among the best opera companies. And although it also has the second-highest revenues of any opera company in the United States, Cerny doesn't think that other groups need such deep pockets to meet their markets' needs. "A lot of it is mind-set," he says, "and having access to the ideas." Operas, for example, can look to Opera America, the national trade group for opera companies, for audience outreach ideas, he notes.

"Nonprofits have to be as market-driven as any for-profit enterprise," Cerny concludes. "You have to have the data and analytical tools to understand your customers at a personal level."

—A.C.S.