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Planning to Succeed

by Vicki Gillette and Susan Christian

Preparing a Business Plan for Your Nonprofit Organization

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What Is a Business Plan?

Even if you've heard of "business plans," you may not be sure just what one is—or why you would need one.

A business plan is a comprehensive statement of the financial and operational risks and rewards of a proposed enterprise. Or, to put it another way, it is a detailed description of how an organization will deliver its products or services and, while doing so, survive financially.

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For-profit enterprises—from multinational corporations to your corner coffee shop—regularly rely on business plans, and the planning process, to guide their operations and attract financial backing. Nonprofits can benefit from their experience.

A business plan serves two basic purposes. First, it is an internal tool to help your organization plan, manage, and evaluate its programs. The business planning process will force you to confront the realities of your market—customers, resources, and competition—just as for-profit businesses must do. It will require that you analyze the hard numbers—what will your program cost and how can it be supported?

The business plan's very existence, because of the analysis and thinking that it requires from the entire organization, will improve the likelihood of future and continued success for its efforts. Your business plan also becomes the document that demonstrates your preparation, ability to perform, and worthiness to potential funders and investors. In preparing its business plan, your group will have to focus both the thinking and the presentation required for submitting successful funding requests.

It will require you to answer the tough questions of feasibility and sustainability—and to do so in the terms that business people understand. Take note of the people who will be reviewing your request for funding at any foundation or financial institution—business people, almost all of them!

This booklet provides you with the information and guidance you need to create a sound, logical, comprehensive business plan for your nonprofit historic preservation organization.

Why Do You Need a Business Plan?

"We're a historic preservation organization, for heaven's sake. We do good and important things. We deserve to continue our work, and we deserve charitable support to do that work!"

Many nonprofits carry this attitude with them as they embark upon the continuing challenge of fund raising—the nonprofit organization's equivalent of seeking venture capital.

But, we certainly won't be the first ones to tell you—it's a changing world out there. Financial resources are limited and getting scarcer each day. The competition for those resources is tighter—from organizations similar to yours as well as from completely dissimilar ones approaching the same funders for the same dollars that you are seeking.

Of course, you need to perform well if you hope to attract outside support. Everyone agrees that effective public interest activities that enhance their communities are important. But a warm and inspiring charitable purpose is just no longer sufficient. You can be committed, sincere, and even effective, but that alone just won't cut it in this competitive funding environment—because lots of other people and organizations are meeting those same tests too!

Your nonprofit organization needs to be able to justify itself—market-wise and financially—just like for-profit businesses do. You need to think more like business and act more like business—and financial sustainability is the key to your long-term survival.

The business plan's very existence, because of the analysis and thinking that it requires from the entire organization, will improve the likelihood of future and continued success for its efforts.

You need to demonstrate your ability to use every dollar effectively, stretch those precious dollars to the limit, leverage all available resources—and still get the job done better than "the other guy."

Increasingly, funders are demanding this level of financial and management savvy, whether they say so out loud or not. When they compare their options for providing financial support, they are going to look for evidence of program effectiveness—positive impact, making a real difference—and cost effectiveness—doing so with an appropriate cost ratio.

Frankly, business planning improves your nonprofit organization's chances for success. Organizations that are analytical and responsive, thorough in their market research, and strategic in their program design will simply *be* more effective.

For What Kinds of Activities Do You Need a Business Plan?

Your organization will benefit from developing a business plan whenever you are considering, initiating, or expanding an activity that:

- is expected to be a long-term or ongoing program, especially if it is "core" to your mission;
- requires a significant investment of money—especially somebody else's money—up front and/or throughout the life of the project; or
- entails risk—to your financial status or public reputation—that makes careful decision-making essential.

A business plan will help your nonprofit organization:

- focus its efforts;
- operate more effectively in a competitive marketplace;
- demonstrate financial and program viability;
- be cost effective; and
- monitor its performance and progress.

This activity might be a service—such as providing loans through a revolving loan fund, or sales assistance through a real estate agency that specializes in older properties. This activity might be a product line—such as selling historically inspired wallpapers and fabrics, a collection of art reproductions and notecards, or a series of publications.

Your organization might be looking to start or expand a retail operation such as a bookstore/gift shop. Or your group could be responsible for a major event or event series, such as an annual Old House Fair, an extensive annual homes tour program, or a training institute teaching restoration skills to homeowners, contractors, and craftspeople.

You'll need a business plan even if your venture is not designed to make money. Suppose your group is considering acquiring a vacant historic building to restore and open to the public as a museum. Even if you charge admission, you'd be unlikely to ever recoup the considerable costs involved. Your "profit" may come in the form of intangible benefits to your organization and your community in preserving an important site and in conserving, sharing, and celebrating local history.

But your organization, and the funders you'll appeal to for contributions, will still need thorough information on the anticipated costs, expected use, and potential benefits before they can make an informed decision on whether or not to support the project. What is the amount of continuing "subsidy" that will be required for this endeavor? And, relative to other community needs, is it worth it?

To the degree that you can maximize the project's earnings and minimize the needed "subsidy," you increase the likelihood of funders delivering that subsidy. They'll say, "Wow! What a bargain! They've taken advantage of every local resource and there's only this little gap left to fill in order to assure their success."

Your nonprofit organization needs to be able to justify itself—market-wise and financially—just like for-profit businesses do.

Strategic Planning Versus Business Planning

Sometimes, the terms "strategic plan" and "business plan" are used interchangeably. They are, however, distinct and different products—though they are created by similar processes within the organization.

Strategic planning is establishing a vision for your organization's future, clarifying its mission, defining its values and operating structure, and describing its programs to achieve the mission.

Business planning is describing how you deliver your products and services, characterizing the market context for that decision, and analyzing the risks and rewards inherent in that choice.

The Similarities

Let's first explore their similarities. Strategic planning and business planning share some important content and components:

- they both require a process for thinking *before* acting, and for evaluating the results of a group's actions periodically throughout the life of the organization or enterprise;
- they both identify the market served or to be served;
- they both include a market assessment or analysis;
- they both identify the organization's overall vision, mission, goals, and objectives;
- they both describe the organization's products and services; and
- they both characterize the organization's capacity to deliver.

Strategic planning and business planning also share some purposes:

- they both serve as an internal guide to the organization's operations;
- they both facilitate the periodic tracking or evaluation of progress; and
- they both are used to get "outside" financial support, although usually different types of support: strategic plans are used to attract funding or contributions; business plans to obtain loans or investments.

The Differences

A strategic plan and a business plan also differ in significant ways. The focus of each is different, the level of detail for each is different, the "lingo" or terminology is different, the audience is different, and many of the components are different. Examining those differences will demonstrate that, even if you already have a strategic plan—and even if it's absolutely wonderful—it will *not* suffice as a business plan.

Focus: The focus of a strategic plan is "organizational"—identifying how the organization will achieve its mission. The focus of a business plan is on an "enterprise,"

The Strategic Plan

- has an organizational focus
- involves a decision-making process
- makes statements about internal and external circumstances that are assumed to be true
- describes program success
- includes a one-year budget
- uses nonprofit terminology such as:
  - community
  - needs
  - clients
  - budget
  - outreach

The Business Plan

- has an enterprise focus
- assumes that decisions have already been made
- requires proof of external demand, internal capacity
- describes financial success
- includes multi-year projections (balance sheets, income statements)
- uses for-profit terminology such as:
  - market
  - demand
  - customers
  - financials
  - sales

a product or a project—such as a business or money-making venture of the nonprofit organization.

Decision Status: Strategic planning involves the process of reaching certain decisions, based upon an analysis of the situation. Business planning, on the other hand, assumes that those basic decisions have already been made and that the venture under consideration is both feasible and a valid pursuit of the organization's mission and goals.

Level of Proof: In a strategic plan, various statements (regarding external need, internal capacity, and expected results) are assumed to be true and can be simply asserted without challenge. In a business plan, however, these assertions must be backed with research findings, assembled data, and detailed descriptions.

For example, your business plan cannot simply assert that your organization can carry out the proposed project effectively. It must instead fully describe the expertise and experience of your management team—and how that team will be able to successfully overcome expected and unexpected barriers.

Your business plan cannot simply assert that there are plenty of folks out there who either like or want your services. It must instead document who those customers are, how many there are, why you know they will buy what you are selling, and how you stack up against the competition.

Your business plan cannot simply state that the proposed enterprise will be successful, but must identify the potential risks—as well as how those risks will be mitigated—and quantify the prospective rewards.

Defining Success: A strategic plan describes the organization's path to program success—serving its community and achieving its mission, goals, and objectives. The business plan describes the *financial* success of the proposed enterprise—how it will deliver its services and bring in sufficient revenue to cover its costs.

The business plan describes the financial success of the proposed enterprise—how it will deliver its services and bring in sufficient revenue to cover its costs.

This is true even if you are writing a business plan for a wholly charitable venture—one whose primary sales pitch is to charitable funders and whose only customers are recipients of a free service. In this case, there are still "customers"—and, in fact, two different customers.

There are the person(s) who respond to the offer of services because they need or want them, and there are the institution(s) that will pay for those services. In this case, you will have to explain why the service is provided free (or at a reduced fee), whether there are more or fewer (or different) customers if you increase or decrease the price, and why any third party—the proposed funder, for example—should be willing to cover the rest of the delivery costs.

Financial Details: The strategic plan includes a one-year expense budget for the organization. This provides a sense of overall program scale and exhibits evidence of the organization's financial management policies. It may also include revenues for that year, indicating various sources of support for the organization or its specific program activities.

The business plan, on the other hand, must include financial projections for several years into the future—typically for three to five years. These projections include not just expenses and revenues but the details regarding cost of goods, cost of delivery, earning on each "sale," as well as gross and net "profit." Finally, these projections include annual balance sheets—a description of the financial condition of the venture under consideration for each future year.

Terminology: The strategic plan typically uses cozy and comfortable nonprofit "speak"—terms such as community, needs, clients, budget, and outreach. The business plan adopts the less-familiar language of business, instead using such terms as market, demand, customers, financials, and sales.

For the remainder of this booklet we will be using "business speak" (and providing translations as necessary).

When Do You Prepare a Business Plan?

It's almost always a good time to prepare a business plan—especially if you don't have one in place (or don't have a current and well-developed one). But, a business plan is particularly valuable and appropriate prior to initiating a new venture, starting a new program, expanding your scale, tackling a new market area, or seeking funding—or financing—for your efforts. By the way, in this context "financing" refers to borrowing funds for the proposed venture.

One exception to the "anytime is a good time" rule, however, is when an organization is "in crisis." If you are not sure you can make payroll in the next few weeks, or your executive director has just resigned, this is not the best time to refine the infrastructure (even though sound planning might have prevented this crisis as well as the next one).

A business plan is usually prepared *after* a strategic plan—and organizations really need both. The strategic plan—with its broader organizational focus—is essential during the creation of the nonprofit entity and at regular intervals thereafter. It facilitates the refinement or affirmation of mission; it documents needs; it describes the basic program or approach; and it is the basis for general evaluation of program impact against mission—for measuring your progress over time. These are matters that must be decided before initiating operations.

When the strategic plan is sound and when the stakeholders have affirmed the mission, goals, and objectives, then the business planning can begin in earnest—evaluating the operational and financial feasibility of each proposed "enterprise" within that bigger picture.

The Components of Your Business Plan

A business plan has standard components which, in somewhat logical order, present the case for your proposed "enterprise." These elements can vary in their order (or combinations of topics) but they typically include the following components, within which your organization can answer a specific set of questions.

One overall suggestion regarding the presentation of all these topics: It is almost always smarter to admit your shortcomings—and describe your plan to remedy them—than to present a falsely positive picture about your capacity to deliver. Experienced funding sources will see the flaws and your organization will appear more self-aware if you have seen them, too, and have had the maturity to disclose them.

1 *Executive Summary*

The executive summary briefly presents the business plan's key points in two pages or less. It is, of course, prepared after the rest of the business plan. It is useful to use graphs or bulleted lists to facilitate quick review by a reader.

Key information for the executive summary includes:

- The business or enterprise (or project) name.
- Identification of the owners (or managers) and their qualifications.
- A listing of products and services.
- A description of market demand and possible competition.
- Your sales and delivery strategy.
- Expected financial results (and especially for nonprofits, expected "mission" results).

2 *Business Description*

The business description answers certain specific questions about the venture's history, industry position (see below), and location of operations. For the nonprofit organization, it should also address how the proposed enterprise fits within the organization's socially responsible mission.

To describe the business, you should:

- List the owner's name and contact information. For the nonprofit, this may be identification of the "parent" or sponsoring organization(s). Perhaps your annual holiday card sale is a joint venture between the historical society, the chamber of commerce, and local architects.
- Provide a description—maybe even a chart—of the corporate structure. Is your enterprise part of or related to a larger organization with other lines of business? Does the museum have both a gift shop (owned by the auxiliary) and a speaker's bureau (governed separately by the Advisory Committee)?
- Describe the business activity itself. For example, you might be proposing "a revolving loan fund to facilitate the acquisition and rehabilitation of historic properties by local entre-

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5. Competition
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preneurs," or instead "an annual Old House Fair to encourage preservation and restoration of older homes and to promote local businesses that provide related products and services."

- Categorize the current status of the enterprise as either new or existing. What is its track record to date? Perhaps ticket sales to your spring walking tour have increased by 20 percent annually since 1990, giving credence to your projections of continued future increases.
- Identify the specific site of the business. Is it located in a specific neighborhood or limited to working within a particular political jurisdiction? Why? Could it eventually expand, or is that not likely?
- Describe how the enterprise furthers your organizational mission. Describe its goals for impact—an impact related to mission. Presumably, the sale of t-shirts has some impact on your community "presence" and your reputation. Your goal is to increase your influence with other residents, not just make a fashion statement.
- Identify the venture in relation to its broader industry or sector. For example, your revolving loan fund might be described as "one of a growing number of special-purpose RLFs established in urban and rural communities across the country to provide affordable loans for community development efforts that cannot access conventional financing. These RLFs range in size from $100,000 to more than $25 million in capital and have an exceptional record of lending with cumulative loan losses of less than 1 percent."

3 *Management*

Some business analysts say that this is the single most important section of a business plan—in terms of how critical it is to funders, lenders, or investors. If the people involved have the requisite skills and expertise, they will be able to make the project work—even when various future events don't occur as expected. It is the management's capacity to perform that provides confidence in the future of the enterprise.

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A description of management includes:

- Affirmation of the owner's or sponsor's relevant professional expertise. For the nonprofit, this will typically be the organization's experience in this "industry" or field. A preservation society with 50 years of accomplishments will have more credibility than a new organization or one embarking upon a completely new type of enterprise.
- Identification of the project's key managers, their skills and experience, and how that experience connects to their assigned duties. You should attach their resumes to the plan while summarizing them in the narrative. This is particularly important if your venture is "new" to the organization—such as evolving from property maintenance and renovation to actually buying, selling, or managing real estate. Have these people worked together successfully before?
- Description of other personnel or team members, beyond the "key managers." Identify key professional advisors such as legal counsel, the accountant or bookkeeper, your architect, the payroll company, the auditor, and your banker. If you are planning to restore and resell properties, perhaps you have a construction supervisor and a team of experienced subcontractors. If you sponsor a revolving loan fund, you may have a financial packaging specialist who helps arrange bank loans. Perhaps your gift shop is managed by someone with extensive retailing experience. And, finally, are there volunteers involved and do they also have related skill and some experience working together?
- The skills of your key board/committee members. How will you remedy any current or anticipated skill gaps (on the staff or on the board)—with training, with new recruits, or both? If the program grows over time, how will the team grow to handle that increased level of activity?
- A summary of your management policies and procedures, including an organizational chart, personnel policies, the compensation structure, and internal financial controls. These are the rules under which the team functions, with identification of supervisory authority, employee responsibilities, and the handling of funds.

4 *Product and Services*

This section contains a description of what you do, how you do it, to whom you sell or deliver your products, and how each line of business fits together into a cohesive business approach. To adequately define your products and services you should:

- Describe the product lines as well as specific products and/or services. You may have a single line of business—such as real estate development—but specialize in arranging soft-second mortgages for single family homes or, instead, in converting old warehouses for lease as office space. Or you may have an array of related activities—arranging financing for other real estate developers, making loans on unconventional deals, providing small grants as incentives for preservation, and providing educational seminars on how to finance the purchase of historically significant buildings.
- Define your pricing strategy. What are you charging for your services, and why? If it is "market rate" or a concessionary—or discounted—price, explain your rationale. For example, you may be engaged in real estate development in a hot market where you can sell or lease the buildings for the same rate that any other developer would—but just be more sensitive to retaining the historical character. Or, you may be restoring small homes in a historic neighborhood likely to attract families of modest income and a subsidized price will be necessary to allow them to purchase. If you want a broad audience of community residents to attend your homes tour—for the exposure and esteem it will build for your new organization—you may price tickets at a low price, offer group discounts, or even give away tickets to assure a good crowd.
- Connect each product to a specific market demand. Perhaps you get dozens of inquiries every year asking for holiday greeting cards, and you are finally going to respond by creating them. And if you are offering more than one type of product or service, do you expect that one will be far more popular than another?
- Describe your industry—especially peers that have enterprises similar to yours—and how their experience provides guidance for your choices. Within the broader "historic preservation" sector, there are museums, house museums, other special sites (commercial, industrial, nautical, agricultural, entertainment), urban neighborhood-wide districts, and rural multi-county areas of involvement—among others.
- Explain how each program component furthers the overall goals of the organization. A fund-raising event can build name recognition, promote your reputation, encourage participation and support for your mission, educate about preservation issues, and raise money. How will you know if you've achieved these kinds of goal(s) for the enterprise?

5 *Market Analysis*

Analysis of the "market" is an area of significant challenge to nonprofit organizations. You are used to describing community needs—all the things that are wrong, difficult, challenging, or missing in your service areas—in order to garner a sympathy vote in the form of financial support. But "need" is not the same as demand.

The important question in terms of business planning is: Who will buy what you are selling?

- Identify your customers—current or prospective. Who are they? And how many such customers are there? You should be able to describe the kind of people (or other businesses) who will buy your products, how often, and why.

The important question in terms of business planning is: Who will buy what you are selling?

- Characterize the location of your customers—where you'll find them. Is yours a local, regional, or national market? If you buy and sell real estate, your customers may be neighborhood residents or else people from all over the country drawn by other attractions in the region. If you sell a line of historic fabrics and furnishings, you may sell to walk-by traffic that sees your window display, or through a mailed catalog, or through your new website.

- Describe the location of your "market area," its overall size—in terms of geography and demographics—and your reason for selecting it. Perhaps the historic district you serve has small formal boundaries but wider influence in nearby neighborhoods. Your educational seminars, therefore, might be targeted to local residents and businesses in the historic district but attract many participants from the entire community. Maybe your market area has the potential to expand if you are successful. On the other hand, maybe there is a demarcation line that cannot be crossed regardless of effort.
- Define the demographic and economic circumstances or trends of your market area. For example, do your prospective customers have disposable income or limited means? Is your real estate program operating in an area facing gentrification? Or is it an area with more abandonment and demolition in the wind?
- Are there enough customers for what you sell? And how do you know this?

6 *Competition*

Nonprofit organizations often think that the notion of competition is just not applicable to their situation. Typically, few others are trying to beat them at their game—there's just not enough money in it!

But you do indeed have competition. Sometimes that competition comes in the form of efforts that contradict yours (someone trying to demolish that which you are trying to save). Or it comes in the form of friends and allies who, without malice, are competing with you for limited resources. You need to know who all the players are, what their game plan is, and how to position yourself to succeed.

- Identify your competition. Will your Old House Fair compete with other house-and-garden events? Perhaps the weekend selected for your event is also homecoming weekend for the local college and nobody will be able to park. Are you trying to acquire a significant landmark building when other developers have different plans for the entire block? And is the city trying to tear down that commercial block? If you apply for funding support, might you be going head-to-head against the local homeless shelter seeking funds for a more life-threatening community need?
- Explain the businesses, projects, or issues of your competitors. Are they successful in their efforts (a real threat) or troubled (and, therefore, so not so troublesome to you)? How might this competition change over time?
- Identify whether that competition offers opportunities or just impediments. Does it look like you will need to join forces rather than duplicate efforts? Or, better yet, is there an opportunity to collaborate (or co-opt) and manage the situation to your advantage?
- Be sure to examine whether there is competition for resources—both financial resources and personnel. How does this affect your proposed approach?

You need to know who all the players are, what their game plan is, and how to position yourself to succeed.

7 *Sales, Marketing, and Delivery*

So, you have proposed to offer a wonderful service and you have the requisite expertise to provide it. You open up an office, hang a sign outside, sit down behind your desk—and wait for the customers to come streaming in. Right?

- Describe how will you find your customers. Maybe they've been calling you for months begging you to offer an architectural auction but, then again, maybe they don't even know they *should* want those treasures.
- Outline how you will convince customers to buy what you have to sell. How will you convince them to switch from what they use now—switch from low-cost conventional colors to more expensive but historically accurate exterior house paint—especially if now some of the local residents are just going without painting at all?
- Identify the particular census tracts, neighborhoods, or counties that will have access to your products or services. Do you need to target your advertising and promotion to specific audiences such as low-income families or can anyone buy from you without limitation?

- Quantify your volume of sales and, therefore, your volume of production. Can your gift shop sell as much in the winter months as in the summer? Will you meet most of your annual sales goals in the months between Halloween and Christmas?

Characterize the direct results of your existence. This is the equivalent of for-profit "reward."

- Prioritize your sales or services. For example, if you manage a revolving loan fund, is your emphasis on arranging for conventional financing or on making the loans yourself? Do you have a particular reason to focus on serving persons of limited income, or minority families, or local residents? How do you give preference to your most critical customers?
- Characterize the direct results of your existence. This is the equivalent of for-profit "reward." How many buildings will be preserved? How much of the neighborhood will be renovated? How many demolitions will be prevented? How many individuals will have an increased appreciation for their neighborhood's historic and architectural significance?
- Describe potential secondary impacts. Will your program change the behavior of others? You may raise $12,000 with the homes tour, but perhaps the ultimate goal is the creation of a new or expanded historic district. You may restore six historic houses yourself, but perhaps this will also inspire other families to restore the exteriors of their nearby homes.
- Describe the prerequisites for your success. Does the city have to decide it's not going to demolish the warehouse district before you can start engaging in acquisition and rehabilitation? What happens if historic preservation tax credits disappear? And what if the local newspaper decides to no longer put a free advertising insert in the paper one week before your annual homes tour?
- Identify any economic, political, or "learning curve" impediments that may be in your way. Are you simply short of the initial capital to make this activity a reality, or do you have to develop some new expertise as well?
- Describe the assumptions on which you base your plans for sales, earnings, and impact. It could be as simple as hoping it doesn't rain on your parade—literally! How likely is it that your assumptions are mistaken and what is the potential impact of that error? What are the risks that something completely unanticipated will occur to block your way? How can you limit the risks—such as renting tents for the picnic? And what are your mitigation strategies—a way of surviving regardless—such as getting pledges from a special group of donors to cover unexpected cash shortfalls in an emergency.

8 *Operations*

This is the "nuts and bolts" description of how the internal machinery of your enterprise works. The fuel gets poured through a little pipe into this container, it goes around and around inside the engine, it receives a controlled spark mixed with air at just the right moment, the engine turns the crankshaft, and—voila— the car moves forward.

A full description of your operations should explain:

- How you create, develop, and deliver your product or service. Does it take three days or three months to process a customer's order for historic fabric?
- Who is involved at each stage in the operation. Do you have a loan review committee that makes decisions on loan requests? Do you have an appraiser who determines property value? What skill or expertise is needed at which step?
- Whether you are starting small and expanding later, or starting out full size. Will you be a generalist or a specialist?
- What licenses, permits, approvals, zoning, insurance, bonding, and training you'll need before you start.
- Any technological infrastructure you have (or need) including necessary office equipment and software.
- What policies and procedures have been established for handling transactions, such as loan underwriting criteria.
- The nature and extent of your working relationship with all other relevant parties, including vendors and suppliers.
- How projects get approved and how progress is evaluated.

- How you will manage your real estate assets, if any—property you own, manage, buy, or sell—and your capital assets—such as funds used for development, lending, or providing grants.

9 *Financials*

This section answers the question: Is this enterprise financially viable? And that is usually the bottom-line question for every business enterprise. In the case of a nonprofit organization, its "bottom line" is a little less precise because a nonprofit organization sometimes has the option of soliciting charitable support to make up the difference.

Is this enterprise financially viable?

Still, you want to know and present the financial implications of your proposed effort including a description of:

- Your approximate expenses and revenues from annual operations. If the operating expenses of the gift shop are included within the overall budget of the historic property, you will want to pull out specific data about the shop in order to determine *its* own costs.
- The cost (to you) to create each product or deliver each service, as well as the amount you can sell it for. This tells you how much "profit" comes from each sale. For many activities, your costs of delivering is fixed—for example, it costs not much more to have 500 people attend a special film than to have just 200. For other events—like a progressive dinner—it costs more for every additional person who registers.
- How your organization, will remain solvent until it reaches its projected "break even" point on its activities. From whom and how will you cover the difference between actual costs and actual expenses—perhaps from charitable contributions, or earnings from your endowment, or annual fund-raising events.
- The reliability of your operating funds, especially those that come from external sources. If the city gives you an annual allocation, how certain are you that will continue? If your favorite funding source has provided a three-year operating grant, how will you cover costs when that term expires?
- When, if ever, you will break even—financially—and how. Perhaps you will determine that 100 ticket buyers will bring sufficient revenue to cover all the fixed costs, and that each additional attendee is "gravy." Or, you may know that every building you purchase, renovate, and sell will require a subsidy because the prospective purchasers can never afford to cover the true costs of historic rehabilitation.
- Any need you may have to borrow capital for your program—either to start it going or on an ongoing basis. For example, perhaps you need to borrow funds to acquire property or options on property (and will need to do this for every future purchase), to purchase initial inventory for the gift shop (until it builds up enough operating cash to buy items regularly), or to put a deposit on the hall where your annual conference is being held. Also, describe how you will repay such loan(s)—by sales revenues, interest earnings, or future contributions. And, identify any security or collateral that you can offer a lender.

This part of the business plan is always supplemented with a series of financial statements—from the past (if you have them) and forecasts for the future. Brief summaries may be included here in the narrative with complete copies of audits, for example, in the attachments. Your financial statements and associated schedules will include:

- historic and projected future balance sheets (also known as a Statement of Position, it identifies your assets, liabilities, and net assets)
- historic and projected income statements (also known as a Statement of Activities, it identifies your income, expenses, and net income)
- historic and projected performance figures (sales volume, liquidity, operating reserves, gross or net profit on "earning" activities, net worth ratio)

And, if your program activity involves lending, there are additional details to provide such as:

- historic and projected loan portfolio performance (deployment ratio, average spread, delinquencies, defaults, and net losses)
- historic and projected lending production (volume in dollars and number of loans, average loan size, cumulative production)
- historic and projected capitalization (equity ratio, weighted average cost, and term of capital)

10 ***Attachments***

Every business plan has a myriad of attachments—all of which should have been summarized or described in the narrative in case the reader does not want to dig through them. These will differ depending on the nature of your enterprise, but might include the following:

- a map of the area served
- your articles of incorporation and bylaws
- an organizational chart
- copies of licenses, certifications
- a portfolio of blueprints or property diagrams, construction bids, or appraisals
- three years of financial statements (audits if available)
- list of current funders, lenders, supporters
- board and committee rosters
- resumes of key staff and board members
- roster of professional service providers including consultants

Tips on Market Research

Many nonprofit organizations will have little or no experience conducting market research. Yet there are some relatively simple steps any group can take to get started.

Start with What You Already Know

Based on your operations to date, you probably already have a treasury of valuable information about your "business," its customers, and their preferences or habits. You already know that your most ardent fans include your board members and your contributors. Talk to them—or just compile what you know about them: their gender, age, income range, level of education, ethnicity, residence, place of business, willingness to "pay," other interests, and degree of participation in your events and activities.

You already know, too, that more folks respond to outdoor opportunities in the pleasant seasons (whichever those may be where you live), that more customers buy easily-affordable trinkets than higher-priced collectibles, and that only the most committed and financially capable families can manage the ownership of a historic property.

Based on your operations to date, you probably already have a treasury of valuable information about your "business," its customers, and their preferences or habits.

Examine your own records to find out who and how many people have responded to or participated in your activities in the past—and use that information to project future expectations.

Explore Convenient "Primary" Sources

You can develop descriptions of your potential customers, and gauge the extent of their interest, by conducting telephone interviews, mailing and collecting surveys, or convening focus groups. You probably already have the names, addresses, and phone numbers of hundreds of interested persons in your community who you could contact.

You can also try to get evaluation or feedback cards from every visitor and every program participant. The information gathered this way will be among the most valuable you will ever receive. By making this a regular practice, you can track changes or trends in participants' comments over time.

Finally, talk to and listen to your peers. There is probably not a single "enterprising" idea that hasn't been tried, tested, and maybe even perfected by another organization similar to yours. So, ask around. Pick the brains of your colleagues and find out what they've tried, how it worked, what they'd do differently next time, what they've learned from their experiences.

Examine "Secondary" Sources

Secondary research comes from published materials—surveys, books, magazines, and journals—where the information has been compiled by someone else for your use.

In secondary sources, you can find data on your local population's demographic characteristics, professional and leisure activities, and spending habits, for example.

Some helpful publications include the following:

- *The Encyclopedia of Business and Professional Associations* (Gale Research) lists trade associations by industry, and provides contacts for local chapters.

- *The Small Business Sourcebook* (Gale Research) contains lists of professional trade associations, suppliers and trade shows along with references and statistics for small businesses.
- *The Editor and Publisher Market Guide*, edited by Ian E. Anderson, provides useful demographic data about household income and retail sales for the reader base of more than 1,500 newspapers nationwide.
- Dun & Bradstreet publishes a number of useful directories, including *State Sales Guides*, *Regional Business Directories*, and the *Census of American Business*.
- *U.S. Industrial Outlook*, a U.S. Department of Commerce study, includes growth statistics for 200 industries, including five-year projections, background information, statistics, and trend forecasts.

Given that these are sometimes expensive publications, and you only need them occasionally, you will want to utilize your local business research library—and its research librarians. Many libraries also have access to online business databases that can be helpful.

Consultants are available to help with any or all of this research—both primary and secondary. Some specialize in market research. In addition, college and graduate students in business programs may be willing to help as paid or unpaid interns, or to fulfill class assignments.

The Process: Preparing a Business Plan

Who Is Involved

To develop the business plan, your board of directors and staff will need to engage in ongoing, thoughtful discussions about the long-range goals and specific policies of your organization. This process is as important to your organization as the actual document that is produced as a result.

The board must digest the research findings, as well as participate in the learning and thinking that will allow it to ultimately make a sound decision—and not just rubber-stamp the staff's proposed business plan.

It will enhance everyone's understanding of your organization's position in the marketplace and its potential as a historic preservation organization. It will also allow relevant stakeholders to "own"—and therefore feel more responsible for—the decisions that are expressed therein.

It is important to note, however, that board members and staff will typically carry out different types of "assignments" during the business planning process.

The Board of Directors: The members of your governing board are the "owners" of the corporation and are accountable for its survival and its success. As such, this team and its various committees represent the most important players in your business planning process.

It is the board's job to review the options presented and to evaluate the consequences of each choice. Board members examine the policy and budget implications, discuss the advantages and disadvantages of each option, and weigh the options against the organization's mission. Then they refine and make the choices, approve the final document, and monitor the organization's performance in achieving the plan's goals. The board, of course, also chooses and evaluates the executive director (or other-titled CEO)—the staff's team leader who will be held directly accountable for implementing the business plan.

The Staff: The staff—be it a small or large team—is responsible for management of the process, as well as the behind-the-scenes research. The staff carries out the data gathering that precedes development of realistic options. Then they carry out the formation of various scenarios—for different products, services, approaches, and partnerships.

They also crunch the numbers—figuring out pricing strategies, costs of service delivery, volume of sales, profit per sale, and overall financial (and programmatic) results. The staff, of course, may include unpaid volunteers. In addition board members may serve in dual roles—as "staff" when they are gathering data and as directors when they are evaluating the staff recommendation.

At each step in this self-education process, the staff presents its findings and thinking to date to the board of directors (and/or its various committees). The board must digest research findings, as well as participate in the learning and thinking that will allow it to ultimately make a sound decision—and not just rubber-stamp the staff's proposed business plan.

How Long Will It Take?

Just how long should you expect the development of a business plan to take? Generally, it is wise to assume that the thinking, drafting, and approval process will take from two to six months—woven within your other daily tasks and never far from your front burner.

Your business plan will likely take closer to two months to complete if:

- you have a recent strategic plan with a clear mission;
- your "enterprise" is clearly consistent with that mission;
- you have some program experience with the proposed "enterprise," giving you real data from which to build future plans; and
- the management and governance team is complete (not requiring significant recruitment and training).

Your business plan development will take closer to six months to complete if:

- your proposed "enterprise" is an entirely new direction for the organization, or challenges its sense of mission;
- your staff is already over committed and cannot dedicate the necessary time to research, meetings, discussion, drafting, and thinking; or
- you do not have sufficient understanding of the market's needs to be able to document or quantify real "demand" for your proposed product or services.

Do not, under any circumstances, hire out the preparation of your entire business plan to a consultant.

Using Consultant(s)

Should You Use a Consultant?

Consultants can be a valuable addition to your business planning team—but their involvement is not mandatory. They can assist both the staff and the board to make more effective and informed choices by bringing broader experience to the discussion. They can carry out the fieldwork of market analysis and data collection and save you time.

Consultants can provide unbiased facilitation—as an uninvolved third party—thereby allowing the different factions of the board and/or staff to examine various options more objectively. They can compile or edit the final document and thereby improve its clarity and presentation.

Depending on your circumstances, a consultant may be just what you need to get the job done. A consultant is more likely to be helpful to your business planning process:

- if your staff capacity is limited—either because the staff is small, or it is over committed, or both;
- if your staff lacks the experience or expertise needed to produce an effective document;
- if there is significant uncertainty among your board and staff members about this new venture, uncertainty that deserves exploration (and an independent consultant can help facilitate that examination objectively); or
- if timeliness is a concern—perhaps you have a proposal deadline to meet.

A word of warning is in order here, however: Do not, under any circumstances, hire out the preparation of your *entire* business plan to a consultant. You may get a beautiful document, but it will have no relationship to your organization's experience and the process of creating it will have failed in one of its most critical functions—to educate you about your organization's stakeholders, about your enterprise, and all of the market's influences upon it.

How Much Will a Consultant Cost?

If you seek consultant(s) for any specific assignments in the preparation of your business plan, it might be helpful to know the potential costs.

Market analysis can take from 30 to 80 hours of consulting time, depending upon the complexity of your product line(s) and breadth of your customer base.

Development of a sales and delivery strategy can take from 10 to 30 hours of consulting time, depending once again on the number of products and the complexity of your business approach. This component is enhanced by on-site meetings with staff and board to explore various options.

On-site facilitation of staff and board meetings (examination of assumptions, options, scenarios) will typically require from six to ten consulting days, depending in part on how geographically far you are from the consultant.

Preparation of financial projections, both for decision-making purposes and for final presentation, can take from 20 to 60 hours of consulting time—depending again on the complexity of your program as well as how many years these projections cover.

Finally, the drafting or editing of a final document can take from 12 to 40 hours of consultant time and is more cost effective if staff members play a significant role in contributing material.

Consultants in this field typically charge $60 to $100 per hour and apply a daily rate from $600 to $1,000. Sometimes the daily rate only applies to "on the road" days such as when visiting your organization or facilitating a board retreat. Various minor expenses such as phone calls and postage may or may not be included in the rate; travel costs are always reimbursed separately from the hourly or daily rates.

When you have completed the thinking, meetings, and discussions, it's time to look the whole thing over one more time.

Many funding sources, it should be noted, are impressed with the benefits of business planning. As a result, they are often positively inclined to pay for the cost of seeing it done well. This means that planning is one of the easier "projects" for which to secure charitable grant support.

Tips for Managing a Consultant

The time and expertise of a consultant costs money, of course, but may be well worth it. Assure the cost effectiveness of your investment by requesting both qualifications and references from any consulting candidates.

Be sure they are familiar with your kind of organization and its proposed type of enterprise or project. It is an advantage to work with a consultant who is experienced in preparing plans for your specific type of enterprise because he or she will know your issues and your "lingo," and is likely to have a library of materials from which to draw.

Be as clear as possible about the scope of the assignment, the expected results or outcomes, and any applicable deadlines. Verify the person to whom the consultant reports and his or her level of authority within your organization to make administrative decisions or instruct staff. Ask lots of questions about how various matters will be handled. And put everything in writing!

Once You've Finished

The Reality Check

When you have completed the thinking, meetings, and discussions, it's time to look the whole thing over one more time. With the cold eyes of an outsider, read through your own draft business plan and ask yourself the following tough questions:

- Is the proposed business enterprise logical? Is it appropriate for your organization and your market?
- Is this the right endeavor, in the right place, at the right time, with the right team?
- Would you invest *your* own money in this venture (buy stock or ownership in the hopes of eventual "returns" like a venture capitalist expects)?
- Would you lend it *your* money (and have confidence in its ability to repay you, fully and on a timely basis, like a bank expects)?

Board Review and Approval

The board of directors was likely involved in much of the preliminary thinking about this enterprise—and then again in the continued debates regarding, "Should we do it this way? Or that way?" In many cases, however, their deliberations and decisions had to be interpreted by the staff and then drafted into the final document.

It is essential that board members know and understand the details of your business plan, because it is their job to assure that its objectives are met.

So that document now needs to be returned to the board for its review, possible refinement, and final approval. It is essential that board members know and understand the details of your business plan, because it is their job to assure that its objectives are met.

A Practical Resource

Your new business plan now has two important functions:

- It is a public document to share with funders and others who want to understand your enterprise and how it fits within your organizational mission.
- It is an internal reference document to use for evaluating progress, adjusting approaches, and refining future plans.

If done properly, the business plan will *not* gather dust on the shelf. It will, instead, become dog-eared from constant thumbing. Its market data will inform new staff members; its descriptions will orient new board members; its projections will serve as a constant benchmark for measuring performance. And the business plan will require future amendment—based on changing circumstances and your experience.

Other Resources

Many other resources can provide guidance in the preparation of a business plan. Some listed below relate specifically to nonprofit or charitable organizations, although most of them are tailored to for-profit enterprises. Their concepts can be easily adaptable to your nonprofit's circumstances. All of the items below are accessible via the Internet. You can certainly obtain many other printed materials at your local public or university library.

- *The Harvard Business Review* (July-August 1997 issue) has a wonderful article on writing a business plan: "How to Write a Great Business Plan" by William A. Sahlman. http://classroom.sba.gov/xtrainx/bizplan.html
- Netscape's NetCenter Business Resources explains the hows and whys of business planning. It also has links to additional research sources. Topics include market assessment, marketing ideas, and personnel issues such as recruiting and compensation. http://toolkit.netscape.com/text/P02_0001.btq
- American Express offers a variety of informational resources on planning and management for small businesses, many of which are directly applicable to nonprofit organizations. http://www.americanexpress.com/homepage/home.shtml
- Intuit, the makers of Quicken and QuickBooks software, offers a great assortment of informational documents on their website. Choose "Starting a Business" and you will find numerous guides, including a template for preparing a business plan. The site also provides information on legal, tax, and marketing issues. http://www.quicken.com/small_business/
- The U.S. Census Bureau has a great website that provides substantial (though somewhat dated until the next decennial census) data about your market area—including population, trends, income levels, housing status, and business activity. Your own state may have even more specific help—including maps—on a state-level website. The U.S. Census site also offers links to state data centers. http://www.census.gov/

- The U.S. Small Business Administration (SBA) has an online library from which you can select a PDF file download of their 48-page business plan workbook. http://www.sba.gov/library/pubs.html
- The Foundation Center posts condensed versions of some of its books on nonprofit management in the Online Bookshelf section of its website. *The Nonprofit Entrepreneur*, edited by Edward Skloot, executive director of the Surdna Foundation in New York, explains how nonprofit organizations can run successful business enterprises that generate income and help the organization carry out its mission. http://fdncenter.org/onlib/bookshelf/skloot/summary.html
- Created by the Roberts Enterprise Development Fund, this website includes the Fund's 1996 book, *New Social Entrepreneurs: The Success, Challenge, and Lessons of Non-Profit Enterprise Creation*, which can be downloaded. The book profiles 22 charities in the San Francisco area that have started businesses to provide employment for homeless people and discusses what it takes for a nonprofit business venture to succeed. The site also offers advice to nonprofit organizations that are considering whether to start a business venture as well as links to related websites that provide additional information. http://www.redf.org

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InterChange is a consulting firm that specializes in providing technical assistance and training to nonprofit organizations—particularly those engaged in local community development efforts. You may contact the authors of this booklet, the principal consultants of InterChange, at their respective e-mail addresses:

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