

## NPOs Starting Businesses

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*If you ask social entrepreneurs about their top three needs, they'll often reply, "Funding, funding, funding." But more and more nonprofit organizations are trying to break free of standard funding models by investigating alternate sources of self-sustaining income. Is a profit-making business right for your organization?*

### **Hosted by Patrick O'Heffernan**

Non-profits often ask me whether they should start a profit-making business. My answer is: proceed with caution, and do so only if the business is closely related to your mission.

For example, you may want to sell t-shirts or bracelets with your logo and mission on them, organize travel packages to development projects you are involved in, or provide micro loans to farmers or villagers in your area. These are good ways to diversify your sources of revenues while increasing your visibility and furthering your mission.

However, launching a profit-making venture is very different from managing a non-profit organization. Keep the following points in mind before you jump:

- **First**, start a business only if it reflects and supports your mission. An unrelated business will confuse donors, and you may face tax issues –in some countries that provide tax exempt status to non-profits, it is mandatory that the business reflect your mission or its income will be taxed.
- **Second**, make sure you have someone on your staff with a solid business background. Managing a business will take time away from your mission at first, but if you or a staff person has the experience, the business start-up period will be shorter and you will make fewer mistakes. Eventually, it will enhance your mission.
- **Third**, do the numbers. If you start a business to raise money critical to your operations, you may very well fail in your non-profit mission. It is estimated that 90% of all businesses started by non-profits do not succeed. If you cannot afford to lose the money you are planning to invest in a business, you cannot afford to start one.
- **Finally**, do not project profits from the business as revenue for your non-profit until after six months of solid surpluses –at least. That prevents unpleasant surprises later and allows you to build a reserve for business downturns, for expansion or for a new non-profit program.

If the business fits your mission, you have business expertise on your staff, and you can afford to risk the capital – take one more step: talk to another non-profit with ongoing profit-making operations to learn from them. Then you are ready to go.

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