

## Helping nonprofits do business

*Business plan competitions are a powerful way to help nonprofits turn ideas into sustainable commercial ventures.*

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Intense competition for a limited pool of donations is prompting nonprofit organizations to support their missions by generating revenues in the marketplace. Business ventures, once an alien concept in a sector that relied wholly on grants and donations, are now seen as a supplementary funding tool or even as a way to promote a cause directly—for example, by providing training and employment to beneficiaries of social programs.

Building a sustainable business is never easy, however, and nonprofit organizations face particular challenges. In general, these groups are led by people who, though dedicated and entrepreneurial, usually have little training in launching and managing a competitive venture. They must find ways to combine business success with social impact while overcoming internal concerns that a commercial operation will distract the organization from its core mission or compromise its values. They must also raise the seed money required to turn an idea into reality. The difficulty of surmounting such obstacles means that many projects never get past the idea stage.

Nonetheless, by using assets such as the organization's brand, expertise, distribution systems, and real estate, nonprofits can, for example, enter into licensing deals with corporate partners or set up service, manufacturing, or consulting businesses. In short, they can create wealth rather than just redistribute it.<sup>1</sup>

Many large nonprofits with substantial resources boost their chances of commercial success by hiring business professionals. But another way to transfer knowledge from the private to the nonprofit sector is to conduct business plan competitions, similar to the high tech-oriented events that flourish at academic centers.<sup>2</sup> The process of developing business plans for a competition helps nonprofit participants to understand the economic realities of their projects and to foresee possible conflicts with the core mission. Moreover, the completed plan can help attract start-up funds.

Business plan competitions for the nonprofit sector have already sprouted in Europe and North America. Often they are sponsored by universities, which round up appropriate for-profit concerns as sponsors (see sidebar, "[How to get started](#)"). In emerging economies, such events are still rare because social organizations have fewer resources—professional, financial, and otherwise—and the need is therefore particularly pressing. One of the few examples is the Social Entrepreneur Award (SEA).<sup>3</sup> Launched in Brazil in 1999, the annual competition is already showing promising results: a 2003 survey indicated that more than 40 percent of the participants in the Brazilian competition over the previous four years had implemented their plans, and that

more than 60 percent of these new businesses were generating revenue. SEA competitions are now held in Colombia and Peru, as well, while nonprofit organizations in other countries, including Argentina and India, can study business plan methodology through the organization's workshops.

In the first stage of the competition, participating teams—following a manual of business plan methodology and with the hotline support of consultants and researchers—have one month to prepare the first six pages of their business plan and to define their product or service. Twenty of the teams are then selected to develop a marketing strategy. During this second stage, distance learning is complemented by sessions in which McKinsey "faculty members" teach business methodology. Each team is aided by a university volunteer, usually a student of economics, administration, or engineering. Emphasis is placed on ensuring that the proposed business is aligned with the nonprofit's mission and could achieve the desired social impact. Ten finalists make it to the third stage, in which consultants and researchers coach the teams on financial planning and on ways of implementing their plans (exhibit). The judges, who are drawn from Ashoka, McKinsey, and the event's sponsors, then award three first prizes.

## **I. A social business is born**

The achievements of some participants in the Brazilian SEA competition demonstrate its benefits. CIPÓ Produções (CIPÓ Productions), which won the SEA in 2001, was created in 1999 by Anna Penido, a journalist and social entrepreneur. The organization offers impoverished young people in Bahia, a state in northeastern Brazil, an eight-month training course in media skills such as journalism, photography, video production, and Web design. Youngsters develop their analytical ability and team spirit as well as skills to help them find jobs. From 1999 to 2003, more than 7,000 people graduated from CIPÓ's programs.

CIPÓ's video production and computer equipment was in use only part of the time, so Penido decided to exploit the idle capacity and sell communications services to other organizations. By producing institutional and educational brochures, magazines, and Web sites and by developing communications plans, CIPÓ would generate income to supplement the donations that financed its educational work. In the process, it would give some of its graduates an opportunity to continue their professional development. To accomplish all of these objectives, a business plan was needed.

Penido learned of the 2001 SEA through an advertisement. She then submitted a description of her business idea, its objectives, the necessary resources, and its relevance to her organization and the community. Of the 230 entries for the competition that year, Penido's application was among the 80 accepted.

With the first prize of 30,000 reais (around \$10,000), Penido launched CIPÓ Produções in Salvador, Bahia, in July 2002. A year later, it boasted 21 clients and 59 consulting projects. In addition to providing freelance employment for 27 CIPÓ media graduates, the fledgling venture had also made almost 228,000 reais, of which 26,000 reais was profit. CIPÓ Produções recently opened a branch office in São Paulo.

According to Penido, each stage of the SEA provided vital business skills. The marketing stage, which stressed the importance of differentiating a venture from its competitors, strengthened her belief that the right strategy was to target nonprofit organizations, companies with nonprofit projects, and educational institutions. The financial advice was particularly valuable for team members trained in human sciences rather than in fixed and variable costs. "Sensitivity and expertise in the social arena, ethical conduct, and commitment to a cause are elements that make us special in the eyes of our clients," Penido says. "However, it is our professionalism that ensures they will continue doing business with us."

## **II. Running a competition for nonprofits**

For a business plan competition such as SEA to succeed, it must be adapted to certain special characteristics: the mind-set of the people who work in nonprofits and their desire to combine business success with social impact.

## **III. Dealing with a noncommercial mind-set**

Traditional business plan competitions usually attract participants with backgrounds in business, technology, or natural sciences who have an idea or an invention that they want to translate into a profitable venture. Their knowledge of business lingo and tools might vary, but almost all have been groomed in the concept of planning—with its focus on process, structure, and logical thinking. By contrast, entrepreneurs in the nonprofit world have diverse backgrounds. They may be dynamic, but they can be poor planners, unfamiliar with business terminology and concepts, and skeptical of management tools.

It is important for coaches to adapt their approach and to understand the values and principles of the social sector. Nonprofits tend to frown on market competitiveness, for example; coaches thus need to distinguish between the positive competitiveness represented by high-quality products and services and the negative notion of nonprofits competing against one another. Profit, too, is a tricky concept: these organizations see it as meaningful only if it advances a social cause and are likely to have other priorities, such as offering employment to as many beneficiaries as possible.

## **IV. Blending business success with social impact**

There is more to a business plan competition than teaching management skills to nonprofits. The top priority of most participants is to find ways of combining business ventures and social impact.

Some nonprofits can use physical or intangible assets to create a business that, while not directly related to the mission, serves as a funding tool for the parent organization and indirectly supports its cause. They might, say, license the organization's name and logo to appropriate products, as the World Wildlife Fund does. Other nonprofits can use a business venture to pursue their mission directly—the approach taken by CIPÓ Produções and by Projeto Quixote, an organization that fights drug abuse among children and adolescents in São Paulo. Projeto Quixote, which won the SEA in 2000, offers recreational workshops, family counseling, and medical treatment. In one art project, graffiti artists spray-painted the walls of a prison and of a

school in an urban development. Their art caught the attention of retailers and other schools, which requested similar work. Graziela Bedoian, a coordinator for Quixote, realized that youngsters could develop art skills to help them secure jobs. The ensuing business—Agência Quixote Spray Arte—now offers graffiti productions, workshops for schools and cultural centers, and a range of spray-painted caps and T-shirts. "Developing a business plan has allowed us to look differently at our organization and manage our good ideas," Bedoian says. "It has enabled us to transform our activities with graffiti into an attractive way of generating revenue for these youngsters."

Another SEA participant, the Instituto de Pesquisas Ecológicas (IPÊ), or the Institute for Ecological Research, also found that creating jobs could help it fulfill a social mission. The IPÊ, which runs preservation and sustainable-development projects in Brazil's highly endangered Atlantic rain forest region, discovered that small fishing communities in the Superagüi National Park, in Guaraqueçaba, Paraná, were coming under growing pressure from larger fishing operations. The inhabitants tried to compensate by catching and selling endangered animal species to smugglers. Illegal animal trafficking became a highly lucrative business at Superagüi, with one rare parrot, the red-tailed amazon, fetching \$400. The IPÊ entered the 2002 SEA competition with the idea of creating new—and legal—sources of income in these fishing villages.

As part of IPÊ's business plan, women are now encouraged to make and sell felt puppets, handbags, and T-shirts with images of animals such as the red-tailed amazon and the black-faced lion tamarin (a threatened species of monkey). The venture helps make the animals a source of local pride and sustainable income rather than a part of an illegal business. It is hard to establish whether animal trapping has actually declined, but in the first year of the business, the women within these communities increased their income by almost 400 percent.

The IPÊ has gone on to create a business unit that helps communities to establish market niches and distribute their products on a larger scale. "Developing business plans is currently a key practice for our organization not only in order to analyze the economic feasibility of the products we create but also as a tool to capture funds," says Andréa Peçanha, the IPÊ's manager for sustainable development. In addition, the organization has recently entered into partnerships with corporations in Brazil to place some of its products in domestic and international markets.<sup>4</sup>

In the course of developing commercial ventures of this type, conflicts can arise between the business, which must be competitive and meet the demands of its customers, and the interests of local communities. Organização Indígena da Bacia do Içana, a nonprofit organization that markets goods made by the Baniwa indigenous community near the Içana River, found itself having to make a trade-off between the business and the mission. People from the community weave basketry for a large Brazilian retailer, and the items became so popular that the company wanted more. Stepping up production to satisfy demand, however, would have forced the community to deviate from certain tribal rituals. In this case, respect for tradition prevailed over profit.

Despite the need to make such compromises, the results achieved by SEA participants show that nonprofits, particularly larger ones, are better at implementing ventures—and earning revenues

from them—when the business is viewed as vital to the mission rather than as a supplementary-funding tool. Organizations with a strategy both to generate revenue and to achieve a social impact are more focused in their business pursuits and often build on knowledge they already have. Scale is a further advantage because it enables an organization to achieve a broader social impact. Future SEA competitions will target this type of organization, since scale was found to be an indicator of the ability to implement a business plan and to generate revenue.


The potential of large-scale social business ventures is shown by an organization that took part in the first SEA competition, in 1999. Associação dos Pequenos Agricultores do Estado da Bahia (Association of Small Producers from Bahia, or APAEB) was set up in 1980 to bring together small producers of sisal hemp fibers in rural Bahia—one of Brazil's most arid regions and also one of the poorest. The aim was to trade collectively in hopes of getting better prices for the fibers, which are used in ropes and in carpets. APAEB gradually expanded its activities by setting up a brushing station to process the sisal (so that it could be sold directly to the final market) and a carpet factory to add further value. These and other APAEB facilities have created hundreds of jobs, with the revenue going back to the community in the form of programs for housing, education, the environment, and culture. More than 4,500 families benefit from the organization's wide range of activities. APAEB is run by Ismael Ferreira, a sisal farmer's son, who says that he, like most social entrepreneurs, had been preoccupied with seeking immediate solutions to everyday challenges. The SEA competition made him realize the importance of long-term plans, strategies, and goals. "This has improved my ability to plan APAEB's actions with a more professional focus and objectives that are clearer to everybody involved. We have implemented highly important strategies, which must translate into economic results to fund social and educational activities that do not generate income."

## **V. Scarce resources**

It is hard for nonprofits to start a business. They rarely have access to bank loans—partly because they are often very small and partly because their commitment to a social cause implies limits to their profitability. Projeto Quixote's graffiti venture drew on its well-structured business plan to win funding from donors, while CIPÓ's media products business received help from Vitae, a nonprofit body that supports educational projects in Brazil. (Vitae paid the salaries and provided office space for CIPÓ's small administrative team during the first six months.) Furthermore, managing a business requires skills quite unlike those employed in coordinating social projects. Someone has to keep an eye on market conditions, for example, and, if they change, to revise plans and forecasts relating to quality, pricing, segmentation, and distribution.

It is thus important that the organizers and sponsors of business plan competitions for nonprofits help contestants not just during the competition but also afterward. Providing consulting support during the implementation stage is one possibility; creating a network that helps nonprofits to exchange business experiences is another.

Nonprofits that rely on donations must compete with other organizations for a slice of the nonprofit pie. Those that run their own commercial activities, however, depend less on donations and grants and have more funds available to fulfill their social mission. Business plan

competitions are demonstrating their worth as a tool for nurturing projects that generate income in the nonprofit sector and extend the work it can do. 

## **VI. How to get started**

Business plan competitions for nonprofits can arise through the grassroots efforts of a single dedicated party—for example, a consulting firm or a business school—or through a well-planned strategy by major philanthropic donors. More important than who launches a competition is the ability of the organizers to build some buzz around the event and to attract participants from the nonprofit community. Successful conveners must be able to invest time and resources and have experience managing complex relationships and logistics.

A business plan competition for nonprofit organizations must be tailored to the resources at hand, the stage of economic development in its geography, and the needs of its participants. Five elements are particularly important.

Target your audience. It is essential that a competition's organizers define their target audience. No competition can, for example, compare the merits of helping low-income immigrant hospital workers in Texas with those of developing a fertilizer plan in rural India. Attempting to do so can stretch a competition's limited resources as well as the interest of the participants. A sharper focus also provides them with a framework and a better understanding of their chances of winning. Successful competitions strike a careful balance between being too open and too narrow. A well-crafted mission statement designed with a deep understanding of the local community's needs usually attracts the right mix of entrants who have a real opportunity to win.

The more sponsors the merrier. The trend among organizers of these competitions is to enlist many sponsors, both to provide resources and to enhance the reputation of an event. For example, the Global Social Venture Competition—which evaluated 129 proposals from 11 countries in 2003—originated at the University of California's Haas School of Business and has expanded to include the Columbia Business School, the London Business School, and the Goldman Sachs Foundation. Another benefit of having a number of sponsors is that they provide a core structure that is deep enough to sustain a competition over the long term. A competition with a number of sponsors can, however, be complex to administer. One way of making it easier is to let each of them designate a single decision maker, thereby creating a core team of sponsors who work closely together and make collaborative decisions. A competition with a single sponsor, while easier to manage, can see all of its backing disappear if the sponsor's interests change.

Promotion, promotion, promotion. Ideally, a business plan competition will be oversubscribed with entrants clamoring to take part. But many nonprofits don't readily grasp the benefits of competitions or have the staff to seek them out. To bridge the gap, organizers should bring in partners with broad nonprofit networks to promote the event and encourage participation. Foundations, universities, government agencies, and religious groups all fit the bill.

Teach them to fish. The proverb "Give a man a fish and he eats for a day, teach him to fish and he eats every day" applies well to business plan competitions for nonprofits. The best events

build the long-term commercial capabilities of the participants by offering detailed feedback on each element of their plans. The Yale-Goldman Sachs Partnership on Nonprofit Ventures Competition, for example, provides feedback on dozens of different aspects of business plans as well as thorough evaluations from consultants, investment bankers, and others through all three rounds. Entrants praise this comprehensive approach, which helps runners-up refine their plans and obtain funding.

Tailor the prize. Every nonprofit competition struggles with the question of how much to award its winners. Many nonprofit ventures are constrained less by capital than by talent. In the case of the Yale-Goldman Sachs competition, winners not only take home a healthy cash prize (\$100,000) but also receive ongoing consulting support for their ventures. Past winners declare that this hands-on component of the prize is at least as important as the financial reward. Although cash prizes will always be essential to attract entrants, raising the necessary funds for a competition becomes more feasible over the long haul when the awards minimize the direct financial burden while providing the greatest benefit for winners.

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## IX. Notes

<sup>1</sup> Bill Shore, "[Doing good by doing well](#)," *The McKinsey Quarterly*, 2001 nonprofit anthology: A New Era for Nonprofits, pp. 110–9.

<sup>2</sup> Ansgar Dodt, Lothar Stein, and Sigurd Strack, "[Do-it-yourself Silicon Valley: Using business plan competitions to spur economic development](#)," *The McKinsey Quarterly*, 2001 nonprofit anthology: A New Era for Nonprofits, pp. 42–9.

<sup>3</sup> The Social Entrepreneur Award was launched by McKinsey in partnership with Ashoka, a global nonprofit body that supports nonprofit entrepreneurs' innovative ideas for addressing

social needs. Since 1982 the organization has made investments with innovators in 51 countries who have system-changing ideas. (The beneficiaries are known as Ashoka Fellows.) Ashoka takes its name from the leader, recognized as one of the world's earliest social innovators, who unified the Indian subcontinent in the third century BC and then renounced violence.

<sup>4</sup> Natural sponges, for example, are sold by cosmetics maker Natura at its eco-friendly stores in Paris, and flip-flop sandals (Havaianas) featuring images of protected species are sold by São Paulo Alpargatas, a textile and shoe manufacturer.