NONPROFIT BUSINESS PLANNING PROJECT

Available tools and approaches for planning

One of the main purposes of the Nonprofit Business Planning Project is to contextualize current ways of thinking about planning. This note represents the results of a search of published materials and of the interviews with members of the Advisory Group. We have tried to capture key concepts and ways of thinking as well as specific frameworks and tools. Once we have received comments and suggested changes, the aim is to draw on this for appropriate ways of answering the questions in the matrix that we've separately developed as the basis of the nonprofit business planning materials that we are developing. In most cases, we will need to change the language and for further explanation and guidance on how to use the ideas/tools. This part of our work has been supported by a grant from the Carnegie Corporation.

1. *The Planning Process*

- Planning process agreement: requires that people leading the planning process engage with those who are going to take part, secure some agreement about what success would look like, and identify the kind of short and long-term questions to be answered under selected headings, for example, program impact, financial health, organization, relations with outside groups. Agreement can be formalized with specific "job descriptions" for the key players.

- Planning process map/flowchart: a means of supporting the planning process and communicating about the process with the rest of the nonprofit and others with an interest.

2. *Looking outside the organization*

- Multiple cause analysis: a means of identifying and weighting the causes of a challenge that a nonprofit is attempting to address, though it can be applied to any situation. In the case of planning, it can help the nonprofit decide the most critical point of intervention, and therefore its program selection. (See 'theory of change' below.)

- Stakeholder analysis: identification of each important stakeholder group and precise statements about who exactly the members of the group are, the reason for their interest/stake in the nonprofit, and an assessment of their actual/potential impact on the organization. In some versions, the principal beneficiaries are included in this analysis; in others, stakeholders are identified as groups that may cause an organization to be deflected from a focus entirely on the people/cause it serves. In both cases, their interests and needs have to be taken into account.

- Gap analysis: an assessment of service users' needs in a given field of service compared with services currently available.

- PEST analysis: an assessment of the Political, Environmental, Social and Technological factors and trends that may effect a nonprofit's current and future activities and in particular its ability to achieve its goals. This type of analysis is usually used to identify opportunities and threats in each main area of an organization’s activity. This requires an understanding of how exactly different elements in the external world impact on each of the main activities of a nonprofit.

- Nonprofit Industry Analysis Six Force Chart: a means of describing key external factors that indicate whether a nonprofit’s service area is attractive or not. The chart requires the identification of: existing organizations in the field and the relationships between them and between them and the nonprofit, suppliers to the nonprofit; the threat of new entrants; the possibility of new substitutes; users/customer/client groups; and funding groups.

- Key success factor analysis: identification of those areas in which success is critical in a given market or field of activity. Examples would include securing funding, service related skills, influence with local/national government.

- Competitor analysis: usually, an assessment of those organizations with whom a nonprofit will compete in order to undertake its work. The contexts for such an analysis include activities which are delivered through markets, for example, higher education, theatre ticket sales and health care, activities whose funding is secured through competitive bids to government agencies, and fundraising. It is usually recommended that, as part of the planning process, an organization should prepare SWOT analyses (see below) for each of its major competitors. More sophisticated versions of competitor analysis address substitute competition (for example, watching DVD’s at home instead of attending a theatre performance;) this concept of competition can be used in exploring program interventions: in the case of a drug addiction prevention program, for example, ‘competition’ may be identified as groups or people that offer drugs to the potential addict.

- Other Player analysis: a form of competitor analysis developed specifically for the nonprofit sector. A nonprofit will identify who the other players are, their objectives and strategies, their performance, their strengths and weaknesses. There should be a particular focus on whether each player is an actual or potential competitor, collaborator or both, and its level of influence relative to other organizations in the field and in particular the nonprofit engaged in planning.

- Sources of resources analysis: an assessment, based on NCNE's recent work on income strategy, of the most likely sources of support given a nonprofit’s mission, assets and activities.

- Benchmarking: a specific form of competitor to/other player analysis through which a nonprofit can compare and contrast measures of dimensions of its own performance with measures of identical dimensions in other players.

- Key resource provider assessment: a description of the relative scale and influence of the main sources of support for the nonprofit and its competitors/other players.

- Scenario planning: a way of painting a vivid picture of assumptions about the environment in a way that allows a nonprofit to identify factors with a high level of uncertainty that may have a high impact on its work, and explore ways of responding to these.

3. *Assessing the nonprofit*

- Theory of change or Social Impact theory: an explanation of how a nonprofit’s programs lead to concrete and measurable change. This requires an understanding of the causes of the challenge/opportunity that the nonprofit is attempting to address and relevant technical knowledge that links program activity to these causes. Organizations can use informal discussion and debate to drill down to the point where they have established their theory of change; they can also use structured frameworks to achieve this; the principal of these is the Logic Chain.

- Organizational audit: a collective term for a number of approaches to the assessment of a nonprofit's performance and assets. These approaches generally only differ in terms of terminology and level of detail. Almost all are designed to identify strengths and weaknesses in the organization that will become key features of an analysis of Strengths, Weaknesses, Opportunities, and Threats. There are two main elements of structured versions of this approach:

    - An audit of resources: a systematic listing of the resources of all kinds under the control of the nonprofit. This would include its people and the skills and knowledge they have, its financial resources, its physical assets, its "culture," and intangible assets such as its reputation.
    - Analysis of how an organization uses its resources now. This analysis is normally multidimensional: it will encompass the nonprofit's programs, human resources, finances, physical assets and intangible assets. In each case it is possible to analyze the potential impact, strengths and weaknesses:

        - of each resource itself;
        - of the configuration of resources; (this makes use of the concept of the "value chain" found in literature about "competitive advantage;") and,
        - of the efficiency of use of each resource.

  In the case of programs, for example, the analysis would include an evaluation in terms of the number of units of service, the costs per unit, and measures of impact; but there could also be analysis of how exactly these results are achieved and the relative contributions of, for example, staff knowledge and techniques, the quality of the building in which the program is delivered, and of the systems used that determines the level of efficiency of this program. The results of this analysis can be compared with a benchmark or an ideal level of performance.

  A specific example is the *McKinsey Capacity Assessment Grid:* adapted from their original "7 S's" model, this framework for an organizational audit covers Aspirations, Strategy, Organizational skills, Human resources, Systems and infrastructure, Organizational structure, and Culture. It enables a process whereby participants in planning in a nonprofit can rate the relative strength or weakness of their organization in these areas.

- Identification of "core competencies:" a process that involves the creation of a shared view of what a nonprofit does extremely well, or, in more technical terms: "a set of differential technological skills, complementary assets, and organizational routines and capacities that provide the basis for [an organization's] competitive capacities in a particular business." Ways of exploring this idea include asking what it is that a nonprofit can be best in their field at, and identifying those activities that consistently produce outstanding results. The critical idea here, central to all planning, is that it is only by leveraging these competencies that the nonprofit will achieve optimum impact relative both to the challenge it is addressing and other players in its field.

- Portfolio analysis: this is a commonly used approach. Usually organizations with a range of services or products make use of it but it can also be used for a whole organization with a small number of programs. The method involves placing each nonprofit activity/product in a matrix.

Some types of portfolio analysis have been adapted specifically for nonprofit use:

- The "Product Portfolio Map" (Oster, “Strategic Management for Nonprofit Organizations,” Oxford University Press, 1995,) or “CompassPoint Dual Bottom-Line Matrix" (Alison and Kay "Strategic Planning for Nonprofit Organizations," 2nd Ed. Wiley, 2005,) relates contribution to mission to contribution to economic viability, with the ideal being a blend that optimizes mission impact while building the financial sustainability of the nonprofit.

High mission contribution/ low financial contribution	High mission contribution/high financial contribution
Low mission contribution/low financial contribution	Low mission contribution/high financial contribution

- Another product matrix based on work by I Macmillan, also adapted in both these books, is multidimensional. This analysis relates a program’s attractiveness in terms of its contribution to mission, its ability to attract resources, the level of alternative coverage provided of this service by other organizations, and the competitive position of this program as delivered by a particular nonprofit. The results of such an analysis point to appropriate strategies: to invest, for example, in a program that a nonprofit delivers better than other organizations in the field even if there are a number of other suppliers; to collaborate with other organizations in the case of a service provided by few others even if the nonprofit does not have a strong competitive position. (See appendix for the Alison and Kay version of this matrix.)

For a nonprofit that earns income, there is a range of analyses that it can employ: product life cycle stage analysis identifies the different characteristics of markets (for example, cost behaviour, competitiveness, appropriate marketing strategies, likely profitability and likely risks) in different phases of a product life (for example, introduction, growth, maturity, decline;) the growth share matrix relates relative market share to rate of market growth; the directional policy matrix relates "business sector prospects" to the position of an organization’s product or service - this is a complex tool that requires an organization to weight and rate a complex of factors in the environment and different dimensions of the product or service. These analyses produce insights into the likely strengths and weaknesses of the service portfolio over time, and suggest various strategies for investment or divestment.

- SWOT (Analysis of Strengths, Weaknesses, Opportunities, Threats.) This is the most popular planning tool amongst nonprofits and is used at all levels of planning. The tool is sometimes used entirely on its own but more often those involved in planning identify the most important results of all the previous analysis and use these as the basis of the SWOT. The essential purpose of this tool is to link strengths and weaknesses with opportunities and threats in ways that point to action. For example, a strong fundraising department (a strength) can leverage the appearance of some new funding sources (an opportunity;) a poor reporting system (a weakness) will need to be improved if the nonprofit wants to leverage particular program expertise (a strength) so that it can meet an unmet need (an opportunity.)

4. *Generating strategies*

- In the case of any activity that will make a contribution to the mission impact of a nonprofit, the aim is to find the best match between what an organization does well, opportunities that will meet the most needs/make the biggest difference/produce the best experience, and available sources of money and other forms of support. In the case of earned income activity designed to make a profit for the organization, the key principle is to find the best match between an organization's competitive advantage - what it does better than other organizations - and the most profitable opportunities.

- Generic strategies.

  - In the case of a nonprofit program or portfolio of programs, the choices are:

    - ✓ Modify the nature of a program, particularly to improve its quality.
    - ✓ Add new programs.
    - ✓ Withdraw from programs.
    - ✓ Increase the number of people to whom programs are delivered

    The range of choices for a nonprofit that has decided to grow its programs can also be expressed in the form of an adapted version of the Ansoff matrix:

	Current Program	New Program
Current Users	Extending program to same types of user	Better quality intervention for current users
New Users	Bringing benefits to new types of user	New type of intervention to new type of user

    This tool can be used to frame the generation of strategic options; it can also be used to evaluate levels of risk and likely cost: new products and new customers require higher costs and higher risks. In choosing which strategy to follow, a nonprofit will consider the people it wants to reach and how it wants them to respond in order to ensure that it is achieving mission as well as earning income.

  - In the case of earned income activities, there are generic strategies at different levels:

    - ✓ A nonprofit, or its for-profit business, can adopt an overall approach of cost leadership or differentiation. The first allows competitive pricing; the second create products that are different enough to command a premium price.

- ✓ On the basis of its decisions, an organization can then decide whether it will grow a particular product or business, do nothing or withdraw that product or business. For example, if a nonprofit has decided on an approach of cost leadership, it may need to withdraw from a counseling service that has previously justified a high fee level by claiming high service quality.
- ✓ If the nonprofit decides to grow a business, or expand the product line, it can do this in one of four ways. These can be represented in the original Ansoff Matrix:

	Current Product/Service	New Product/Service
Current Customers	Market penetration	Product Development
New Customers	Market Development	Diversification

- ✓ Once a nonprofit has decided which of these strategies to follow, it can do this internally itself, or by working with another organization through a joint venture of some kind.
- ✓ Once this decision is made, the nonprofit or its business will need to generate strategies for each of the elements of the marketing framework: Product, Price, Promotion, Place and Service (or one of the variants of this.)

- In the case of fundraising activities, both the Ansoff matrix and the marketing framework can be used.

5. *Evaluating options and making decisions*

- Cost benefit analysis: a framework for assessing the benefits and costs over time of investment in a particular program or combination of programs. The results can be compared with those for another investment option. Originally designed to quantify, usually in terms of dollars, difficult to measure outcomes (for example, quality of life,) and integrate these with conventional financial benefits and costs. This approach is not always valid and for many nonprofits it will be easiest to quantify as much as possible but to make judicious use of descriptions of benefits and costs that are not at all quantifiable.

- Stakeholder cost benefit analysis: an assessment of the benefits and disadvantages for a given program option or strategy for a range of each key stakeholder group. This can be done by involving the different stakeholder groups and testing out various choices with them.

- Assessment of proposed strategies against pre-agreed criteria. These can include: the extent of the opportunity; the extent to which a given option builds on an organization's assets, capabilities and knowledge; competitive position; the probability of securing funding; whether the strategy would enhance other programs; consistency with mission; various measures of feasibility; level of risk, etc etc.

- Organized Abandonment: the Institute for Social Entrepreneurs'/Jerr Boschee's structured approach to focusing a nonprofit's resources. Programs are assessed in relation to mission and financial contributions and clear decisions are made to move away from programs that do not produce optimum results.

- Project appraisal: several methods of project appraisal are particularly appropriate for strategies and investments that are primarily designed to generate a surplus for spending on organizations programs, including fundraising. Discounted Cash Flow and payback/discounted payback are two examples. If it is possible to apply monetary value to the results of a nonprofit work, then these values can be incorporated in a project appraisal (see Cost benefit analysis.)

- Tools from microeconomics: for a wide range of decisions, particularly concerning how to modify or enhance a program or choosing between different ways of delivering an activity, there is a range of ways of thinking from economics that can be helpful. These can be particularly powerful when it is possible to quantify in monetary terms the mission related benefits of an activity. The tools include opportunity cost analysis, thinking at the margin, market analysis, transaction costs analysis.

- Risk analysis: an assessment of different types and levels of risk. The aim is to identify and quantify the most significant risks to the achievement of a nonprofit's goals. Risks can be identified through analyzing the threats that have been defined for the nonprofit (in the SWOT) or generated as part of a separate exercise; the probability of a given risk and the level of impact on the organization together provide a measure of the seriousness of a given risk. Worst case scenarios and sensitivity analysis (see below) can be applied. The job of the nonprofit is then to identify, assess and adopt strategies to minimize the most significant risks.

- Sensitivity analysis: a means of testing the robustness of a particular choice of program or strategic direction by asking "what if" questions about, for example, the effects of different levels of funding.

6. Implementation

- A planning document: the discipline required to take this obvious step can be helpful notwithstanding the risk that a document that is too long or unclear may fall into disuse and possibly devalue the planning process itself. There is a wide range of suggested content headings but all contain the following elements:

    - Clear statements of goals and how these will be achieved.
    - An explanation of the reasons for the choice of these goals.
    - Clearly defined objectives at all levels and for each of the periods of the plan.
    - Definition of key tasks required to achieve these objectives, and of the outcomes this work will produce.
    - Descriptions of the allocations of resources to each of these tasks.
    - Clear allocations of individual responsibility for each discrete set of tasks.
    - Identification of risks.
    - Measures and milestones
    - Budgets.

- A monitoring and review process: a planned and structured set of arrangements within an organization through which it assesses progress against objectives and milestones, outcomes and goals, and takes action accordingly. This can be built into the plan document itself or be negotiated and communicated separately.

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APPENDIX

Competitive Strategies Matrix[1]

		Ability to Attract Resources and Enhance Existing Programs YES		Ability to Attract Resources and Enhance Existing Programs NO	
		Alternative Coverage: **MANY**	Alternative Coverage: **FEW**	Alternative Coverage: **MANY**	Alternative Coverage: **FEW**
GOOD FIT	**Strong Competitive Position** **YES**	*1) Growth or maintain competitive edge strategy*	*4) Growth or maintain competitive edge strategy*	*5) Build up best competitor: assist another organization provide the service*	*8) Soul of the agency*
	Strong Competitive Position **NO**	*2) Develop and implement an exit strategy*	*3) Invest in program and administrative capacity or Develop and implement an exit strategy*	*6) Develop and implement an exit strategy*	*7) Collaboration strategy*
	POOR FIT	*Divest or do not start to provide this service*			

From: Alison and Kay, Strategic Planning for Nonprofit Organizations, 2nd edition, Wiley, 2005.

[1] Adapted from I. C. Macmillan, “Competitive Strategies for Non-for-Profit Agencies,” *Advances in Strategic Management* 1 (London, JAI Press Inc., 1983): 61–82.