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Business Planning for Nonprofits

Business planning is a way of systematically answering questions such as, “What problem(s) are we trying to solve?” or “What are we trying to achieve?” and also, “Who will get us there, by when, and how much money and other resources will it take?”

The business planning process takes into account the nonprofit’s mission and vision, the role of the board, and external environmental factors, such as the climate for fundraising.

Ideally, the business planning process also critically examines basic assumptions about the nonprofit’s operating environment. What if the sources of income that exist today change in the future? Is the nonprofit too reliant on one foundation for revenue? What happens if there’s an economic downturn?

A business plan can help the nonprofit and its board be prepared for future risks. What is the likelihood that the planned activities will continue as usual, and that revenue will continue at current levels – and what is Plan B if they don't?

Narrative of a business plan

You can think of a business plan as a narrative or story explaining how the nonprofit will operate given its activities, its sources of revenue, its expenses, and the

inevitable changes in its internal and external environments over time. Ideally, your plan will tell the story in a way that will make sense to someone not intimately familiar with the nonprofit's operations.

According to [Propel Nonprofits](#), business plans usually should have four components that identify revenue sources/mix; operations costs; program costs; and capital structure.

A business plan outlines the expected income sources to support the charitable nonprofit's activities. What types of revenue will the nonprofit rely on to keep its engine running - how much will be earned, how much from government grants or contracts, how much will be contributed? Within each of those broad categories, how much diversification exists, and should they be further diversified? Are there certain factors that need to be in place in order for today's income streams to continue flowing?

The plan should address the everyday costs needed to operate the organization, as well as costs of specific programs and activities.

The plan may include details about the need for the organization's services (a needs assessment), the likelihood that certain funding will be available (a feasibility study), or changes to the organization's technology or staffing that will be needed in the future.

Another aspect of a business plan could be a "competitive analysis" describing what other entities may be providing similar services in the nonprofit's service and mission areas. What are their sources of revenue and staffing structures? How do their services and capacities differ from those of your nonprofit?

Finally, the business plan should name important assumptions, such as the organization's reserve policies. Do your nonprofit's policies require it to have at least six months of operating cash on hand? Do you have different types of cash reserves that require different levels of board approval to release?

The idea is to identify the known, and take into consideration the unknown, realities of the nonprofit's operations, and propose how the nonprofit will continue to be financially healthy. If the underlying assumptions or current conditions change, then having a plan can be useful to help identify adjustments that must be made to respond to changes in the nonprofit's operating environment.

Basic format of a business plan

The format may vary depending on the audience. A business plan prepared for a bank to support a loan application may be different than a business plan that board members use as the basis for budgeting. Here is a typical outline of the format for a business plan:

- Table of contents
- Executive summary - Name the problem the nonprofit is trying to solve: its mission, and how it accomplishes its mission.
- People: overview of the nonprofit's board, staffing, and volunteer structure and who makes what happen
- Market opportunities/competitive analysis
- Programs and services: overview of implementation
- Contingencies: what could change?
- Financial health: what is the current status, and what are the sources of revenue to operate programs and advance the mission over time?
- Assumptions and proposed changes: What needs to be in place for this nonprofit to continue on sound financial footing?

More About Business Planning

- [Budgeting for Nonprofits](#)
- [Strategic Planning](#)
- [Contact your state association of nonprofits](#) for support and resources related to business planning, strategic planning, and other fundamentals of nonprofit leadership.

Additional Resources

- [Components of transforming nonprofit business models](#) (Propel Nonprofits)
- [The matrix map: a powerful tool for nonprofit sustainability](#) (Nonprofit Quarterly)

- [*The Nonprofit Business Plan: A Leader's Guide to Creating a Successful Business Model*](#) (David La Piana, Heather Gowdy, Lester Olmstead-Rose, and Brent Copen, Turner Publishing)
- [*Nonprofit Earned Income: Critical Business Model Considerations for Nonprofits*](#) (Nonprofit Financial Commons)
- [*Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*](#) (Jan Masaoka, Steve Zimmerman, and Jeanne Bell)

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