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## NONPROFITS: YESTERDAY, TODAY, AND TOMORROW

“Because the purpose of a business is to create a customer, the business enterprise has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results. All the rest are costs.”

—Peter Drucker

According to the experts who keep track of these things, Hurricane Katrina is the worst catastrophe to befall the contiguous United States since the Civil War. While all the numbers are not yet final, we do know that over one million residents of the Gulf Coast region were displaced. Over 1,100 died. And, nearly 275,000 have sought jobless benefits.

Sadly, a term long used in family counseling, the fractured family, has now been applied to the more than 4,000 kids who have been separated from their families. Fortunately, several experienced investigators have volunteered to find and reunite these children via organizations such as [www.missingkids.com](http://www.missingkids.com) and The National Center for Missing & Exploited Children. As usual, there are a handful of evil individuals who have illegally taken some children as their own or perpetrated other scams and frauds.

Katrina also brought out the basic humanity of Americans and individuals worldwide. Over \$1 billion was donated by people rich and poor. In addition, thousands of hours have been donated by volunteers who distributed food and water, drove buses, offered their homes, and gave comfort, both professional and personal.

Many corporations have also weighed in to help. Most notably, Wal-Mart had 45 truckloads of relief supplies ready to ship before Katrina made land-fall. Wal-Mart ultimately shipped 1,900 trailer loads of emergency supplies to the affected areas. It also pledged more than \$22 million in contributions to relief efforts and was operating free stores in several evacuation centers, where it also donated 150 Internet-ready computers to help reunite loved ones separated by the disaster. Many other companies such as Home Depot, General Electric, Anheuser-Busch, and Whole Foods Market played a prominent role. Over 150 companies pledged at least \$1 million each.<sup>1</sup>

Clearly, Katrina will impact us all for decades to come. We are left with many unanswered questions. How are we going to pay the estimated \$200 billion required to put the Gulf Coast back on its feet? Will Congress raise taxes or cut programs? If the latter, which social programs will be reduced and by how much? How will other parts of the country provide the social services needed for former residents who will never return to the Gulf Coast? If taxes are raised, or existing cuts are not reinstated, will that mean people will be less willing to contribute to nonprofits? Will they be less likely to volunteer? What would be the result if one or more other natural disasters struck the United States or other parts of the world? Does a U.S. crisis mean that tsunami relief donations in the future will not be forthcoming? Nonprofits tend to deal with tough questions such as these.

Ultimately, Katrina highlighted the many areas where our government and the various help agencies were unable to forecast accurately or in time. Yet the Louisiana State University Hurricane Center predicted the disaster years earlier. Even a few days before Katrina hit, the Center warned that the levees would not hold, the pumps were not adequate, and that immediate evacuation was needed. Did the various governments not know that the affected parishes were primarily populated by minorities who did not have the capacity to evacuate? Thus, it comes down to the historical debate of whether the problem was poor information or bad implementation or both.

## INTRODUCTION

The point of this discussion is not to resolve this debate but to indicate that traditionally nonprofits have often been caught in the middle. Quite simply, nonprofits meet the needs of the world's inhabitants (animal, vegetable, and mineral) that governments and private industries cannot or will not meet. Hurricane Katrina illustrates that the gap between the observed social needs and satisfied social needs is vast and that the role played by nonprofits worldwide will increase for reasons noted later in this chapter.

The intention of this book is to offer nonprofit marketing managers a set of principles and practices that will make them more effective, competitive, and successful. After working with nonprofits for twenty years, it is clear to me that an answer for many of their problems lies in marketing. In addition, marketing can offer a more reliable forecasting system while also providing an implementation process that will work for nonprofits of all sizes and missions. Moreover, this book offers an important advantage. Unlike existing books, which provide an overview of basic marketing with nonprofit examples thrown in where appropriate, this book incorporates primary data collected from a cross-section of practicing nonprofit marketing managers. It also incorporates the strategic division of products into two categories—goods products and service products. The latter reflects the nonprofit sector. Fortunately, services marketing is a facet of marketing that has produced a unique set of principles and practices that tend to work better within service (nonprofit) organizations. These principles and practices are integrated throughout this book to ensure that it represents nonprofit marketing as it should be practiced.

## THE PURPOSES OF NONPROFIT ORGANIZATIONS

Early in the history of America, nonprofit institutions served marginal roles. We then believed that the government could and should discharge all major social tasks, and that the role of business and nonprofits was to supplement governmental programs where necessary. Today, nonprofits support far more initiatives in support of specific needs. Nonprofits are now America's largest employer and facilitate the fundamental American commitment to responsible citizenship. They represent the most important human change agent, bringing education to the unlearned, cures to the unhealthy, and integrity to the shameful.

Religious institutions were the first voluntary associations having evolved out of a religious tradition of serving community needs building on teachings from the Torah, New Testament, Koran, and other holy books written thousands of years ago. Historically, the activities associated with nonprofit organizations such as healthcare, religion, the arts, and social welfare activities were organized and administered by nonsecular bodies.

Tax exemption laws in the United States had their roots in the laws passed by the British Parliament in 1601. These laws set out a list of legitimate objects of charity and established a procedure for accountability for charitable fraud. The earliest charitable organization in the New World was Harvard College, established in 1863, which was free to attend. Following the American

Revolution, the established governments in the former colonies, now states, adopted a new doctrine of not funding religious institutions. Private organizations were created to provide services funded through donations and purchases of services rather than through direct and indirect grants from government.

The number of nonprofit organizations grew dramatically between the end of the Civil War and 1920 as corporate America and private wealth, along with religious congregations, financed the growth of universities, libraries, hospitals, professional organizations, and private clubs. In 1894, the Congress enacted the first federal income tax and provided an exemption for corporations, companies, or associations organized and conducted solely for charitable, religious, or educational purposes.

More recently, research conducted in the late 1990s indicated that the nonprofit sector did undergo rapid expansion during the 1977–1996 period, but that this expansion was not fueled by increases in charitable donations. Rather, the increase in revenues by social service organizations came from commercial income, such as from fees, investment income, and sales of products. Despite the changing character of nonprofits during this period, this sector increased at a rate much faster than the economy.

Today, the modern charitable organization bears little resemblance to the typical charity of the nineteenth century. The challenges for funds are immense, as is the growth of new competitors. Technology has allowed nonprofits to compete worldwide, partnered with a wide variety of government regulations. Yet, nonprofits remain the touchstone for a society's moral agenda. And, yes, there is a reason to be optimistic. Peter Drucker, the father of management and grandfather of marketing, posits that nonprofits remain the most successful business format, given their inherent disadvantages. He notes two success keys in this new environment. First, nonprofits must “convert donors into contributors.” Relationships must be formed. Second, nonprofits must “give communities a common purpose.”<sup>2</sup>

### What Is a Nonprofit Organization?

Few categorical concepts have such a vast array of synonyms and extensions as that of nonprofits or not-for-profits (NFP). Partly this may be a result of the range of organizations that call themselves nonprofits. A nonprofit can be as small as a one-person organization that wants to save a corner park, to the behemoth of the Bill & Melinda Gates Foundation with a budget of billions and a staff of hundreds. A quick review of the definitions of the word

“nonprofit” found on Google show a common range of elements:

- A term describing the Internal Revenue Service’s designation of an organization whose income is not used for the benefit or private gain of stockholders, directors, or any other persons with an interest in the company. A nonprofit organization’s income must be used solely to support its operations and stated purpose. ([www.indianagrantmakers.org/give/glossery.html](http://www.indianagrantmakers.org/give/glossery.html))
- Means any corporation, trust, foundation, or institution which is entitled to exemption under section 501(c)(3) of the Internal Revenue Code, or which is not organized for profit and no part of the net earnings of which insure to the benefit of any private shareholder or individual (except that the definition of “nonprofit organization” at 48 CFR 28.30 shall apply to the use of the patent clause at Section 600.27). ([www.1.pr.doe.gov/f600a3.html](http://www.1.pr.doe.gov/f600a3.html))
- An organization can be organized with the Internal Revenue determination under several categories of nonprofit status (cannot pay individuals, do not pay taxes on income). ([www.delewarecountrybrc.com/glossaryterms.html](http://www.delewarecountrybrc.com/glossaryterms.html))
- A nonprofit organization (often called “non-profit org” or imply “nonprofit” or “not-for-profit”) can be seen as an organization that doesn’t have a goal to make a profit. It may be entirely funded by voluntary donation.
- Nonprofit institutions exist to benefit society( i.e, serve the public interest),
- regardless of whether profits are achieved.

Salamon and Anheir (1992) posit that the nonprofit sector is a set of organizations that are:

- formally constituted;
- nongovernmental in basic structure;
- self-governing;
- non-profit-distributing;
- voluntary to some meaningful extent<sup>3</sup>

As we move from one country to another, complexity and purpose vary. In Japan, for instance, the nonprofit corporate system, as written in the Japanese civil law, has a complicated divisional structure. Within the civil code, public interest corporations are separated among their fields, with categories such as school corporation, social welfare corporation, religious corporation, and so forth. Accordingly, the NPO Law specifies an organization can become a

“specified nonprofit corporation” if it:

- is formed principally to implement one of the specified activities like: art, culture community safety, etc.
- is not formed for generating profit
- has paid staff members less than one-third of the total staff
- is not involved in religious teaching or preaching, or in performing religious ceremonies
- is not for promoting, supporting, or opposing a political ideology, political party, a person holding a public office, or candidate for a public office
- is not operated for the interest of a specified individual or corporation
- is not used for a specified political party
- has provisions of acquisition and loss of membership, which are not unreasonable

It is evident that many of the U.S. nonprofits would not qualify in Japan.

- Australia defines nonprofit institutions (NPIs) in the following way:

NPIs are legal or social entities created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units. The articles of association by which they are established are drawn up in such a way that the institutional units which control or manage them are not entitled to a share in any profits or other income which they receive. (SNA 93, para. 4.5-4)

Clearly, the concern in Australia is the management of “profits.” Given the varied definitions, what are the characteristics shared by all nonprofits operating worldwide? They are as follows:

- The primary motive of a nonprofit organization is not financial gain.
- If profits are achieved they cannot be paid to any private shareholders or individuals.
- Sources of revenue may be obtained from donations, grants, fund balances, and perhaps sales.
- Taxes are not paid as long as the organization is approved by the governmental guidelines and continues to meet governmental guidelines.
- Accountability and success are determined by the Board vis-à-vis the mission statement, as well as the senior staff (who may or may not also serve on the board).

In sum, a nonprofit organization is not prohibited from making a profit, but there are limitations on what it can do with its profits. There are also limitations on how it can make money – and it must make money in accordance with its nonprofit purposes. Thus, the agenda (mission) for the National Rifle Association is the antithesis of the Brady Campaign to Prevent Gun Violence. Yet, they are both legitimate nonprofits.

In general, U.S. nonprofit organizations receive two primary benefits. First, all organizations can receive tax-deductible contributions from businesses and individuals. Second, most organizations are exempt from income tax and property tax, and some are exempt from sales tax.

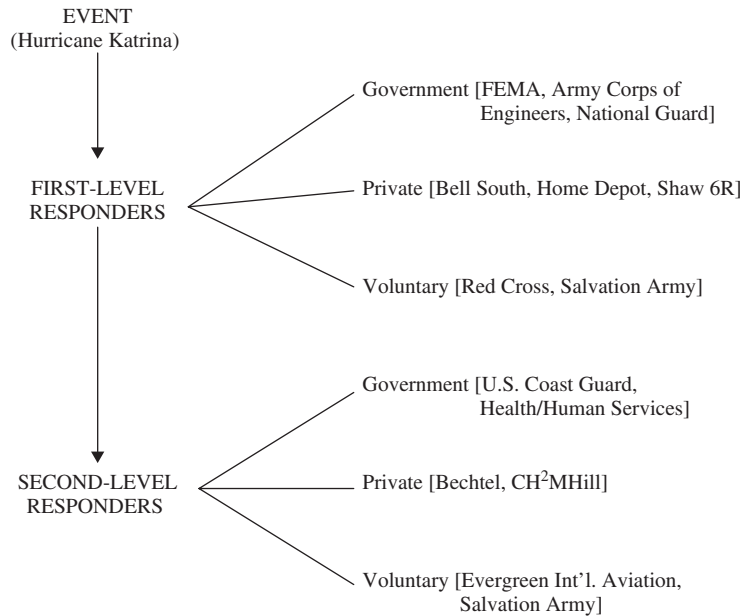
To receive these benefits, nonprofit organizations must: (1) obtain a license from the Internal Revenue Service, and (2) file a tax return if their annual revenue is greater than \$25,000.

## CLASSIFYING NONPROFITS

Definitions and classification are, in a sense, two parts of a related process. The first specifies what the entities in a group have in common, and the second spells out the ways in which they nevertheless differ. Broadly speaking, two basic issues have to be settled in the design of any classification system. The first of these is the unit of analysis to be used; and the second is the basis of the classification, the central variable, or variables, in terms of which entities are to be differentiated from each other. In the case of Japan, for example, the classification is a legal designation known as Charitable Trusts (*koeki shintaku*), and there is no need to create nonprofit classifications.

At the macro level we can consider three kinds of organizations: the government sector, the private sector, and the voluntary sector. The voluntary sector and nonprofit organizations are synonymous terms. The distinction is somewhat obvious and is illustrated in Exhibit 1.1, which shows how each participated in the Hurricane Katrina disaster.

There are a number of general classification schemas that are available for differentiating the types of organizations that comprise the nonprofit sector: the United Nations International Standard Industrial Classification (ISIC) of all economic activities, the General Industrial Classification of Economic Activities (NACE) developed by the European Statistical Office, and the National Taxonomy of Exempt Entities (NTEE) developed by the National Center for Charitable Statistics in the United States. Essentially, none of these systems are completely aligned, and a system that is precise enough to demarcate an organization in a particular country may not apply to another country. Making comparative work of nonprofits across countries remains difficult.



**EXHIBIT 1.1** KATRINA RELIEF EFFORT: GOVERNMENT, PRIVATE, AND VOLUNTARY SECTOR PARTICIPATION

## THE SIZE AND SHAPE OF NONPROFITS

Because of the differences in nonprofit laws country-to-country, as well as the variety in classifications, there is no accurate count of nonprofits nationwide. However, by focusing on the United States, we can get a fairly accurate snapshot of that nonprofit sector. As shown in Exhibit 1.2, there were 1,397,263 nonprofits registered with the IRS in 2004, with 58.9 percent categorized as 501(c)(3) Public Charities. The overall category has grown 28.8 percent since 1996, while Public Charities have grown 53.5 percent during that same period of time. These numbers do not represent the organizations with less than \$25,000 gross receipts, of which there are over a half-million.

If we examine growth, it is apparent that religious organizations are the clear winner, increasing by over 50,000 since 1999, or a 180 percent growth. Coming in second and third are new educational organizations followed by human-service groups. In general, most of this recent growth is attributed to organizations reporting less than \$25,000 gross receipts. The growth of charitable organizations in recent years has been fairly consistent. The number of groups increased by 6.1 percent from 2003 to 2004, 6 percent from 2002 to 2003, 5.1 percent from 2001 to 2002, and 5.6 percent from 2000 to 2001.

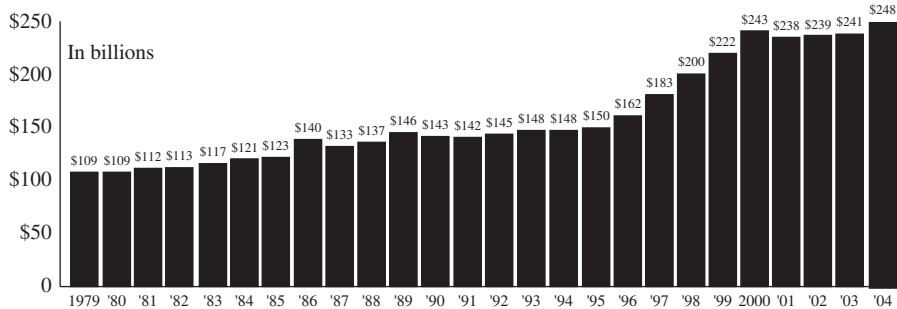
	1996		2004		Pct. Change
	Number of Orgs.	Percent of All Orgs.	Number of Orgs.	Percent of All Orgs.	
<b>All Nonprofit Organizations</b>	1,084,897	100.0%	1,397,263	100.0%	28.8%
<b>501(c)(3) Public Charities</b>	535,888	49.4%	822,817	58.9%	53.5%
<b>501(c)(3) Private Foundations</b>	58,774	5.4%	102,881	7.4%	75.0%
<b>Other 501(c) Nonprofit Organizations</b>	490,235	45.2%	471,565	33.7%	-3.8%
Small Community Groups and Partnerships, etc.	Unknown	NA	Unknown	NA	NA
<b>501(c)(3) Public Charities</b>	535,888	49.4%	822,817	58.9%	53.5%
501(c)(3) Public Charities Registered with the IRS (Including Registered Congregations)	535,888	49.4%	822,817	58.9%	53.5%
<b>Reporting Public Charities</b>	297,691	27.4%	317,689	22.7%	6.7%
Operating Public Charities	261,640	24.1%	272,236	19.5%	4.0%
Supporting Public Charities	36,051	3.3%	45,453	3.3%	26.1%
Non-Reporting, or with Less than \$25,000 in Gross Receipts	238,197	22.0%	505,128	36.2%	112.1%
Congregations (About Half Are Registered with IRS)*	—	0.0%	385,874	27.6%	NA
<b>501(c)(3) Private Foundations</b>	58,774	5.4%	102,881	7.4%	75.0%
Private Grantmaking (Non-Operating) Foundations	56,377	5.2%	98,529	7.1%	74.8%
Private Operating Foundations	2,397	0.2%	4,352	0.3%	81.6%
<b>Other 501(c) Nonprofit Organizations</b>	490,235	45.2%	471,565	33.7%	-3.8%
Civic Leagues/Social Welfare Orgs, etc.	127,567	11.8%	119,515	8.6%	-6.3%
Fraternal Beneficiary Societies	102,592	9.5%	87,833	6.3%	-14.4%
Business Leagues, Chambers of Commerce, etc.	68,575	6.3%	71,470	5.1%	4.2%
Labor, Agricultural/Horticultural Orgs	61,729	5.7%	58,362	4.2%	-5.5%
Social and Recreational Clubs	57,090	5.3%	56,494	4.0%	-1.0%
Post or Organization of War Veterans	30,578	2.8%	35,097	2.5%	14.8%
All Other Nonprofit Organizations	42,104	3.9%	42,794	3.1%	1.6%

Note: Excludes out-of-scope organizations.

\*The number of congregations is from the website of American Church Lists (<http://list.infousa.com/acl.htm>), 2004. These numbers are excluded from the the totals for the state since approximately half of the congregations are included under registered public charities.

Sources: IRS Business Master File 12/2004 (with modifications by the National Center for Charitable Statistics at the Urban Institute to exclude foreign and governmental organizations).

**EXHIBIT 1.2 NUMBER OF NONPROFIT ORGANIZATIONS IN THE UNITED STATES, 1996–2004**



**EXHIBIT 1.3** DONATIONS TO NONPROFIT GROUPS OVER THE PAST 25 YEARS

Source: AAFRC Trust for Philanthropy

The IRS has acknowledged that an unknown number of the organizations classified under Section 501(c)(3) are still on the government books even though they have shut down.

The other key statistic that has a direct bearing on nonprofits is the level and target of giving. Exhibit 1.3 shows the trend in U.S. giving since 1979 to 2004, when giving rose 2.3 percent since 2003 to \$248.5 billion. Moreover, until Hurricane Katrina hit, many fund raisers were predicting a very promising 2005. This catastrophe, combined with the country's perceived somewhat diminished economic well being financial health, high fuel prices, and possible legislation restricting some types of non-cash gifts has made charities more wary.

The "Giving USA" annual report on philanthropy points to several less obvious worrisome trends. For example, the gains reported have not been evenly realized among the nation's nonprofit groups. Many small and medium-sized charities are still struggling to raise as much as they did in 2001. Social-services groups have faced an especially difficult time. Donations to them fell 1.1 percent last year, which marks the third consecutive year of declines. International groups, which faced a 1.8 percent decline, were the only other type of organizations where giving dropped.<sup>4</sup>

Several explanations have been offered to explain this divergence between groups of different sizes and missions. Fairly obvious is the fact that small charities tend to receive donations from a broad mix of individuals, while bigger groups receive most of their money from foundations, corporations, and wealthier people. A vibrant stock market has helped the latter groups, while a high jobless rate and stagnant economy has been deleterious for the former.

Among other key findings from the report:

- Gifts by living individuals grew by 1.4 percent in 2004, while bequests rose by 6.4 percent.
- Businesses and foundations both increased their giving by 4.5 percent.
- Wealthy Americans put a lot of their money into philanthropic foundations. Gifts to foundations grew by 8 percent, a bigger percentage gain than any other type of nonprofit organization.

### FACTORS AND TRENDS AFFECTING NONPROFITS

There are many events that have occurred during the last three decades that have had, and will continue to have, a bearing on the future of the nonprofit sector. They include a growth of new diseases and the possibilities of the return of old ones; the dissolution of the Soviet Union and its emergence as a second-rate power; global terrorism and the shift of resources to protection and mitigation; a succession of armed conflicts, especially Iraq; the development of China and India as potential economic leaders; climate changes such as global warming and pollution; and political instability, especially in Third World nations.

Aside from these general trends, there are several that have ramifications for nonprofits more directly.

#### The World Is Flat

In his recent bestseller, Thomas Friedman proclaims, *The World Is Flat*. This declaration was based on his travels through Bangalore where he observed the convergence of technology and software, along with reduced costs, allowing every corner of the world to compete for global knowledge work. Essentially, the global competitive playing field was being leveled. “It is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from different corners of the planet and on a more equal footing than any previous time in the history of the world—using computers, e-mail, networks, teleconferencing, and dynamic new software.” We have arrived at a period in history where individuals can collaborate and compete globally.

Many nonprofits will become a major element in this flattening phenomenon. The support of the tsunami relief effort exemplifies one such example. The funding and dissemination of international aid was accomplished through this convergence. Requests for donations originated with phone banks in India, Australia, Los Angeles, and Brussels to name but

a few locations. Until Hurricane Katrina, the tsunami spawned the largest e-mail campaign to date.

There are possible risks to globalizing a nonprofit. For one, it could mean that the inherent identity of a local, regional, or even national cause could be lost in the maze of cultural cross-over. Similarly, individual giving and volunteering might diminish as people seek global solutions to what might better be regarded as national or even local issues.

Irrespective of locale, individuals can now identify and fund worthy projects in countries all over the world. Furthermore, these individuals can receive immediate feedback along with suggestions as to how they might contribute in other ways such as lobbying and campaigning.

Even corporate donors will be affected. Those that operate globally will surely support nonprofits that provide them with recognition in the countries in which they operate. Procter&Gamble, for example, is a major supporter of UNICEF. In turn, UNICEF works with P&G to create programs that benefit both parties.

### **An Era of Accountability**

Although corruption has always been part of the world, the last decade has witnessed a plethora of corporate scandals. New laws, such as the Federal Sarbanes-Oxley, State-level versions of Sarbanes-Oxley, various congressional actions, and the Tax Relief Act of 2005 in the United States, have emerged as a way of holding organizations accountable. While trust has always been an underlying trait of nonprofits, it has become even more salient as scandals with nonprofits such as Easter Seals and their questionable allocation practices have become known. While the public has always had the right to know how their money is being spent and to what extent objectives have been achieved, the amount and quality of information has changed.

Changes in the rules of accounting have flowed over into the nonprofit sector. The list of financial data required of nonprofits is now much longer and more detailed. Clearly, the auditing process will continue to change and nonprofits will have to collect additional financial information well beyond that found on the current Form 990. Creative accounting is a thing of the past.

Accountability is also part of the due diligence assigned to nonprofit organizations. A major challenge of all nonprofits is to meet their objectives while remaining financially viable. An operating deficit might indicate to donors that an organization that may be worthy of additional support or that it is wasting money on fundraising or administration. Conversely, a nonprofit with

a large surplus could indicate that an organization is good at raising money but bad at meeting the needs of its constituents.

Historically, nonprofits have not had good measures of operational efficiency. This gap has begun to change through the creation of benchmarks of performance. For example, the Council of Better Business Bureaus and the Philanthropic Advisory Service (both located in the United States) currently specify a 35 percent limit on fund-raising costs. The National Charities Bureau specifies a minimum of 60 percent of annual expenses should be spent on programs. These numbers remain somewhat arbitrary, and it is expected that future guidelines will be more scientific.

Finally, the nonprofit sector has exhibited a greater interest in self-regulation. Examples include the Better Business Bureau's "Wise Giving Alliance" program and the State of Maryland's Association of Nonprofits "Standards for Excellence." This trend toward self-monitoring will definitely continue.

### **Boomers and Beyond**

The baby boomers include all U.S. citizens born between 1946 and 1964. During that period, 76.4 million people were born in the United States, of whom approximately 67 million are still alive. They represent over one-fourth of the total U.S. population. The majority of baby boomers are in blue-collar occupations and they have fallen short of reaching the modern American Dream. Theoretically they will begin retiring in 2011, although only 11 percent of the U.S. workforce actually retires at age 65. The impetus for the Baby Boom segment of the population was the end of World War II and the simultaneous return of soldiers who all began new families around the same time. All the countries involved in World War II have the equivalent of a Baby Boom segment.

The significance of the Baby Boomers to the nonprofit sector is profound. Obviously, since they will soon begin to retire they will become major recipients of the services offered by both the government and nonprofit sectors. What is unknown is the extent to which they will be able to sustain themselves financially, medically, and socially. Current statistics indicate that as many as 40 percent of Boomers expect to live off of Social Security only. Experts suggest that this is dangerously optimistic. Moreover, mortality tables suggest many Boomers will live into their 90s and beyond, requiring medical support from a Medicare system that is already strained.

The Catch-22 is that while Boomers will require more support services from a cross-section of nonprofits, they will be unable to pay for them.

Because of their low income base, their proportion of taxes paid will be low as well. Moreover, their two younger cohorts, Generation X (born between 1965 and 1972) and Generation Y (born between 1973 and 1984), are unlikely to vote for programs that increase the benefits to the Boomers because they already will be paying for the Boomers' Social Security benefits. In the end, the Boomers will likely be a tremendous burden on society and will prompt a growth in nonprofit organizations that focus on social services. This may come at the expense of the more esoteric nonprofits such as the arts and education. This trend will likely be mirrored throughout the world.

There is one piece of good news associated with the Baby Boomers. The pool of volunteers will be huge. Many retired Boomers with a great deal of spare time will look for opportunities to fill that time and/or give back. However, nonprofits should not expect these Boomers to volunteer cash. Rather, nonprofits should provide opportunities to volunteer time, expertise, and ideas.

### MARKETING'S BENEFITS TO NONPROFITS

We have already provided a bit of history as to the partnership between nonprofits and the discipline of marketing. Most agree that marketing now plays a prominent role in the success of nonprofits. What are those benefits?

A prerequisite to this discussion is to offer a basic definition of marketing. Marketing is often simply described as "finding, attracting, satisfying, and keeping customers." As will become evident throughout this book, marketing is much more than that and includes many possible strategies and useful tools. Still, this simple definition will suffice for now. Now, onto the benefits.

- Marketing offers a paradigm that is more appropriate for the environment in which nonprofits must operate. Essentially, the traditional exchange model employed by nonprofits, where individuals and institutions donate with no expectations, is no longer valid. Instead, nonprofits now reflect a commercial exchange where all the parties expect to benefit. This is the realm of marketing.
- In conjunction with the notion of exchange is the premise that marketing plays a major role in influencing the behavior of others. In the nonprofit sector, however, the behavior requests are often more difficult. Examples are trying to persuade a junkie in need of a fix to carry clean needles or to persuade a teenager to always use a condom when having sex. People are reluctant to give their time, money, and bodily fluids to causes that are vague and difficult to hold accountable.

Therefore, employing a marketing mindset is a necessary requisite to facilitating nonprofit exchanges.

- Good marketing introduces measures of performance into the nonprofit sector that are more appropriate for nonprofits. In addition to metrics of social responsibility, marketing performance measures such as market share, incremental sales, and return on investment (ROI) can be applied consistently to nonprofits and allow nonprofits to gauge success in a more salient manner. These marketing measures have been tested in many settings, and although modifications may be necessary, they are superior to the current metrics used by nonprofits.
- Marketing introduces a terminology into the nonprofit sector that better aligns the tasks performed by nonprofits with the reality of the marketplace. Thinking of the homeless person or blood donors, for example, as “customers” seems to be alien in nonprofit sectors. However, the term becomes meaningful when a nonprofit organization reformulates its thinking to position their service users as individuals who are giving up something of value, just as a customer gives up dollars for a new car. Similarly, clustering survivors of Katrina into market segments with respect to their needs for goods and services will resonate as a meaningful marketing strategy that will lead to better solutions. One of the benefits of this book is to introduce the reader to this terminology and way of thinking.
- Marketing is a business function that transitions smoothly from one culture to another. Nonprofits are now operating in a global arena, as noted earlier. All the marketing strategies and tactics discussed in this book are employed wherever a business exists. Marketing provides a bridge for nonprofits that wish to move to other cultures and/or countries. Nonprofits need to know how to operate in a country quite different than their own, while still understanding the inherent elements of the exchange process, good product design, appropriate pricing, effective communication, and efficient distribution systems.
- Marketing has an impact on society as a whole, and nonprofits certainly deal with the problems of society. Concepts such as trade deficits, embargoes, devaluation of foreign currency, price fixing, deceptive advertising, product safety, and unethical selling take on new meaning when viewed from a marketing standpoint. This knowledge should make for a more enlightened nonprofit marketer who understands what such social and political issues mean to you, your organization, and society.

## PROBLEMS IN APPLYING MARKETING

While the benefits of employing marketing as part of the operation of nonprofits is somewhat obvious, there are inherent problems with nonprofits that make implementation of marketing difficult.

- *A restrictive business model.* The notion that nonprofits are not supposed to make a profit makes operating a successful organization a hit-or-miss proposition. This model is particularly deleterious to marketing planning, which often requires an investment of cash or other resources before a measurable result is noted. This lag phenomenon is not possible where the goal is to break even at the end of the year. Advertising, for example, is a marketing tactic that requires a long-term horizon to build the necessary momentum to achieve its objectives. Likewise, most nonprofits consistently operate at the financial margin and investing in the unknown benefits of marketing is looked upon with a degree of fear.
- *The traditional view of marketing.* Until the last three decades, marketing and all its facets were not viewed as proper for nonprofits. It was believed that individuals should volunteer to work in nonprofits for altruistic reasons and give their dollars from the goodness of their hearts. The notion that nonprofits would *trick* people to volunteer or donate through a variety of marketing gimmicks was unacceptable. Unfortunately, that premise is still alive and well with many nonprofit staffs, boards, volunteers, and donors. As a result, marketing is often totally rejected or minimally employed as a strategic option. This means that marketing is disjointed and is forced to consider strategic alternatives that are both ineffective and costly.
- *Intangible benefits.* When a person donates \$100 to the Red Cross for the victims of Hurricane Katrina, he is not exactly sure what he expects to gain or how to measure it. If the statistics hold true, 30 to 40 percent of those who pledged will not honor that pledge. For many nonprofits, the benefits offered to all their constituents are, for the most part, intangible. People make a sacrifice that accrues to others and may feel good initially, but grow resentful after a few hours or days. Somehow the nonprofit marketer must “tangibilize” all these elements, including unconscious feelings, so that all the constituents will feel satisfied and become loyal customers. A premise of this book is that the way to do this is to consider nonprofit marketing as a part of “service marketing,” a topic that will be discussed in a later chapter.

- *A static product.* For companies such as Microsoft, it is relatively easy to modify the many elements that constitute one of their software products. Such changes might make the product less expensive, perform better, or simply be more attractive. In any case, changes are possible. For many nonprofits, the elements of the product offering are strictly dictated by the Mission Statement. The Red Cross is mandated to rescue all known survivors regardless of the cost or benefits derived. They are not allowed to make modifications in order to make the operation more profitable. Many social services offer a wide range of products, even though many are used infrequently. In addition, nonprofit marketers often sell products that no one wants or where the level of engagement is small. People don't want to be tested for AIDS, students don't want to take physics, and the home-bound don't want to be cared for by strangers. Because the basic offering cannot be changed, marketers must be clever in creating a marketing strategy that engages the other marketing tactics. Much of this book will deal with the various ways of accomplishing this objective.
- *Limited research opportunities.* Despite the fact that the exchange process is more complex and intangible in nonprofits, there is very little concrete data available to better understand the decision-making process and how the various marketing tactics affect it. For many, gathering market behavior data from the various constituents of nonprofits is essentially considered the ultimate invasion of privacy. Consequently, either data is not collected or the quality is suspect. And, much of the information that is gathered comes from secondary sources and is not necessarily applicable to that specific nonprofit. A fundamental understanding of marketing research is provided in a later chapter.
- *Poor control of employees, volunteers, and board.* Historically, individuals who seek employment with a nonprofit have a personal desire to help others, regardless of the low pay or poor working conditions. This often correlates with limited education and/or skill sets. It is unlikely that they will have a background in marketing. Even if they are assigned to do marketing, they will wear several other hats. Volunteers will be even more diverse, and perhaps severely limited in their marketing expertise. Board members may be more experienced, but not necessarily in marketing. Because of factors such as these, plus a predilection against marketing and inadequate time to do marketing tasks, marketing is often poorly controlled in nonprofits.

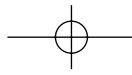
## GUIDELINES FOR MARKETING SUCCESS IN NONPROFITS

The social environment in which nonprofits now operate is dynamic and variable. Strategies that are effective in one community fail in another. Understanding, adaptability, and execution are critical attributes to organizational success. The following are guidelines applicable to twenty-first century non-profit marketing:

- Marketing decisions must be carefully crafted based on relevant information. There must always be enough time for strategic marketing, and intuition and guesswork should be kept to a minimum.
- Marketing is a long-term process. While meeting short-term objectives is often important, marketing is a marathon not a sprint.
- Although monitoring competition is important, marketers must focus on their unique mission and objectives.
- Marketers must solve real customer problems. Resolving only superficial problems or those defined only by the marketer will always lead to failure.
- Everything a marketer does should be held accountable—there are no free rides or implied promises.
- The ultimate success of marketing is based on excellent implementation.

## ORGANIZATION OF THIS BOOK

As indicated at the outset of this chapter, it is critical that nonprofit marketing managers have a clear and accurate understanding of the marketing planning process. Therefore, the organization of this book mirrors that process. It begins in Chapter 2 with a discussion of marketing and the planning process employed. In Chapter 3, the various approaches to the marketplace are explained. Marketing research and its various tools are delineated in Chapter 4. Chapter 5 considers the environmental elements outside the control of the organization. Chapter 6 begins the transition to another form of marketing, referred to as services marketing. Nonprofits operate in the service sector and this transition makes the tactical chapters of this book more relevant. In Chapter 7 the decision making process employed by the consumer is investigated, along with the variables that influence this process. Chapter 8 discusses the facets of creating and managing service (nonprofit) products. Chapter 9 does the same for the many tools of marketing communications. Chapter 10 considers the pricing channels of distribution decisions related to service products. Chapter 11 examines the new marketing-related



technologies available to nonprofits. In Chapter 12 we consider all this new information and how it facilitates fundraising and attracting volunteers.

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