

Ten Nonprofit Funding Models

By William Landes Foster, Peter Kim, & Barbara Christiansen

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Illustration by Doug Ross

For-profit executives use business models—such as “low-cost provider” or “the razor and the razor blade”—as a shorthand way to describe and understand the way companies are built and sustained. Nonprofit executives, to their detriment, are not as explicit about their funding models and have not had an equivalent lexicon—until now.

Money is a constant topic of conversation among nonprofit leaders: How much do we need? Where can we find it?

Why isn't there more of it? In tough economic times, these types of questions become more frequent and pressing.

Unfortunately, the answers are not readily available. That's because nonprofit leaders are much more sophisticated about creating programs than they are about funding their organizations, and philanthropists often struggle to understand the impact (and limitations) of their donations.

There are consequences to this financial fuzziness. When nonprofits and funding sources are not well matched, money doesn't flow to the areas where it will do the greatest good. Too often, the result is that promising programs are cut, curtailed, or never launched.

And when dollars become tight, a chaotic fundraising scramble is all the more likely to ensue.¹

In the for-profit world, by contrast, there is a much higher degree of clarity on financial issues. This is particularly true when it comes to understanding how different businesses operate, which can be encapsulated in a set of principles known as business models. Although there is no definitive list of corporate business models,² there is enough agreement about what they mean that investors and executives alike can engage in sophisticated conversations about any given company's strategy. When a person says that a company is a “low-cost provider” or a “fast follower,” the main outlines of how that company operates are pretty clear. Similarly, stating that a company is using “the razor and the razor blade” model describes a type of ongoing customer relationship that applies far beyond shaving products.

The value of such shorthand is that it allows business leaders to articulate quickly and clearly how they will succeed in the marketplace, and it allows investors to quiz executives more easily about how they intend to make money. This back-and-forth increases the odds that businesses will succeed, investors will make money, and everyone will learn more from their experiences.

The nonprofit world rarely engages in equally clear and succinct conversations about an organization's long-term funding strategy. That is because the different



types of funding that fuel nonprofits have never been clearly defined.³ More than a poverty of language, this represents—and results in—a poverty of understanding and clear thinking.

Through our research, we have identified 10 nonprofit models that are commonly used by the largest nonprofits in the United States. (See “Funding Models” on page 37.) Our intent is not to prescribe a single approach for a given nonprofit to pursue. Instead, we hope to help nonprofit leaders articulate more clearly the models that they believe could support the growth of their organizations, and use that insight to examine the potential and constraints associated with those models.

BENEFICIARIES ARE NOT CUSTOMERS

One reason why the nonprofit sector has not developed its own lexicon of funding models is that running a nonprofit is generally more complicated than running a comparable size for-profit business. When a for-profit business finds a way to create value for a customer, it has generally found its source of revenue; the customer pays for the value. With rare exceptions, that is not true in the nonprofit sector. When a nonprofit finds a way to create value for a beneficiary (for example, integrating a prisoner back into society or saving an endangered species), it has not identified its economic engine. That is a separate step.

Duke University business professor J. Gregory Dees, in his work on social entrepreneurship, describes the need to understand both the donor value proposition and the recipient value proposition. Clara Miller, CEO of the Nonprofit Finance Fund, who has also written wonderfully about this dilemma, talks about all nonprofits being in two “businesses”—one related to their program activities and the other related to raising charitable “subsidiaries.”

As a result of this distinction between beneficiary and funder, the critical aspects (and accompanying vocabulary) of nonprofit funding models need to be understood separately from those of the for-profit world. It is also why we use the term *funding model* rather than *business model* to describe the framework. A business model incorporates choices about the cost structure and value proposition to the beneficiary. A funding model, however, focuses only on the funding, not on the programs and services offered to the beneficiary.

All nonprofit executives can use our 10 funding models to improve their fundraising and management, but the usefulness of these models becomes particularly important as nonprofits get bigger. There are many ways to raise as much as \$1 million a year, some of which can be improvised during the process. Once organizations try to raise \$25 million to \$50 million or more each year, however, there are fewer possible paths. The number of potential decision makers who

can authorize spending such large amounts of money decreases (or you need to get them en masse), and the factors that motivate these decision makers to say “yes” are more established (or cannot be as thoroughly influenced by one charismatic nonprofit leader).

Our research of large nonprofits confirms this. In a recent study, we identified 144 nonprofit organizations—created since 1970—that had grown to \$50 million a year or more in size.⁴ We found that each of these organizations grew large by pursuing specific sources of funding—often concentrated in one particular source of funds—that were a good match to support their particular types of work. Each had also built up highly professional internal fundraising capabilities targeted at those sources. In other words, each of the largest nonprofits had a well-developed funding model.

The larger the amount of funding needed, the more important it is to follow preexisting funding markets where there are particular decision makers with established motivations. Large groups of individual donors, for example, are already joined by common concerns about various issues, such as breast cancer research. And major government funding pools, to cite another example, already have specific objectives, such as foster care. Although a nonprofit that needs a few million dollars annually may convince a handful of foundations or wealthy individuals to support an issue that they had not previously prioritized, a nonprofit trying to raise tens of millions of dollars per year can rarely do so.

This is not to say that funding markets are static; they aren’t. The first Earth Day in 1970 coincided with a major expansion in giving to environmental causes; the Ethiopian famine of 1984-85 led to a dramatic increase in support for international relief; and awareness of the U.S. educational crisis in the late 1980s laid the groundwork for charter school funding. Changes cannot be foreseen, however, and, hence, can not be depended on as a source of funding. In addition, these changes were the product or culmination of complex national and international events, not the result of a single nonprofit’s work.

Earl Martin Phalen, cofounder of BELL, an after-school and summer educational organization, captured the benefits of such intentionality well, summing up his experience for a group of nonprofit leaders in 2007. “Our fundraising strategy used to be ‘let’s raise more money this year than last’ and we always were unsure of where we’d be. Then we got serious in thinking about our model and identified an ongoing type of government funding that was a good match for our work. While it required some program changes to work, we now predictably cover 70 percent of our costs in any locality through this approach.”

TEN FUNDING MODELS

Devising a framework for nonprofit funding presents challenges. To be useful, the models cannot be too general or too specific. For example, a community health clinic serving patients covered by Medicaid and a nonprofit doing development work supported by the U.S. Agency for International Development are both government funded, yet the type of funding they get, and the decision makers controlling the funding, are very different. Lumping the two together in the same model would not be useful. At the same time, designating a separate model for nonprofits that receive Title I SES funds, for example, is too narrow to be useful.

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In the end, we settled on three parameters to define our funding models—the source of funds, the types of decision makers, and the motivations of the decision makers. (See “Identifying the Models” below.) This allowed us to identify 10 distinct funding models at a level that is broadly relevant yet defines real choices.

It is interesting to note that there were several funding models we thought we might find, but didn’t. One possible model was nonprofits supported by earned-income ventures distinct and separate from their core mission-related activities. Another possible model was nonprofits that operated on a strictly fee-for-service model in either a business-to-business or direct-to-consumer fashion, without important supplementary fundraising (from members or prior beneficiaries) or underlying government support. Although there are some nonprofits supporting themselves with such funding approaches, they were not present among the large nonprofits that we studied. It is our belief that these types of approaches do not lend themselves to large-scale, sustained nonprofit advantage over for-profit entities.

What follows are descriptions of the 10 funding models, along with profiles of representative nonprofits for each model. The models are ordered by the dominant type of funder. The first three models (Heartfelt Connector, Beneficiary Builder, and Member Motivator) are funded largely by many individual donations. The next model (Big Bettor) is funded largely by a single person or by a few individuals or foundations. The next three models (Public Provider, Policy Innovator, and Beneficiary Broker) are funded largely by the government. The next model (Resource Recycler) is supported largely by corporate funding. And the last two models (Market Maker and Local Nationalizer) have a mix of funders.

1. HEARTFELT CONNECTOR Some nonprofits, such as the Make-a-Wish Foundation, grow large by focusing on causes that resonate with the existing concerns of large numbers of people at all income levels, and by creating a structured way for these people to connect where none had previously existed. Nonprofits that take this approach use a funding model we call the *Heartfelt Connector*. Some of the more popular causes are in the environmental, international, and medical research areas. They are different from nonprofits that tap individuals with particular religious beliefs, political leanings, or sporting interests, who come together to form organizations in the course of expressing their interests. Heartfelt Connectors often try to build explicit connections between volunteers through special fundraising events.

The Susan G. Komen Foundation is an example of a nonprofit that uses the Heartfelt Connector model. Established in 1982, the Komen Foundation works through a network of 125 affiliates to eradicate breast cancer as a life-threatening disease by funding research grants, by supporting education, screening, and treatment projects in communities around the world,

and by educating women about the importance of early detection. The foundation’s mission has a deep resonance with many women, even though its work may never benefit them directly. Between 1997 and 2007 the Komen Foundation’s annual fundraising grew from \$47 million to \$334 million. The average individual donation is small, about \$33, but the foundation’s fundraising efforts have been driven by its ability to reach out to an ever-widening base of support. Its major fundraising vehicle is the Susan G. Komen Race for the Cure. The foundation and its affiliates hold about 120 running races each year that draw more than 1 million participants. These events not only allow individuals to give money; they also engage volunteers to put together teams, solicit funds, and participate in the race day experience.

Nonprofit leaders considering the Heartfelt Connector funding model should ask themselves the following questions:

- Have a large cross section of people already shown that they will fund causes in this domain?
- Can we communicate what is compelling about our nonprofit in a simple and concise way?
- Does a natural avenue exist to attract and involve large numbers of volunteers?
- Do we have, or can we develop, the in-house capabilities to attempt broad outreach in even one geographic area?

2. BENEFICIARY BUILDER Some nonprofits, such as the Cleveland Clinic, are reimbursed for services that they provide to specific individuals, but rely on people who have benefited in the past from these services for additional donations. We call the funding model that these organizations use the *Beneficiary Builder*. Two of the best examples of Beneficiary Builders are hospitals and universities. Generally, the vast majority of these nonprofits’ funding comes from fees that beneficiaries pay for the services the nonprofits provide. But the total cost of delivering the benefit is not covered by the fees. As a result, the nonprofit tries to build long-term relationships with people who have benefited from the service to provide supplemental support, hence the name Beneficiary Builder. Although these donations are often small relative to fees (averaging approximately 5 percent at hospitals and

Identifying the Models

We started by identifying a pool of nonprofits to study by combining *The NonProfit Times*’ “Top 100” list (from 2006) with our list of 144 nonprofits founded since 1970 that have reached \$50 million or greater in size. Several major types of nonprofits (for example, hospitals, universities, and religious congregations) were not represented in this sample so we added them to our pool. Next, we collected revenue and funding data for each sample organization. As we categorized the data, we began to identify funding patterns. Each major funding source (for example, government) broke into a handful of sub-sources that represented distinct decision makers and motivations and linked remarkably well to the organization’s missions and domains. At the end of this process, we had 10 funding models. Then, we interviewed the leaders of organizations that epitomize each model. Our goal in the interviews was to explore the challenges and trade-offs of each model, and to better understand the drivers of successful fundraising within each model. —W.F., P.K., & B.C.

30 percent at private universities), these funds are critical sources of income for major projects such as building, research, and endowment funds. Donors are often motivated to give money because they believe that the benefit they received changed their life. Organizations using a Beneficiary Builder model tend to obtain the majority of their charitable support from major gifts.

Princeton University is an example of a nonprofit that uses the Beneficiary Builder model. The university has become very adept at tapping alumni for donations, boasting the highest alumni-giving rate among national universities—59.2 percent. In 2008, more than 33,000 undergraduate alumni donated \$43.6 million to their alma mater. As a result of the school's fundraising prowess, more than 50 percent of Princeton's operating budget is paid for by donations and earnings from its endowment.

Nonprofit leaders considering the Beneficiary Builder funding model should ask themselves the following questions:

- Does our mission create an individual benefit that is also perceived as an important social good?
- Do individuals develop a deep loyalty to the organization in the course of receiving their individual benefit?
- Do we have the infrastructure to reach out to beneficiaries in a scalable fashion?

3. MEMBER MOTIVATOR There are some nonprofits, such as Saddleback Church, that rely on individual donations and use a funding model we call *Member Motivator*. These individuals (who are members of the nonprofit) donate money because the issue is integral to their everyday life and is something from which they draw a collective benefit. Nonprofits using the Member Motivator funding model do not create the rationale for group activity, but instead connect with members (and donors) by offering or supporting the activities that they already seek. These organizations are often involved in religion, the environment, or arts, culture, and humanities.

The National Wild Turkey Federation (NWTf), which protects and expands wild turkey habitats and promotes wild turkey hunting, is an example of a Member Motivator. It attracts turkey hunters, who collectively benefit from NWTf's work and therefore become loyal members and fundraisers. Local NWTf members host more than 2,000 fundraising banquets each year, raising about 80 percent of the organization's annual revenues. These banquets provide multiple donation opportunities: entry tickets (which cost about \$50 each and include an annual membership); merchandise purchase (averaging more than \$100 per attendee); and raffle tickets (generating about \$16,000 per banquet). NWTf's national headquarters supplies raffle prizes and merchandise to sell at these banquets. Each banquet clears an average of \$10,000 after expenses. A significant portion of the money raised is dedicated to land and turkey conservation in the community from which it was donated.

Nonprofit leaders considering the Member Motivator funding model should ask themselves the following questions:

- Will our members feel that the actions of the organization are directly benefiting them, even if the benefit is shared collectively?
- Do we have the ability to involve and manage our members in fundraising activities?

- Can we commit to staying in tune with, and faithful to, our core membership, even if it means turning down funding opportunities and not pursuing activities that fail to resonate with our members?

4. BIG BETTOR There are a few nonprofits, such as the Stanley Medical Research Institute, that rely on major grants from a few individuals or foundations to fund their operations. We call their funding model the *Big Bettor*. Often, the primary donor is also a founder, who wants to tackle an issue that is deeply personal to him or her. Although Big Bettors often launch with significant financial backing already secured, allowing them to grow large quickly, there are other instances when an existing organization gets the support of a major donor who decides to fund a new and important approach to solving a problem. The nonprofits we identified as Big Bettors are focused either on medical research or on environmental issues. The primary reasons that Big Bettors can attract sizable donations are: the problem being addressed can potentially be solved with a huge influx of money (for example, a vast sum can launch a research institute to cure a specific illness); or the organization is using a unique and compelling approach to solve the problem.

Conservation International (CI), whose mission is to conserve the Earth's biodiversity and to demonstrate that humans can live harmoniously with nature, is an example of a nonprofit that uses the Big Bettor funding model. CI's ability to identify locations around the world where protecting an area of land can have a significant effect on preserving global biodiversity helps it attract donors who are willing to contribute large amounts of money so that they can have an important and lasting impact on protecting the Earth. The majority of CI's contributions come from a few large donors.

Nonprofit leaders considering the Big Bettor funding model should ask themselves the following questions:

- Can we create a tangible and lasting solution to a major problem in a foreseeable time frame?
- Can we clearly articulate how we will use large-scale funding to achieve our goals?
- Are any of the wealthiest individuals or foundations interested in our issue and approach?

5. PUBLIC PROVIDER Many nonprofits, such as the Success for All Foundation, work with government agencies to provide essential social services, such as housing, human services, and education, for which the government has previously defined and allocated funding. Nonprofits that provide these services use a funding model we call *Public Provider*. In some cases, the government outsources the service delivery function but establishes specific requirements for nonprofits to receive funding, such as reimbursement formulae or a request for proposal (RFP) process. As Public Providers grow, they often seek other funding sources to augment their funding base.

TMC (formerly the Texas Migrant Council), which supports children and families in migrant and immigrant communities, is an example of an organization that uses the Public Provider funding model. At its inception in 1971, TMC tapped into the federal govern-

ment's Head Start program to fund its initial work, helping children prepare for school by focusing on the bilingual and bicultural needs of families. As TMC grew, its leaders sought to reduce its dependence on this one funding source and to identify other government funds. TMC now receives funding from a variety of federal, state, and local government sources. TMC has expanded from Texas into seven additional states and is offering new programs, such as literacy, prenatal care, and consumer education.

Nonprofit leaders considering the Public Provider funding model should ask themselves the following questions:

- Is our organization a natural match with one or more large, pre-existing government programs?
- Can we demonstrate that our organization will do a better job than our competitors?
- Are we willing to take the time to secure contract renewals on a regular basis?

FUNDING MODELS

MODEL	CHARACTERISTICS	EXAMPLES	TACTICAL TOOLS
Heartfelt Connector			
Funding source: Individual Funding decision maker: Multitude of individuals Funding motivation: Altruism	The mission has broad appeal The benefits often touch the lives of the funder's family and friends Nonprofit connects donors to the cause through volunteerism or other means	Medical research (Susan G. Komen Foundation) Environment (Natural Resources Defense Council) International (Save the Children)	Special events Direct mail Corporate sponsorship
Beneficiary Builder			
Funding source: Individual Funding decision maker: Multitude of individuals Funding motivation: Self-interest followed by altruism	The mission initially attracts individuals pursuing, and paying for, specific individual benefits Mission creates a strong individual connection through the delivery of the benefit (for example, spending four years on campus or having one's life saved) Benefits created viewed as having important societal benefits	Universities (Princeton University) Hospitals (Cleveland Clinic)	Fees Major gifts
Member Motivator			
Funding source: Individual Funding decision maker: Multitude of individuals Funding motivation: Collective interest	Most of the benefits have a group orientation (for example, religious services or hiking), creating an inherent collective community to tap into for fundraising Uses richest mixture of tactical tools to raise money	Religious congregations (Saddleback Church) Arts and culture (National Public Radio) Environment and conservation (National Wild Turkey Federation)	Membership Fees Special events Major gifts Direct mail
Big Bettor			
Funding source: Individual or foundation Funding decision maker: Few individuals Funding motivation: Altruism	Builds majority of support from small number of individuals or family foundations Mission may be fulfilled within limited number of decades (for example, finding cure to a certain disease)	Medical research (The Stanley Medical Research Institute) Environment (Conservation International)	Major gifts
Public Provider			
Funding source: Government Funding decision maker: Administrators Funding motivation: Collective interest	Provides services that are perceived as core government responsibility (for example, foster care) Clear definitions exist of the services and processes that nonprofits must provide (for example, RFPs)	Human services (TMC) Education (Success for All Foundation) International (Family Health International)	Government contracts
Policy Innovator			
Funding source: Government Funding decision maker: Policymakers Funding motivation: Collective interest	Secures government funds for a significant new approach to problem or to address a problem not currently viewed as a core government responsibility Requires a high-level government "champion" Generally succeeds when significant pressures exist on government as a result of a fiscal or media crisis	Human Services (Youth Villages) Education (Communities in Schools) International (International AIDS Vaccine Initiative)	Legislative appropriation or earmark Executive earmark Government pilot project
Beneficiary Broker			
Funding source: Government Funding decision maker: Multitude of individuals Funding motivation: Self-interest	Individual beneficiaries decide how to spend the government benefit Must navigate and influence government decision makers for eligibility and compliance with reimbursement requirements Requires individual marketing capability to reach and service end beneficiary	Health (East Boston Neighborhood Health Center) Housing (Metropolitan Boston Housing Partnership) Employment (Peckham Vocational Industries) Public and societal benefit (Iowa Student Loan Liquidity Corporation)	Government reimbursement
Resource Recycler			
Funding source: Corporate Funding decision maker: Few individuals Funding motivation: Self-interest	The nonprofit uses goods that are created in the market economy where there are inefficiencies that create a surplus (for example, food) or where the marginal costs to produce the product are low (for example, pharmaceuticals)	Food (Oregon Food Bank) International (AmeriCares Foundation)	In-kind giving
Market Maker			
Funding source: Mixed Funding decision maker: Mass of individuals (one side), few individuals (other side) Funding motivation: Altruism (one side), self-interest (other side)	A funder with some degree of self-interest and the ability to pay exists (for example, a health system buying blood) Often, one of the parties involved in the transaction is motivated largely by altruism (for example, a blood donor or land donor)	Health (American Kidney Fund) Environment or conservation (The Trust for Public Land)	Fees Major gifts (corporate or individual)
Local Nationalizer			
Funding source: Mixed Funding decision maker: Few individuals Funding motivation: Altruism	The issue is one of a few top priorities for improvement or success in a locality (for example, creating a quality city school system) The issue is common enough to exist in many localities nationwide The level of funding available in any single geographic area is usually limited	Education (Teach for America) Youth development (Big Brothers Big Sisters of America)	Major gifts Special events

6. POLICY INNOVATOR Some nonprofits, such as Youth Villages, rely on government money and use a funding model we call *Policy Innovator*. These nonprofits have developed novel methods to address social issues that are not clearly compatible with existing government funding programs. They have convinced government funders to support these alternate methods, usually by presenting their solutions as more effective and less expensive than existing programs. (By contrast, Public Providers tap into existing government programs to provide funds for the services they offer.)

An example of a Policy Innovator is HELP USA. This nonprofit provides transitional housing for the homeless and develops affordable permanent housing for low-income families. Andrew Cuomo (son of former New York governor Mario Cuomo) founded HELP USA in 1986 as an alternative to New York's approach of paying hotels to house the homeless in so-called "welfare hotels." HELP USA's innovative approach to the housing crisis came about in an era when homelessness was a prominent public issue and government funders were willing to try a novel approach. Cuomo gained the initial support of government decision makers by positioning his solution as both more effective and less costly, which was critical during New York's fiscal crisis. In 2007, HELP USA's revenues were \$60 million, almost 80 percent of which came from government sources, half federal and half state and local. The organization was operating in New York City, Philadelphia, Las Vegas, Houston, and Buffalo, N.Y.

Nonprofit leaders considering the Policy Innovator funding model should ask themselves the following questions:

- Do we provide an innovative approach that surpasses the status quo (in impact and cost) and is compelling enough to attract government funders, which tend to gravitate toward traditional solutions?
- Can we provide government funders with evidence that our program works?
- Are we willing and able to cultivate strong relationships with government decision makers who will advocate change?
- At this time are there sufficient pressures on government to overturn the status quo?

7. BENEFICIARY BROKER Some nonprofits, such as the Iowa Student Loan Liquidity Corporation, compete with one another to provide government-funded or backed services to beneficiaries. Nonprofits that do this use what we call a *Beneficiary Broker* funding model. Among the areas where Beneficiary Brokers compete are housing, employment services, health care, and student loans. What distinguishes these nonprofits from other government-funded programs is that the beneficiaries are free to choose the nonprofit from which they will get the service.

The Metropolitan Boston Housing Partnership (MBHP), a regional nonprofit administering state and federal rental assistance voucher programs in 30 Massachusetts communities, is an example of a nonprofit that uses the Beneficiary Broker funding model. Since launching the organization in 1991, MBHP has developed a reputation as a reliable provider of housing vouchers for families in need. MBHP is the largest provider of housing vouchers in the Boston area, connecting more than 7,500 families to housing at any one time. MBHP also provides related services, such as education and homelessness

prevention programs. More than 90 percent of MBHP's revenue comes from the small administrative fees the state provides as part of the voucher program. The remaining funds come from corporations and foundations.

Nonprofit leaders considering the Beneficiary Broker funding model should ask themselves the following questions:

- Can we demonstrate to the government our superior ability to connect benefit or voucher holders with benefits, such as successful placement rates and customer satisfaction feedback?
- Can we develop supplemental services that maximize the value of the benefit?
- Can we master the government regulations and requirements needed to be a provider of these benefits?
- Can we find ways to raise money to supplement the fees we receive from the benefits program?

8. RESOURCE RECYCLER Some nonprofits, such as AmeriCares Foundation, have grown large by collecting in-kind donations from corporations and individuals, and then distributing these donated goods to needy recipients who could not have purchased them on the market. Nonprofits that operate these types of programs use a funding model we call *Resource Recycler*. Businesses are willing to donate goods because they would otherwise go to waste (for example, foods with an expiration date), or because the marginal cost of making the goods is low and they will not be distributed in markets that would compete with the producer (for example, medications in developing countries). In-kind donations typically account for the majority of revenues, but Resource Recyclers must raise additional funds to support their operating costs. The vast majority of Resource Recyclers are involved in food, agriculture, medical, and nutrition programs and often are internationally focused.

The Greater Boston Food Bank (TGBFB), the largest hunger relief organization in New England, is an example of a nonprofit that uses the Resource Recycler funding model. This organization distributes nearly 30 million pounds of food annually to more than 600 local organizations, including food pantries, soup kitchens, day care centers, senior centers, and homeless shelters. TGBFB acquires goods in many ways. The dominant sources of goods are retailers and manufacturers. It also receives surplus food from restaurants and hotels. In 2006, corporate in-kind support accounted for 52 percent of TGBFB's revenues. Federal and state government programs provide TGBFB with in-kind goods and money, accounting for 23 percent of its annual budget, which TGBFB uses to purchase food for distribution. Cash donations from individuals make up the remaining 25 percent of revenues, covering overhead and capital improvements.

Nonprofit leaders considering the Resource Recycler funding model should ask themselves the following questions:

- Are the products that we distribute likely to be donated on an ongoing basis?
- Can we develop the expertise to stay abreast of trends in the industries that donate products to us so that we can prepare for fluctuations in donations?
- Do we have a strategy for attracting the cash we'll need to fund operations and overhead?

9. MARKET MAKER Some nonprofits, such as the Trust for Public Land, provide a service that straddles an altruistic donor and a payor motivated by market forces. Even though there is money available to pay for the service, it would be unseemly or unlawful for a for-profit to do so. Nonprofits that provide these services use a funding model we call *Market Maker*. Organ donation is one example where Market Makers operate. There is a demand for human organs, but it is illegal to sell them. These nonprofits generate the majority of their revenues from fees or donations that are directly linked to their activities. Most Market Makers operate in the area of health and disease, but some also operate in the environmental protection area (for example, land conservation).

The American Kidney Fund (AKF) is an example of a nonprofit that uses the Market Maker funding model. AKF was founded in 1971 to help low-income people with kidney failure pay for dialysis. It is now the country's leading source of financial aid to kidney dialysis patients, providing (in 2006) \$82 million in annual grants to 63,500 kidney patients (about 19 percent of all dialysis patients). Before 1996, health care providers were allowed to pay Medicare Part B and Medigap premiums (approximately 20 percent of total costs) for needy dialysis patients. In 1996, the federal government made it illegal for providers to do this because it might trap the patient into receiving dialysis from a particular provider. The new law left thousands of kidney patients unable to afford kidney treatment. AKF noticed this gap and established a program to fill it. AKF now pays these premiums, allowing patients to continue their treatment. AKF is funded primarily by health care providers and other corporations. AKF is now applying the same principles used in its kidney dialysis program for pharmaceuticals used to treat bone loss.

Nonprofit leaders considering the Market Maker funding model should ask themselves the following questions:

- Is there a group of funders with a financial interest in supporting our work?
- Are there legal or ethical reasons why it would be more appropriate for a nonprofit to deliver the services?
- Do we already have a trusted program and brand name?

10. LOCAL NATIONALIZER There are a number of nonprofits, such as Big Brothers Big Sisters of America, that have grown large by creating a national network of locally based operations. These nonprofits use a funding model we call *Local Nationalizers*. These organizations focus on issues, such as poor schools or children in need of adult role models, that are important to local communities across the country, where government alone can't solve the problem. Most of the money for programs is raised locally, often from individual or corporate donations and special events. Very little of the money comes from government agencies or fees. Very few local operations exceed \$5 million in size, but, in totality they can be quite large.

Teach for America (TFA) is an example of a nonprofit that uses a Local Nationalizer funding model. TFA recruits, trains, and places recent college graduates into teaching positions in schools across the country. TFA was founded in 1989, and by 2007 had more than \$90 million in annual revenues. The organization relies on its 26 regional

TFA offices to raise more than 75 percent of its funding. The reason this works is that TFA's mission—improving the quality of K-12 education—resonates with local funders. TFA developed a culture in which fundraising is considered a critical aspect of the organization at every level, and it recruited local executive directors who would take ownership of attracting regional funding growth.

Nonprofit leaders considering the Local Nationalizer funding model should ask themselves the following questions:

- Does our cause address an issue that local leaders consider a high priority, and is this issue compelling in communities across the country?
- Does expanding our organization into other communities fulfill our mission?
- Can we replicate our model in other communities?
- Are we committed to identifying and empowering high-performing leaders to run local branches of our organization in other communities?

IMPLICATIONS FOR NONPROFITS

In the current economic climate it is tempting for nonprofit leaders to seek money wherever they can find it, causing some nonprofits to veer off course. That would be a mistake. During tough times it is more important than ever for nonprofit leaders to examine their funding strategy closely and to be disciplined about the way that they raise money. We hope that this article provides a framework for nonprofit leaders to do just that.

The funding paths that nonprofits take will vary, and not all will find models that support large-scale programs. The good news is that all nonprofits can benefit from greater clarity about their most effective funding model, and it is possible for some nonprofits to develop models that raise large amounts of money. As mentioned earlier, almost 150 new nonprofits (not counting universities and hospitals), surpassed \$50 million in annual revenues between 1970 and 2003.

On the other side of the equation, philanthropists are becoming more disciplined about their nonprofit investing. A growing number of foundations, such as the Edna McConnell Clark Foundation and New Profit Inc., are investing in their grantees to improve both program and funding models. We hope that this article helps philanthropists become clearer about their funding strategy so that they can support their programs more effectively.

As society looks to the nonprofit sector and philanthropy to solve important problems, a realistic understanding of funding models is increasingly important to realizing those aspirations. ■

Notes

- 1 In a November 2008 Bridgespan survey of more than 100 nonprofits, leaders were asked which of eight different and often conflicting fundraising tactics would play some role or a major role in their approach to addressing the downturn. Nearly half (48 percent) of respondents said that six or more would.
- 2 For example, see Thomas Malone, Peter Weill, Richard Lai, et al., "Do Some Business Models Perform Better Than Others?" *MIT Sloan Research Paper* No. 4615-06, May 2006.
- 3 For an early framework looking at "donative" vs. "commercial" nonprofits, see Henry Hansmann, "The Role of Nonprofit Enterprise," *Yale Law Journal*, 89, 5, April 1980.
- 4 William Foster and Gail Fine, "How Nonprofits Get Really Big," *Stanford Social Innovation Review*, spring 2007.