Introduction

> *"Having a great program wasn't enough to achieve our mission, especially with all of the uncertainty in the economy. We weren't being very strategic about raising funds, which was leading to a good deal of angst and ambiguity about what we could realistically commit to accomplishing. We needed a funding model that could provide a level of stability and produce the revenue required to grow and deliver our programs at scale. Now that we have developed, tested, and refined our funding model, we are growing more than ever before—even while the recession lingers on."*
>
> — Dr. Tiffany Cooper Gueye, CEO of BELL (Building Educated Leaders for Life)

It's a paradox. Most nonprofit leaders spend an enormous amount of time on fundraising, but typically they have little idea how they will secure the money they need over the next five years. Their vision for how the organization's programs will evolve over that time, however, is usually sharp and clear. The rub is that a well-thought-out approach to raising revenue is essential to sustaining those programs and increasing their impact.

When they're small, nonprofit organizations often can meet their budgets by inspiring a handful of donors, seizing unanticipated funding opportunities, or cobbling together a mixed bag of funding sources. Charismatic leaders are often the key to swaying prospective funders. But as nonprofits get bigger, personal relationships and catch-as-catch-can are rarely enough to sustain larger-scale fundraising needs.

What's required is a *funding model*, which we define as a methodical and institutionalized approach to building a reliable revenue base that will support an organization's core programs and services. As Dr. Tiffany Cooper Gueye describes above, adopting and organizing around one such funding model put $17-million BELL (Building Educated Leaders for Life) on the path to financial sustainability and growth.

A funding model has three defining characteristics:

1. **Type of funding**: The model typically revolves around a single type of funding, such as government or individual, which constitutes the majority of the organization's revenue and which the organization invests disproportionately in developing. Other smaller sources often play complementary supporting roles but are not the focus of investment.
2. **Funding decision makers**: Within that principal source of funding, the model focuses on a particular set of people who dictate the flow of funds—perhaps government administrators or a few wealthy individuals.

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3. **Funder motivation**: A funding model takes advantage of the natural matches that exist between funder motivations and a nonprofit's mission and beneficiaries. These motivations range from altruism to collective interest to self-interest.

For BELL's funding model, the primary type of funding was government—specifically Title I funding through the No Child Left Behind Act (NCLB). The funding decision makers BELL targeted were the administrators of Title I funding. For example, for the Supplemental Educational Services (SES) provision of NCLB, BELL first reached out to principals, to secure access to their schools, and then to parents, to enroll students. BELL appealed to the motivations of those decision makers by operating effective programs that satisfied the SES criteria, delivering strong results for principals, and meeting the needs of families, thereby allowing the organization to tap this renewable funding source.

Underlying principles of nonprofit funding

This guide builds on two previous publications by The Bridgespan Group. The first was "How Nonprofits Get Really Big" (*Stanford Social Innovation Review*, Spring 2007), which was based on our research of nonprofits that had been founded since 1970 and reached $50 million in annual revenue by 2004. Only 144 nonprofits (excluding hospitals and universities) made the cut, reflecting the steep challenge of raising funds on a large scale. How those 144 did this defied conventional wisdom: The vast majority grew big not by diversifying their funding sources but by raising most of their money from a single type of funding (such as corporate or government) that was a natural match for their mission. Moreover, they created professional organizations tailored to the needs of that type of funding.

We followed up that article with "Ten Nonprofit Funding Models" (*Stanford Social Innovation Review*, Spring 2009), which catalogued distinct types of funding strategies that exist among large nonprofits. We identified 10 nonprofit funding models—defined by their main type(s) of funding, funding decision makers, and funder motivations—further confirming that the paths to growth are not idiosyncratic but strategic.

To help you and your organization navigate the process of building a funding model, we have developed this tactical guide. In it, we walk you through six steps (as illustrated in Figure 1 on page 3) for identifying and developing the right funding model for your organization.

The six steps take you on journey that includes developing an in-depth understanding of your organization's current funding strengths and weaknesses, identifying a variety of funding model options, vetting those options until you're down to the most viable one or two, and then developing a plan for implementing them.

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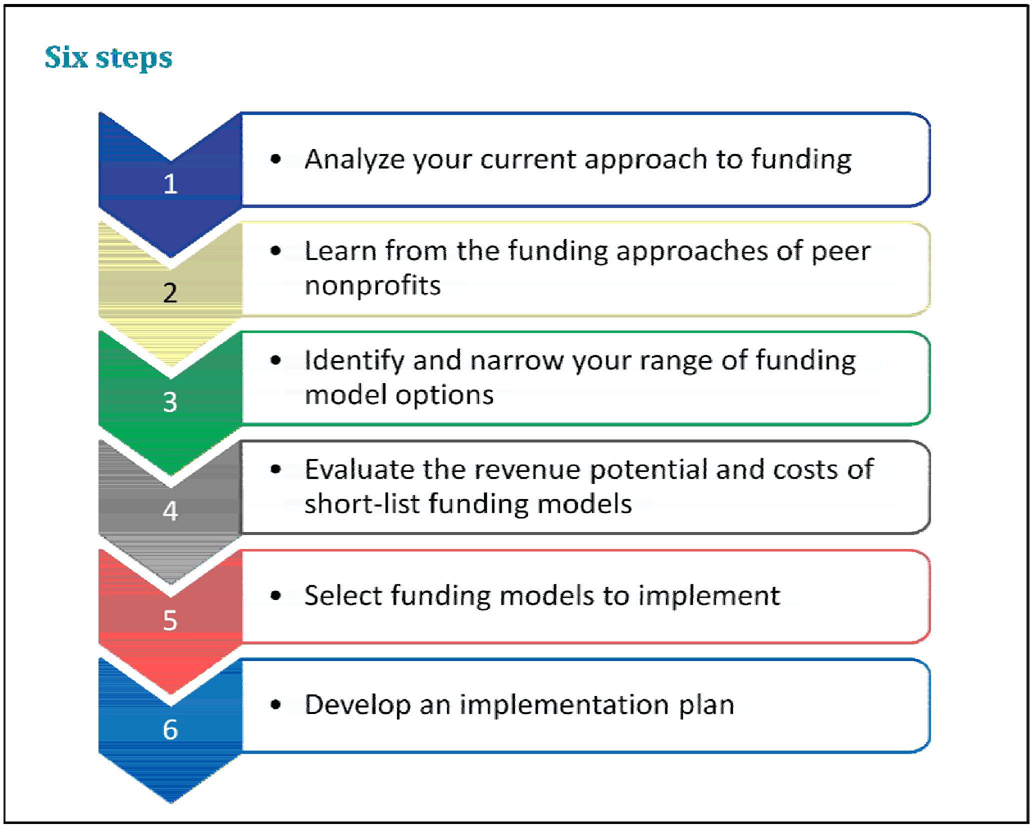
In Step 1, you'll **analyze your organization's current approach to funding**: assessing the reliability of your existing sources of funds, crystallizing why current funders support your efforts, and evaluating your fundraising capabilities. This diagnostic will help you identify strengths a future funding model could build on as well as weaknesses that may put certain funding models out of reach or signal the need for specific investments. This knowledge will help you home in on funding approaches that may be a good fit for your organization going forward.

Figure 1



In Step 2, you'll **learn from the funding approaches of peer organizations**, surfacing ideas you may want to investigate for your own organization. You'll also explore how any differences between peer organizations and your own might affect the relevance of their approaches.

You'll further vet these peer approaches in Step 3, when you **identify and narrow your range of funding model options**. You'll be screening for peer funding approaches that are both sustainable and replicable, and thus rise to the level of a funding model. In addition, you'll make an initial assessment of

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how feasible these models are for your organization, with the goal of selecting the two to four most applicable models.

Evaluating the revenue potential and costs of those short-list funding models will be your focus in Step 4. You'll develop an understanding of the funding available for each model and how much of that funding your organization could reasonably expect to secure given the competitive environment and your organization's relative strengths and weaknesses. You'll also estimate the investments (e.g., expanding into new program areas, adding staff, upgrading IT systems) your organization would need to make. This knowledge will put you in a good position to make an informed decision about which funding model(s) to pursue.

Step 5 is all about making that big decision—**selecting funding models to implement**. You'll draw on all you've learned in Steps 1 through 4 and commit to pursuing one or two of the models on your short list. Then in Step 6 you'll **develop an implementation plan** that will make your funding model plans actionable. The plan will describe in detail the investments your organization will need to make. It will also lay out a timeline for making those investments and implementing your funding model—assigning accountability to appropriate team members and specifying milestones and a learning agenda that will make it easier to gauge progress and correct your course as necessary.

Why bother?

Completing this six-step process will require a considerable investment of time and attention—from you, your colleagues, and your board. And you're unlikely to see a sudden influx of dollars when you complete Step 6. Funding models aren't opportunities to get rich quick. They generally require considerable time and investment to take hold. It took BELL four years of concerted effort to cover 70 percent of its site costs with government funds. There's also no guarantee that even the best-fit model will meet the nonprofit's funding aspirations. Why, then, do we advise many organizations to invest in developing a funding model?

Simply put, we believe that having clarity about how a nonprofit will fund its mission is as important as having clarity about how it will deliver its programmatic impact. Almost every nonprofit has two jobs, each with its own set of external stakeholders. One job is to identify beneficiaries and make a difference for them with programs. But beneficiaries rarely pay the tab—or at least not all of it. Hence the second job: cultivating a distinct set of funders. Building and scaling sustainable financial support is as complicated and important as figuring out the programmatic dimensions.

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Identifying and developing a funding model is a long-term investment that requires patience, but we believe (and think soon you will, too) it's an investment that's well worth making. Instead of seeing every funding lead as a good lead, you can methodically assess each opportunity. Instead of wondering where and how to invest in development capabilities (and generally investing too little into too many), you can have an intentional approach upon which to build.

Is your organization ready?

At this point, you may be saying to yourself, "A funding model equals more money. Perfect! That's just what we need!" Well, maybe—but maybe not. Many nonprofits just aren't ready to develop a funding model. Here are some specific questions to help you assess if yours is ready:

- *Is your organization free of immediate financial distress?* You need to be able to focus on developing a long-term funding strategy. If you're finding yourself consumed by efforts to keep the doors open, chances are the time isn't right. In contrast, if your organization is humming along relatively steadily, but you just can't see a way to the next level of growth—now may just be the time to find your funding model.
- *Does your organization have annual revenues of at least $3 million?* We generally consider that mark to be the threshold for developing a funding model. As we indicated at the outset of this guide, nonprofits below that threshold—particularly those without significant growth ambitions—often can get by with idiosyncratic fundraising methods. There's no need to get overly strategic until doing so is necessary. (See the sidebar on page 6, "What about smaller organizations?")
- *Does your organization have clear programmatic goals?* If not, you may not be ready to start this process, since strong funding models complement an organization's program model. They take advantage of natural matches between various funding sources and specific types of programs, services, or beneficiaries. Without program clarity, narrowing your search for the right funding model would be exceedingly difficult.
- *Is your organization willing to make the investments—in staff, IT systems, and other areas—required to fully implement the funding model you select?* We would only advise this process for organizations that are ready to commit to implementing a funding model. Otherwise, this process is bound to feel like a fruitless hypothetical research project.

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If you answered “yes” to the four questions above, and you’re leading a nonprofit with a funding approach that can’t keep up with its programmatic ambitions—be it a $5-million organization that’s contemplating developing its first funding model or a $20-million nonprofit that’s seeking a new one—read on. By investing time and energy in reading this guide and thinking through its implications for your organization, you’ll be taking an important step in elevating your organization’s funding strategy to the level of importance it rightly deserves. We truly hope the experience helps you to identify and develop a funding model that supports your aspirations for making a positive difference in the world.

What about smaller organizations?

Even though pursuing a funding model typically isn’t warranted until an organization reaches at least $3 million in annual revenues, some of the associated concepts can provide helpful guidance to nonprofits below this size. Practices likely to pay off include: focusing on types of funding that are natural matches for the nonprofit’s work, clarifying who the main decision makers are behind those types of funding, and then understanding why those decision makers choose to support the organizations they do. And despite the natural temptation to cover all the bases by pursuing a wide variety of funding types, even at a smaller scale identifying the most promising ones and investing in them fully is critically important. Sprinkling development efforts across several is a recipe for under-investing in them all—and then not really knowing what could have panned out. Keeping these practices in mind will make it easier to develop a funding model if and when the time is right.

Considering a small set of options that could enhance a smaller organization’s development work is also helpful, so it is not overly reliant on one individual’s personal relationships or capabilities. Examples include hiring a chief operating officer to free up more of the chief executive officer’s (CEO) time for fundraising activities, bringing in a new development staff member to support the CEO’s outreach efforts, or cultivating or enhancing a fundraising board.

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