Learning to Ride the Wave

Adaptive Business Modeling for Philanthropy-Serving Organizations

7 Practices & 12 Tools

The
**GIVING
PRACTICE**

In Partnership with **United Philanthropy Forum** and **Northern California Grantmakers**

What's the fastest way to elevate a PSO leader's blood pressure?

Ask about their business model.

You'll hear responses like these: "Complicated." "Challenging." "Vexing." And this: "Every January 1, I start pushing this enormous boulder called operating expenses. It's exhausting."

Those who lead philanthropy-serving organizations (PSOs) tend to be positive and optimistic about their work. They think boldly about mission, creatively about program, opportunistically about members. But for some, when it comes to the question of sustainably paying for that work, the tone changes, the sky darkens, and a special kind of anxiety descends.

Why?

Three aspects of managing the business side of a PSO seem to be at play.

First, it feels separate.

Many of those who govern and lead philanthropy-serving organizations speak about the business side of the organization as a side dish, not the main course. It can be seen as separate from the real work. "We don't do business models," jokes one leader. "We do programs." Says another, "One of my best friends is an investment banker and said to me, 'You're one of those people who wants to feel like what you do makes a difference!' People in our field care about the issues. That's what we talk about. Raising operational funding? Not so fun."

Second, it feels messy.

Money can be a taboo subject among those who lead PSOs, staff as well as board. "It doesn't come up that often among PSO CEOs," says one leader. "Why don't we talk about this all the time?" Her hunch is that leaders might want to appear as if they have their business under control, when the reality is a lot messier. "We want to show we have our act together." Another leader speculates that "there might be a fear that if we have the conversation it would lead to uncomfortable things, especially for organizations that are similar, such as who has how many members and why and who is performing better." A third leader says it's endemic to the sector. "Ironically, in philanthropy, you don't talk about money."

Third, it feels existential.

Business questions weigh heavily on those who lead PSOs. "It's the most anxiety-producing part of the job," says one leader of a growing PSO. "If we don't raise the funds for our budget, it's on me, and people lose their jobs." A veteran leader talks about the uncomfortable element of competition in a sector that prizes collaboration. "We need to have a candid conversation about the competitive nature of the space."

> **It doesn't come up that often among PSO CEOs. Why don't we talk about this all the time?"**

If you're a leader of a philanthropy-serving organization, you might have similar feelings about your business model. But this guide brings you good news. Commissioned to help you take on the business side of the work, it's based on consulting that The Giving Practice has done with a range of PSOs as well as interviews we've done with dozens of PSO leaders. We are seeing more and more leaders working on their business models successfully—and happily! Despite having some of those same negative feelings about business models to begin with, they've grown to feel confident about this part of their work, even enjoy it.

They're discovering practices.

They're building skills.

They're trying tools.

They're creating experiments.

They're experiencing progress.

They're learning to ride the wave.

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You Can't Have One Without the Other

As someone who has worked for several different philanthropy-serving organizations (PSOs) in my career, I know many of us get into this line of work, and stay in this line of work, because we care deeply about our missions and the important role we play to advance, inform and support philanthropy. We get passionate about designing new programs that share promising practices in new ways; developing new research that helps funders make better decisions; convening philanthropy to engage in some collective action to help our communities; advocating for new policies that strengthen charitable giving and much more. But unlike this "mission side" of our work, when it comes to the "business side" of PSOs our excitement typically starts to wane. We just don't get as jazzed up about doing a cost-revenue analysis of our current lines of business or looking at the diversification of our revenue mix.

But over the years I've come to realize that as PSO leaders it's imperative that we view the mission and business sides of our work as one and the same thing. You cannot have one without the other, and you're playing a risky game if you pay too much attention to one side of the work at the expense of the other side. If you focus almost entirely on your mission and ignore how trends in the field could impact your current sources of revenue, for example, you could find yourself with a financially weak organization unable to fulfill its mission. If you focus most of your efforts on developing new lines of business that can bring in a lot of new revenue but are loosely connected to your mission, you could find yourself becoming an irrelevant organization as other groups pop up to do the mission-focused work that you're no longer doing because you've gotten sidetracked.

That's why I get truly excited when I hear my PSO colleagues talking about business modeling. The work of PSOs is incredibly vital to the success of the philanthropy field, so I'm always glad to see PSOs doing all that they can to ensure that they're not only meeting their missions but doing so in ways that ensure they're financially strong and sustainable as they adapt to changing times.

That's also why I'm also truly excited that United Philanthropy Forum is partnering with The Giving Practice to produce this DIY Guide to Adaptive Business Modeling for Philanthropy-Serving Organizations. Culled from the real-life experiences of your PSO peers, this guide offers practical tips, tools and practices to help ensure that you're mobilizing resources as effectively as possible to advance your PSO's mission. I wish I had a guide like this when I started out in PSO work, but I'm thrilled that it's available to you today.

David Biemesderfer
President & CEO
United Philanthropy Forum

Getting There Is Half the Fun

There's a great scene in the now-classic 1992 movie *Thelma and Louise* in which J.D., the outlaw character played by Brad Pitt, is bragging about his exploits to Thelma, the housewife escaping with her friend Louise for a long weekend. (Well, that was the plan, anyway. But I digress.) Thelma lets J.D. know she is impressed with his description of his approach to robbing stores. "Well now, I've always believed that if done properly, armed robbery doesn't have to be a totally unpleasant experience," he replies with a smile.

While this is of course not literally applicable to the matter at hand (there is nothing in this document that guides you towards armed robbery as a viable business strategy), the spirit of it certainly rings true for me. I've worked in the nonprofit sector for most of my professional career. And while it is true that the work of securing resources for a mission-driven organization can be a challenge at times, it's also true that, when done properly, it really does not have to be a totally unpleasant experience. On the contrary, it is actually incredibly fulfilling, and even—dare I say—fun at times.

When I came to Northern California Grantmakers in 2015, I quickly grasped that we needed to take a hard look at our business model to make sure it was built to deliver the resources we needed to strengthen and grow our organization. We launched into the process in 2016 with the able guidance and support of The Giving Practice. We engaged our board, staff, and members along the way, diving deeply into core questions around who we are best-suited to serve, defining with greater precision how we want to partner with our members to support impact, determining what "standing capacity" (expertise and bandwidth) we need to deliver this value, and finally, evaluating carefully the various means through which we could go about securing the funds and other support we needed to sustain that capacity.

Working with The Giving Practice to tackle this question was a revelation in deep inquiry, fresh thinking, expansiveness, systematic consideration, hypothesis testing, and sense-making. We utilized many of the tools and approaches set forth in this guide along the way, and ultimately developed a clear vision, business model, and roadmap that has served us beautifully during a period of transformative change and considerable growth for our organization. And yes, we enjoyed ourselves—considerably, in fact. I predict you will too, and I wish you all the best.

Ellen LaPointe
President & CEO
Northern California Grantmakers

THINKING ABOUT
YOUR BUSINESS MODEL

The Core Question

Your business model answers this core question: How will we mobilize resources to sustain our organization's work?

At its center, of course, this is a question about money—how you'll pay for the work. But PSO leaders are thinking about "resources" in expanding ways. On top of cash, they're also thinking about other kinds of capital—human, social and intellectual capital. They're thinking about time, contributed by staff and volunteers. They're thinking about creating value in unique ways. And they're thinking about members' perceptions and sense of ownership.

Consider how you would answer the core question. If you haven't taken this step yet, you're not alone.[1] We asked PSO leaders to tell us about their business model and what they're learning, and a common first reply was that the mad scramble of day-to-day work makes it hard to even have one. "I don't have a business model," says one PSO leader. "I run a nonprofit that has programmatic pieces that we need to raise funding for. We're always piecing the funding together. We've been successful and have grown, but we could benefit from doing this more formally." "Until recently," says the leader of a PSO, "I never had a business plan or business model. I just went annual budget to annual budget."

Three distinctions might help your reflection.

Business Model or Business Plan? Before you do your plan, we suggest thinking first in terms of a model—a directional framework or blueprint for mobilizing resources to sustain your organization's work. A business model is flexible and can adapt to changes in purpose, culture, market and in the work of philanthropy. A business plan, by contrast, is time-bound and activity-focused. It operationalizes the model. Your business model can and should be a bridge between your overall organizational strategy (vision, mission, values, roles, etc.) and your business plan (a set of specific, time-bound activities to mobilize resources).

Organizational Strategy

⇕

Business Model

⇕

Business Plan

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1. Our main point here is that if you haven't really thought about your business model, you're not alone in the PSO world. But if you were in the corporate world, you wouldn't be alone there, either. According to "Reinventing Your Business Model," a Harvard Business Review article by Mark Johnson, Clayton Christensen, and Henning Kagermann, "few companies understand their existing business model well enough—the premise behind its development, its natural interdependencies, and its strengths and limitations. So they don't know when they can leverage their core business and when success requires a new business model."

"Business modeling forces you to reckon with bigger strategic issues," says one PSO leader. "It's as much about leadership and who you want to be in the world as it is about finances."

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On the Business or In the Business? We've found this distinction to be helpful in working with clients. It's based on Michael Gerber's ideas in *The E-Myth Revisited*. Gerber talks about the "fatal assumption" made by many people who start a business—that "if you understand the technical work of a business, you understand a business that does that technical work." In one example, he talks about a frustrated entrepreneur who opened a pie business out of love for baking pies (i.e., the "technical work") but who hated all the financial, marketing, sales and administrative tasks that went with running that business. In short, the entrepreneur succeeded at work *in* the business but struggled with work *on* the business.

So it is with the business of PSOs. Think of your organization as a car. You use it to drive to a destination—a program for members, your annual conference, a collaboration on a particular issue, and so on. That's working in the business. But you also have to make sure that the car has enough fuel, air in its tires, and an engine that runs well, not to mention that it's big enough for your passengers' needs. In other words, you need funding, capacity, and infrastructure—what Jim Collins, in his book *Good to Great in the Social Sector*, calls your "sustainable resource engine." That's working on the business. The difference is crucial, given how, in our experience, PSO leaders—both staff and board—naturally tend to focus on their organization's mission-critical work. The common go-to question: Where are we driving today and what route will get us there? By contrast, they tend to spend less time working on the business: How can we make sure our car is ready to take us where we want to go?

"Business" or "Sustainability"? Does it make sense to use business terms in the philanthropy sector? Instead of "business model," why not use "sustainability"? Consider how the leader of a large PSO puts it. "When PSO leaders come from nonprofits or foundations, the phrase 'business modeling' freaks them out," she says. "They see it as meaning 'I need an MBA.' But it's essentially about what is your plan for sustainably supporting your organization in the future."

Indeed, during our interviews, we heard wariness about business terms. We understand it, but we suggest that you think twice about deferring to it. While ultimately you should use the terms that work best for you and the culture of your PSO, we use "business model" in this guide because it's becoming widespread in the PSO world, it's important to demystify the term and take away the stigma, and we think the frame serves as a useful reminder to pay attention to the business of your organization.

NOTE

Thinking about your business model doesn't mean thinking about PSOs as a business. It means thinking about the business of PSOs. The leaders who have reported progress in business modeling haven't lost track of the distinctive animals that PSOs are. They're not suddenly thinking about themselves as producing profitable widgets and generating shareholder return. But they have thought consistently about, and at times even embraced, the business aspects of their unique work. Indeed, for some leaders, this new territory has been transformative.

" Leaders of PSOs should be not only about the content but building the business and its moving parts, even loving the business. You've got to love it."

THE ADAPTIVE
BUSINESS MODELER

It's cliché but true: if you've seen one PSO business model, you've seen one business model.

That is as it should be. Every PSO has a different strategy, market, culture and set of circumstances, which in turn call for different approaches to revenues, costs and other business factors. National PSOs will typically employ different business models than regional PSOs, and yet there are striking differences within each category. Among regional PSOs, there are big differences between those that focus on one state or one region within a state and those that cover multiple states. Some regionals are in places where there are large numbers of emerging foundations and donors, others not. Meanwhile, some national PSOs focus on issues that a wide range of funders work on and that clearly intersect with other issues; others work on more specialized issues. Some focus on regions or issues that enjoy large foundations with abundant resources. National PSOs tend to rely more on grants, regional PSOs more on dues. Other variables include organizational age, size, visibility, and culture.

> Every PSO has a different strategy, market, culture and set of circumstances, which in turn call for different approaches to revenues, costs and other business factors.

All these factors mean that, if you want to understand PSO business models, why they are the way they are, and why some PSO leaders might experience more progress than others, you need to look at the business model in context. In short, you need to think of a PSO's business model as an adaptation. It needs to be a dynamic framework that can be adapted as circumstances change. And there are no one-size-fits-all solutions when it comes to business models. Indeed, we didn't find any quantitative metric that captures business model success among all PSOs.

On Top of the Wave or Under It?

Despite this variability, our interviews and work reveal a pattern: when it comes to business models, some PSO leaders experience more progress, learning and momentum than others. All experience moments when they feel like they're on top of the wave and others when they feel like they're under it. Everyone falls in on occasion. But some have found ways to stay on top of the wave fairly consistently. How they do that provides clues to how to become an Adaptive Business Modeler.

We talked with PSO leaders about their mindset when they were effectively riding the wave of business modeling and their mindset when they weren't. When on top of the wave, they were generative, open, exploratory, and resourceful. They were thinking big. They enjoyed working on their PSO's business model. When under the wave, they felt cynical, closed, stressed and stagnant. They found themselves thinking more narrowly and rigidly. They dreaded the work.

This guide is designed to help you stay on top of the wave.

Based on interviews and work with PSO leaders around the country, the guide describes seven practices they use to ensure their business models are adaptive and successful. It then offers twelve tools that we have developed or adapted for PSOs to use in developing and improving their business models.

We found no magic ratios, no go-to spreadsheets used among PSO leaders who feel positive about their business models. This is not to deny that some situational factors play a role. Some PSOs face calmer waves. Some have sturdier surf boards. But we found flourishing PSO business models in sparse markets as well as fertile ones, small organizations as well as large ones. The key was in their adaptive approach.

We call this approach adaptive for a number of reasons. Philanthropy-serving organizations adapt to a constantly-changing field in much the same way that species evolve in a dynamic ecosystem. Sustaining such organizations is a complex and ambiguous enterprise. If you're a PSO leader trying to develop a sustainability strategy, you quickly realize that you're facing an adaptive (rather than merely technical) challenge—the kind of challenge that has no clear solution and can only be addressed with changes in assumptions, priorities, and practices, dropping old ways and discovering new ones.[2] How can you help your organization adjust to new conditions and pivot in new directions? This is no easy feat.

We've observed that PSO leaders who successfully develop adaptive business modeling bring to bear three qualities. Like adept surfers riding unpredictable waves, they manage the complexity of business modeling through attention, balance, and flexibility:

- First, they pay wide **attention** to their surroundings, especially how things are evolving, and they understand how changes in their members and marketplace might be subtle and slow but also steady and cumulatively powerful. They see problems with eyes wide open. And they rely on multiple perspectives, seek a base of differentiated data, and keep their assumptions conditional as they learn about their world and decide how to respond.

- Second, they know that riding the wave requires a special kind of **balance.** They must surface, hold and work through the multiple, dynamic, often divergent and sometimes competing

> Like adept surfers riding unpredictable waves, they manage the complexity of business modeling through attention, balance, and flexibility.

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2. See *Leadership Without Easy Answers*, by Ronald A. Heifetz.

tensions and demands that are inherent in the PSO business model.[3] Responsive or proactive? Value or profitability? Dues or grants? New markets or the tried-and-true? These are complex questions that require both/and rather than either/or thinking. Balancing is needed.

- Third, the waves out there require continual **flexibility**. Those who successfully ride them are able to test and learn, respond to ambiguous stimuli, and adapt to emerging changes and opportunities.

"Like all nonprofits, it is important for all PSOs to periodically, if not constantly, scan the environment," says one PSO leader. "We have to understand how philanthropy is changing, how communities are changing, the issues and conditions that philanthropy is trying to solve." "You can't sit around and use the same model," says another. "The field has changed. It's a different business. PSOs must adapt."

MOVES OF THE ADAPTIVE BUSINESS MODELER

Based on our observations, if you're an adaptive business modeler, you're likely to…

- Accept ambiguity.
- Adapt to a PSO field that is changing fast—new kinds of members, new kinds of philanthropy, new opportunities, new challenges.
- Ask for help, spread ownership, and don't go it alone.
- Be open to serendipity—the ability to find what you didn't know you were looking for.*
- Bring to bear your whole PSO in the process—not only the usual suspects of finance and membership, but program, communications and human resources.
- Build new skills and moves as you go.
- Engage your whole brain in the process—not only the focus, prediction and prioritizing of the left hemisphere but the flexibility, specificity and breadth of the right.
- Reckon with conflicting tensions and come up with both/and solutions.
- Recognize how the fate of your PSO's business model ultimately rests on very human decisions—yours, your board's and your members'.
- Track and respond to shifts in your marketplace.
- Understand that business modeling is about more than the financial side of your organization; governance, strategy, and culture are just as involved.

* See *The Power of Pull* by John Hagel III, John Seely Brown, and Lang Davison

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3. Of the three qualities, balance seems to be the most psychologically demanding for PSO leaders because there are so many perspectives, stakeholders and pressures involved, and they're often looked to for decisive resolution of tensions when holding them is more useful. In particular we would recommend the work of Wendy Smith and Marianne Lewis on paradox and Smith and Lewis and Michael Tushman on "Both/And Leadership", as well as Roger Martin on "integrative thinking" in his book *The Opposable Mind*.

Surfing Is an Adaptive Enterprise

Consider what it takes to stay on top of the wave in real life. "To become a great surfer, you need to possess a few skills," according to the surfing website www.surfedukators.com. What's striking is how much these skills parallel the qualities we found in adaptive business modelers: **determination** ("don't expect to be making 360's the first year"), **balance** ("balance is the key to surfing…every wave is different and you must deal with the changing conditions every time"), **flexibility** ("being flexible is essential"), **strength** ("a strong and healthy body will recover faster from your battles with the waves"), and **endurance** ("you have to be willing to push through pain and exhaustion").

Notice that none of the skills identified is technical in nature.

What's in the Guide?

Based on our work with PSOs and interviews with their leaders, the guide explores seven practices and twelve tools that can strengthen your business modeling.

You might start by scanning the practices and tools and choosing the ones that are right for you. Try them. Customize them. Build on them. Test and learn as you go.

7 Practices	12 Tools
1. Revenue Intentionality *Be a Strategist*	1. Start with Questions
2. Bringing Your Board In *Be a Collaborator*	2. Look at Value Against Profitability
3. Testing and Learning *Be an Experimenter*	3. Track Your Data
4. Eyes Wide Open *Be an Entrepreneur*	4. Ask Your Stakeholders
5. Fundraising Mindset *Be a Listener*	5. Name Your Evolutions
6. Three-Dimensional Value *Be a Pathfinder*	6. Adjust Your Revenue Dials
7. Investable Brand *Be a Marketer*	7. Use Your Roles and Values
	8. Map Your Opportunities
	9. Find Your Balances
	10. Test Your Hunches
	11. Create If/Then Rules
	12. Ask For Help

USE THESE PRACTICES

PRACTICE 1
Revenue Intentionality

Be a Strategist

The Adaptive Business Modelers we interviewed practice revenue intentionality, by which we mean being deliberate, systematic, and explicit in knowing your potential revenue sources and making choices among them that are right for your PSO's context. To do this, leaders explore potential ways to make money, enlist others in the inquiry, examine the tradeoffs, make choices, and learn from the results. We interviewed several leaders who had inherited organizations in bad financial shape and had to engineer turnarounds. They did so with "revenue intentionality" moves—taking a hard look at their revenue streams, matching budget allocations to what was valued by members, setting targets for reserves, increasing member dues, and finding ways to earn income on special projects. Revenue intentionality often shows up as growth targets, market scans, feasibility assessments of new revenue sources, and ongoing board discussions.

A PSO is practicing revenue intentionality if its staff and board leaders can explain its portfolio of revenue sources and why that portfolio is the way it is.

The path to get there can be bumpy, but worthwhile. One leader says her PSO still falls short of "revenue intentionality" and remains at "revenue uncertainty." "We have not had revenue certainty and stability, which we need to grow," she says. "Every year we just try to get to our budget. We haven't been able to build." For another leader, revenue diversification was the key turning point in the path. "Once we hit a point of growth we started to have the conversation about diversifying our revenue," she says. "It's not the best practice to have 80% of your revenue from one type of funding. It's not sustainable." At the same time, we heard cautions about defaulting to diversification too quickly. "I hear all the time that there should be a goal of revenue diversification," says a PSO leader. "Philosophically, I have a reaction against diversification for diversification's sake. When you have a business model built around your core engine, it's hard to change to other engines."

The key isn't getting to a particular revenue allocation but the right one for your PSO. Some PSOs rely largely on member dues. Others rely largely on grants. A national PSO that has been around for more than a decade is about to establish member dues for the first time. A regional PSO gets a sizable portion of its revenue from an academic program it runs. Unique circumstances require unique business models. And, of course, circumstances change. "Even the best-laid plans can fall short," says one leader. "You need to anticipate contingencies."

As part of their path to revenue intentionality, PSOs are devising revenue strategies suited to their particular context around three main sources of income: dues, grants and fees.

Dues

For many of the PSO leaders we talked with, member dues are the comfort zone of their business model. This seems true whether a PSO draws 40% or 80% of their revenue from this source. Member dues are seen as more reliable, more rational, less labor-intensive and less stressful than their revenue counterparts. This is especially true for smaller PSOs. Dues are also seen as tying directly to a PSO's core identity as a membership organization, with the corresponding expectation that they should make up a significant portion of revenue.

 "I look at dues as a durable revenue base," says one PSO leader. "It's automatic, an easier mechanism than getting grants." "If I had to start from scratch," says a PSO leader, "I'd make dues cover as much of core operating expenses as possible. You can't get leadership and programs done if you're writing proposals all the time."

> **If I had to start from scratch, I'd make dues cover as much of core operating expenses as possible."**

As part of revamping her organization's business model when she came on board, the leader of one PSO shifted the revenue emphasis onto member dues. "Our goal is that we're organizationally self-sustaining," she says. "Initiative or project revenue is gravy. Years ago, we were in a precarious situation. Operating expenses were covered by project revenue. Member dues weren't paying for it. Projects end, but expenses stay. And members were receiving services from staff that they weren't paying for. It wasn't sustainable in the long term."

A complicated variable in how PSO leaders are thinking about member dues is member perception —managing expectations, clarifying what dues can and can't pay for while not talking about membership in purely transactional terms, and in particular communicating about dues increases. Indeed, many PSOs frame dues as members investing in the organization, rather than paying for a set of services. In turn, when communicating about dues to members, don't talk numbers, talk value, says one leader. "People tend to be willing to pay for dues if they see value in their membership. If they don't see value, figuring out the dues level doesn't really matter."

"We had a leader who was here for a long time and went years without changing dues," says a PSO leader. "I don't think people were thinking long-term. We're now setting up dues that increase every year, by $100, $200 or $300 depending on your size. We're acknowledging that we are a membership association, our budget grows every year, we need to keep pace with inflation, and we need to work dues increases into our model." It hasn't been an easy transition, she says, but it's been working. A big reason for the progress: "My board is in favor of it." And making it an annual increase helps them set clear expectations. (Again, the caveat: if you've seen one PSO...you've seen one PSO. One leader, when hearing about the annual increase of $100 or more, responded, "I would lose members if I did that!")

In another case, a PSO is setting out on the dues path for the first time. "It will be a little scary to flip the switch," says its CEO. "Because we've been giving away the milk for free, the case will be harder. People are used to it." Still, the leaders we talked with encouraged their colleagues to take a confident approach to asking for occasional, reasonable increases in line with rising costs, capacity, and value.

Several leaders touted the advantages of all-inclusive member dues, over combining dues with additional fees. A big advantage is in making the case to members. "Our approach: you pay once and you don't pay again," says a PSO leader. "It's attractive to members because they pay dues once and their staff can use us as they choose." "It's easier to say it's all-inclusive and a helpful sell: write one check a year," says another.

> " Our approach: you pay once and you don't pay again."

Sometimes what amount is written on that check can also complicate things. The leader of one PSO says that having different levels of dues tied to foundation payout can lead to "the idea that bigger foundations are more important," among both members and staff. "But $23,000 from a large foundation can be analogous to $600 from a smaller foundation in terms of payout."

Of course, PSO leaders who are drawn to dues have to reckon with a downside: it can be more difficult to innovate and grow through member dues. "I don't think growing members and dues will sustain you, especially in the current environment," one says. "Are we going to continue to stay relevant when millennials don't join things and the internet is taking away our market share?" "We went beyond passively accepting dues and that whatever dues pay for is what we're going to be," says another leader, whose organization is lessening its emphasis on dues as a revenue source. "We had to make the case for funding beyond dues."

Grants and Dues: How National and Regional PSOs Slice the Revenue Pie

Member Dues
14%
62%
Restricted Grants

National PSOs

Member Dues
34%
32%
Restricted Grants

Regional PSOs
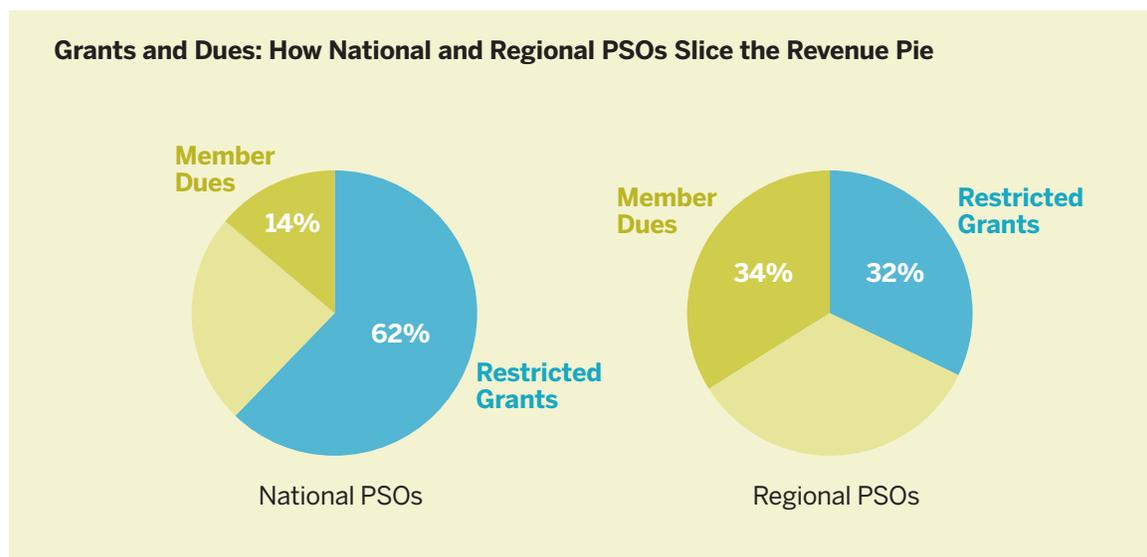
Source: "Key Metrics for Philanthropy-Serving Organizations," 2018 Edition, from United Philanthropy Forum

Grants

Contributed capital is a constant of PSO funding. This isn't surprising given the day-to-day business of members and board members, leaving PSOs perched right on the banks of this revenue stream. "It's a necessity," a leader says, "and we are a field of grantmakers after all!" But some PSO leaders have found that making use of this stream, and doing so without falling in, is no easy feat.

Many PSO leaders approach program, or restricted, grants with ambivalence, a mix of excitement and wariness. Program grants are the fire of PSO revenue: manage them well and you can get light and heat, manage them poorly and you can get burned. We heard about a range of experiences. Some PSOs found their way into innovative territory that galvanized members thanks to program grants. Others found business by program grant to be a roller coaster of lows as much as highs. What some PSOs see as a treasure to be sought, others see as an albatross to be avoided.

PSO leaders talk about four challenges of program grants.

First, securing and reporting on grants can take a lot of time. "You can't get leadership and programs done if you're writing proposals all the time," says the CEO of a PSO.

> **" Grants take too much of my time and not enough of my time."**

Says the leader of a small but growing PSO, "Grants take too much of my time and not enough of my time. We're at 22 active grants right now. Most are single-year. That means 22 proposals and 22 reports, with enough uniqueness that we can't just hand over the same report. At the same time, I need to dedicate more time to raise that revenue to meet increasing expectations for us."

Second, some leaders caution that program grants can result in products and services relevant only to larger members or a narrow slice of members. To prevent restricted grants from privileging the needs of some members over others, PSOs work with donors to focus large gifts on benefits for the entire membership.

Third, restricted grants are more likely to come if the funded work is new and innovative, according to some leaders. It can be harder to get grant funding when it's the organization's core or, as one leader put it, "proof-of-concept work," even if research indicates that members want it. Leaders have worked to mitigate this challenge by shaping activities funded by restricted grants so that they'll also help the PSO build its ongoing capacity, such as by incorporating explicit organizational learning goals.

A fourth challenge that we heard leaders talk about goes to the heart of sustainability. "Program grants aren't an effective business model," says one CEO. "If you stop getting them, you're stranded.

What happens when the money is over?" Says a PSO leader, "It's easy to get lured away from operating revenue covering expenses and expand into project revenue without concern about what happens when it ends." Leaders work to avoid falling off a program grant cliff in a number of ways. They try to continuously plan post-grant scenarios. They use program funding to rent support (in the form of consultants) rather than buy it (in the form of employees) though this strategy has its own hazards. And, in general, they work to ensure that the organization isn't too dependent on grant support. A basic threshold test, according to one PSO leader: "If you didn't have a single grant for a year, would you be out of business?"

> " It's easy to get lured away from operating revenue covering expenses and expand into project revenue without concern for what happens when it ends."

For some PSOs, grants are in the comfort zone; for others, they're outside it. For some, it's a question of whether grant ideas come from the PSO or its members. "We want our grant-funded projects to be fully member-driven," says one CEO. "We don't want to drum up projects to generate revenue. If I'm sitting behind my desk thinking, 'We need revenue, what can we do?', that's different from something members have decided they want." For others, it's a question of whether they feel comfortable asking members for additional support beyond dues, and even if they're ready to be a grantee to begin with.

There are significant differences of opinion in the PSO world about grants vs. dues. "We don't want to ask members for money," says the leader of a small PSO, recognizing that their dues-over-grants strategy is a function of their current market, small organizational size, and early stage of development. "If members find value, it makes sense they're paying for it through member dues. So we don't solicit operating support grants from them. I want to partner with members versus be another grantee. I have more control over our value than over someone else's grantmaking budget." Another leader sees things differently: "Members understand that everything can't be covered by dues. It's sometimes not too difficult for a funder to give additional support through a program grant to support PSO work that aligns with the funder's mission, or for larger members to give general operating support above their dues because it's the right thing to do to support the field."

> " If I'm sitting behind my desk thinking, 'We need revenue, what can we do?', that's different from something members have decided they want."

When we asked PSO leaders about grant funding, they typically responded in terms of program grants and brought a sober, realistic tone to their answer. This makes sense. Restricted grants are more often on the menu, and their tradeoffs are well-known. But the conversation turned a mix of wishful yet pessimistic when the question of general operating support grants came up, as if they're the holy grail of PSO funding—transformative but rare.

Leaders identified variables that can complicate the process of raising general operating support for PSOs. Many see funders as having a bias for programmatic support in general. There also is the perception among some PSO CEOs that funders tend not to have a good understanding of how PSOs work—a state of affairs that they acknowledge is as much their fault as funders'. One CEO observes that the larger foundations—the main source of program support for PSOs—tend to have less awareness of the realities of PSO business models than their smaller counterparts. "If you said program grants aren't an effective business model, PSO CEOs would say 'hell yeah,'" he says. "For foundations, there can be inverse relationship between sophistication about how our organizations work and the size of the foundation."

Fees

Generating revenue through fees-for-service is a business model frontier that PSO leaders are exploring with increasing frequency. They're generating fees as part of managing grant funding for initiatives or pooled funding efforts. PSOs are finding fertile ground here, both in terms of money and their increasing role in supporting collaboration among members. "It was a tipping point for us to become a place that can hold money and where funders and other sectors can get stuff done," a PSO leader says. "We're going to bring together funders not just to talk about stuff but to do stuff. And funders are recognizing the need for backbone." "We've been a fiscal agent or sponsor for a couple of donor learning groups and for emerging philanthropies," says another CEO. "There's growth potential there. The work can be easy and it pays half the salary of our director of finance and operations."

Leaders see both opportunity and challenge when it comes to fiscal sponsorships. Time and capacity are big variables. "We've been the grants administrator for two initiatives funded by members," says one PSO leader. "It allowed us to hire a fourth staff person. One

> " It was a tipping point for us to become a place that can hold money and where funders and other sectors can get stuff done."

project is easy and simple and straightforward. I could do a half-dozen of those. The challenge is that the other project is dynamic, vacuuming money, and takes one day of my time per week." "Collaboratives are the next evolution of our model," says another CEO. "We manage three collaboratives, but they've been one-offs. I need a buttoned-up process for fee-for-service for funder collaboratives, so it's more streamlined." "It's important to price this right," says a PSO leader. "Managing funding collaboratives is often a lot of work."

The other common fees are for programs, in particular annual conferences. For most PSOs that charge conference fees, breaking even is the goal. For a few, the annual conference is a chief money-maker. Time and capacity are even bigger variables here, as it takes organization-wide investments to put on the kind of conference that generates a profit. Charging fees for other programs—such as trainings or webinars—can be complicated for PSOs. Members often assume it's part of what they pay for in membership dues. For national PSOs, programs are often funded by grants. The decision to charge fees, and how much, is a function of a number of variables, including member expectations, capacity to produce quality programs, and ultimately a case-by-case cost-benefit calculation.

Practitioner Advice on Revenue Intentionality
(from United Philanthropy Forum annual conference session)

"Ask a board task force to assess dues, real costs, and 'real time.'"
"Consider factors other than dollar revenue."
"Develop multi-year business plan and projections."
"Keep a dashboard of different revenue sources."
"Make hard decisions about letting go."
"Talk about staff responsibilities when it comes to revenue."

PRACTICE 2

Bringing Your Board In

Be a
Collaborator

Engaging your board in your business model is essential, according to the PSO leaders we interviewed. Those who have done so are far more likely to report business model progress and satisfaction than those who don't. Many said they wished they had done so sooner in their tenure.

In short, PSO leaders want board members engaged in developing their business model. "I did a retreat with the board a few months after I joined the organization, and the whole day was an exploration of the business model," says a PSO CEO. "It was a deep dive. If the board doesn't understand how an organization is funded, it can't govern it well." "My board has been great in giving me 'I believe in you' space," says a PSO CEO. "They encourage my experimentation. And we have a reserve I can dip into. Without that space and money, I'd feel more pressured and less optimistic."

> " It was a deep dive. If the board doesn't understand how an organization is funded, it can't govern it well.

At the beginning of her tenure, one CEO made the case to the board to focus first on the business model and to provide operating support to boost a limping organization. "How do I get board members —who make grants for a living—to invest in us? Our board chair brought in an operating grant and got others to do the same. We were able to right the ship in the first year." Board members have not only proven to be vital funders but vital fundraisers. "Getting the board involved in fundraising gives them the chance to hear directly from members, and members will share things with them," says a longtime PSO leader. "The board also shares in the success of the organization."

The *why* of board engagement seems to be clear. But *how* to engage the board in the PSO's business model, and do so effectively, can sometimes be the hard part.

For many PSO staff leaders, there is a paradox when it comes to board engagement. Engaging their boards in program work? No problem. Engaging their boards in the business model? Problem. This perspective from a PSO CEO echoes what we heard from a number of leaders: "My board is not a good partner in business modeling. It's not for lack of interest or desire to support the organization. I think it's time. And they're the consumer of our work and it's their work, so they gravitate toward the programmatic aspects. They haven't been in the field to do fundraising. They might be happy to join a meeting, but they're not equipped to identify and pitch members, and it doesn't feel natural to them."

Some leaders point to a mismatch between business model issues and the day job of many PSO board members. "We work with wonderful people on our boards who are supportive," says the

leader of one PSO. "But despite funding nonprofits, some board members aren't familiar with the fundraising aspect of running a nonprofit organization." "I couldn't get the board engaged," says another. "It's difficult with funders because they don't have to deal with thinking about revenues and expenses. Their day job isn't to raise money but to spend it."

Make sure, PSO leaders urge, that focusing on business model issues is seen as part of the board member role. That understanding is firmly in place in some PSOs, not as much in others. One leader

> **It ends up being the executive's job in PSOs more than in other nonprofit organizations I've experienced."**

found it to be a challenge for PSOs in particular. "It ends up being the executive's job in PSOs more than in other nonprofit organizations I've experienced. Our board members would ask questions of the board members of a grantee that they don't ask of themselves." Another leader encourages PSO leaders to help their board members understand that "business model issues are ones that CEOs always struggle with." We saw one board member spontaneously come to that understanding when, during a strategy retreat, he asked a pointed question about the CEO: "Is *he* our business model?"

While in that case it was a board member who recognized that working on the business is a shared responsibility, it often falls on the CEO to take the first step. We noticed a vicious cycle when it comes to engaging board members in business model work: some CEOs conclude that their boards don't have sufficient interest or information about business models, then don't engage them in this part of the work. As a result, board members don't have sufficient interest or information, then the cycle starts again. By contrast, we saw some CEOs break this cycle and turn it into a virtuous one by bringing their boards in, regardless of how informed they were at the start. That's why we suggest the role of *collaborator* for this practice. The CEOs who brought their boards in approached business model work as an ongoing partnership with board members.

How were they able to do this? We heard a number of suggestions:

Have the conversation. "You need to have an honest and frank conversation with your board about future sustainability."

Find allies to carry the torch. We heard this one strategy more than any other: "I had to find a couple of allies on the board."

Match aspirations with your reality. "One challenge with my organization's board: they get understandably excited, and their eyes are bigger than their stomach," says one leader. "You need to be aspirational *and* realistic. The board can struggle with operationalizing because they're sitting at the strategic level and don't fully understand the limited capacities we have as an organization. As a CEO, it can be helpful when we are honest about the implications and even limitations." At a strategic planning retreat for a PSO, one board member suggested that all new

activities—which inevitably generated excitement—should be accompanied by a statement: "By the way, board, we have to *pay* for this!" On hearing this suggestion, another leader said, "This is why budgeting and planning must happen simultaneously!"

Be clear about the different kinds of board member help needed. "One way our board helps with sustainability is that most of our board funds us with major grants," says a PSO leader. "But what's hard for them is serving in the roles of fundraisers, networkers, and builders of membership."

While it can be hard to engage boards in business model work, once PSOs are able to do so, it can have a profound impact on the organization, especially its revenue intentionality. PSOs face a perennial tension between abundant demand for services and programs

> **Once we started saying we had to be intentional, focus on a plan, and hold ourselves accountable, it slowly started to work."**

and limited capacity to produce them. There are only so many hours in the day. How to respond to new ideas when staff are operating at full capacity? When should you buy or rent new capacity? Which new opportunities should you say yes to and which should you say no to? In our experience, while board members of PSOs are often the source of new capacity-straining ideas, they have proven they are ready, if asked, to step into their governance role and help staff make these decisions and keep the organization in a healthy, workable capacity-demand balance.

"Once we started saying we had to be intentional, focus on a plan, and hold ourselves accountable, it slowly started to work," says a CEO who experienced an organizational turnaround, in its business model and in board engagement in its business model. "One key is I needed to sell the plan. 'This is a plan that can make us sustainable.' The second thing: you need to pinpoint some board members who can start the conversation, somebody besides the CEO. And you have to make the board answer the question: 'How are we going to hold ourselves accountable?'"

Practitioner Advice on Bringing the Board In
(from United Philanthropy Forum annual conference session)

"Be an ambassador to your board."
"Board behavior is often peer-driven."
"Boards should develop measures of governance success."
"Clarify role and ownership expectations of board members."
"Data-driven business planning will bring them in."
"Have intentional strategy conversations at board meetings."
"Value board input."

PRACTICE 3

Testing and Learning

Be an Experimenter

Adaptive business modelers have a test-and-learn mindset. They see their business model as flexible and conditional. They come up with hunches and find ways to test them. They try new things, learn from the results, accept failure and are ready to adapt.

Above all, they are experimenters. They come up with "hacks"—what the design firm IDEO defines as small, scrappy experiments you can do now with the resources you have. Emphasis on now—it can be freeing to realize that you have what you need to build a small experiment. The PSO leaders who are the most active and accomplished experimenters we observed seem to be able to hold their models lightly, suspend their assumptions, and resist jumping to the answer. This can be especially hard to do given the anxiety and pressure created by business model questions, but especially important to do given the complexity of those questions.

Here are some experiments they're trying:

Engaging non-members. We spotted experimenters breaking down the traditional walls between members and non-members, inviting those in the latter group to sessions and conferences to get a taste, asking non-members about perceptions and ideas, and thinking more fluidly about member categories in general.

Here's a CEO talking about one experiment: "So we started inviting prospective members to our meetings as guests. We haven't done the math yet, but I think 70% have converted to dues-paying members. It's hard to tell people what you're about. They have to see it! And I bet most members would say their experience was enriched by having the non-members there." One regional PSO started to think about new business opportunities by asking, "What is happening with all the philanthropy in our region that is not covered by our members?" "Most of our work is still member-based," says a PSO leader. "The challenge in this moment is that a lot of funders are saying help us learn about your work, but we're not ready to be members. Help me dip the toe in the water. Involving them is not a near-term net positive but it might be in the long-term."

Experimenting with new kinds of members. For some, the focus has been on individual donors. For others it has been more corporate members. A couple of PSOs have nonprofits as members, and a handful of others are considering it. Other new members include wealth advisors and consultants.

Continually tracking what members value. One CEO says that the business model of her PSO accelerated when the board pushed for asking members about what they value. Another leader says, "It's about adapting your value proposition. As members want to collaborate more, we look into the business of supporting collaborations."

Testing multiple variables. In their experiments with new business lines, PSOs are testing different variables. Often that variable is the bottom line, but not always. One PSO saw an "incremental income opportunity" in project fees for managing collaborations, tested it, found that it would not be profitable—and still made it a substantial part of their revenue portfolio because they wanted to continue to "preserve our space and position as the home for any type of collaboration."

Practitioner Advice on Testing and Learning
(from United Philanthropy Forum annual conference session)

"Admit failure when it isn't working and stop."
"Be comfortable with uncertainty."
"Build member trust and demonstrate your ability to do something in good faith."
"Co-create with members."
"Keep staff entrepreneurial, always out looking for things."
"Lead with the question. You don't have to know the answer."
"Leverage the passion of even 1-2 people."
"Remember that pilots are exploratory and non-linear."
"Saying yes is a mindset shift."
"Set a period of time for experimenting and define what success looks like."
"Signal it's an experiment from the beginning."
"Start with a portion of a project funded and believe you'll find the rest."
"Step out in the lead—and explain why you're stepping out."
"Take risks. Build the plane while flying it."

PRACTICE 4

Eyes Wide Open

Be an
Entrepreneur

The Adaptive Business Modelers we interviewed are attuned to opportunities in their landscape and signals in their marketplace. They are entrepreneurial, opportunistic and resourceful. Their eyes are wide open, in three ways:

First, they know their market.

This starts with being "in tune with" members. We think it's no accident that we heard this specific phrase several times. There is a harmony that adept business modelers work to achieve with their members. "It's about talking to our members and learning their needs, being in tune, knowing what's happening," says one PSO leader. According to another PSO leader, "It starts with the relationship and being in tune with what's going on with your members and the larger world." A third says, "Know your customer. What do they like? What are their problems, and which can you solve?"

> " It's about talking to our members and learning their needs, being in tune, knowing what's happening."

But it doesn't end with members. In fact, ending with members is a mistake that adaptive business modelers warn their colleagues to avoid.

"Have conversations with people who aren't necessarily going to be your members," urges a PSO leader. "It helps you understand what the marketplace looks like. Get outside your normal member base and your comfort zone. You never know who knows someone or who has innovative ideas. Stop thinking in terms of your members and start thinking in terms of your marketplace!"

In doing so, PSOs are beginning to think beyond organized philanthropy. "We did a market study and understood there wasn't much growth in foundations in our region," says the leader of a PSO, which subsequently expanded its membership to individual donors and impact investors. "We took 'philanthropy' out of our mission and now say 'funders.'"

Expanding boundaries in this way might make business sense, but it can be a hard sell to members. "I'm trying to encourage the board to open up our association and create a bigger tent," says a PSO leader. "I'm getting resistance. Our membership resists investment advisors, attorneys, etc. Members often don't want adjacent professionals to be part of the club. We can have a protective culture, but I think it's changing. You have to force the system to change."

Second, these leaders are realistically opportunistic. Their eyes are wide open not only to emerging opportunities but to the capacity needed to pursue them.

It starts with looking for opportunities. "Really understand the operating environment you're in so that when little changes pop up you can go for them," says one leader. "There's a landscape of opportunity. The more you know the landscape, the more you'll know the opportunities. Any time you hear about an opportunity, listen to it. Is it an outlier or the tip of an iceberg? Could it solve a problem for your customers? If you solve their problems, they'll join you and stay with you."

Then, when an opportunity is found, the reality hat comes on. What will it take to effectively pursue this new idea? Do we have the capacity? Can we build it if we don't? And does the new opportunity realistically have the chance to be a good investment?

"We chase enthusiasm more than money," says a PSO CEO. "But it needs to be both. We'll often front a great idea through general operating dollars. But what I'd like to get to is to raise R&D dollars above our general operating dollars. If I could go back to my early days on the job, I'd definitely suggest that we go after new ideas but that they need to be funded properly. You can't let too much of your work go beyond what you can afford. Raise the money rather than front it."

Sometimes the spirit is willing but the capacity weak. Having eyes wide open sometimes means soberly accepting that reality check. "We have wider opportunities but no infrastructure or market analysis or culture to support those," acknowledges a PSO leader. "Our capacity is focused on membership."

Sometimes leaders anticipate the reality check. Are there sources of revenue that are abundant now but look to be drying up? Conversely, are there sources that we've dismissed in the past but show signs of future fertility? What are marketplace trends telling us? Where are our blind spots and unchallenged assumptions? What do we think is around the corner, good or bad?

Third, having eyes wide open means being nimble and iterative, being ready to try something while being sure to make the steps small and manageable enough to learn from and adjust.

"In the social sector we overanalyze, sometimes into paralysis," says one PSO leader. "You have to move quickly so you don't lose the market. You have to take a chance, communicate the opportunity and the risk to your board, and be okay with failure. Do your due diligence and go! If you fail, what happened?"

> " You have to take a chance, communicate the opportunity and the risk to your board, and be okay with failure. Do your due diligence and go!"

"You need to do what feels right in the moment," says a PSO CEO. "When we've done that, when we've hit on something that a group of people feel like it needed to be done or said, enthusiasm has come and funding has come."

"You have to read the market and your membership and be flexible," says the leader of a large PSO. "How do we be responsive and flexible as external circumstances and priorities change? It's an advantage when we have our ears to the ground and know what's happening, both in our community and nationally."

Another leader talked about the incremental steps his PSO takes to explore a new opportunity. "A board member or group of members expresses an interest in an issue. We start with a webinar and have a conversation. What is the appetite? Where is the synergy? We interview people working on the issue. We walk around the table of interested funders and look for the overlap. We do a scan of the field and release the findings. Then we gather half a dozen funders interested in taking the next step."

Practitioner Advice on Eyes Wide Open
(from United Philanthropy Forum annual conference session)

"All opportunities may have a cost."
"Be a home for network funding—and additional revenue."
"Be Switzerland."
"Create partnerships and funding opportunities."
"General operating support = being nimble."
"Leads to increased visibility and revenue."
"Manage a 'network.'"
"Member co-investment—more than money."
"Members as opportunity scouts."
"Provide grant administration."

PRACTICE 5

Fundraising Mindset

Be a Listener

"Sixty to seventy percent of my job is raising money," says a PSO leader. "That's mainly what I do."

Fundraising is part of the job description for PSO leaders. By nature and role, most tend to be good fundraisers. But what separates the good from the great? The answer seems to be mindset.

For many leaders we talked with, fundraising is viewed as an arduous hike up a mountain path, wearying and dreaded but necessary to get to the peak. "It's psychically difficult to fundraise," says one leader. The leaders who have proven themselves to be prolific fundraisers bring a less weary tone. They also want to reach the peak but embrace the fundraising journey to get there. They see it not only as a critical role but a joyful one. They bring their full selves to the task. They have a fundraising mindset.

We found that those with a fundraising mindset seem to bring five assumptions to this area of work:

First, fundraising is about relationships. "Fundraising is 90% about relationship-building and cultivation," says one leader. "If you look at how most new revenue comes to be, it's relationships." "We don't have a fundraiser on staff," says another leader, "and it falls to me. At the same time, it can help that they associate the organization with me. People give to people." In thinking about fundraising, says one CEO, "I think about how much relationships matter. If the only time you talk with them is to ask for money, it won't be easy. But if you talk with them about the work and occasionally the conversation is about resources, they trust you." "One thing I remind my board when we ask them to call a list of prospects," says another CEO, "is that you're not calling them up and asking for money. You're calling them to get to know them."

Second, fundraising is about mission, not money. PSO leaders with this mindset assume that fundraising conversations are first about the work. How to pay for it comes later. "Fundraising is fun, people!" says one PSO leader. "You're connecting people to their passion!" "Most PSO leaders are in the enviable position of being able to talk about the work," says one CEO. "When that is the main focus of the conversation, your ability to also talk about resources is easier." "Doing good work makes your members want to support you," says another leader. "If you really believe that your work is making members better at their job, it's easier to ask your members to support that work.

Third, fundraising is social. It's not only about one-to-one but many-to-many. PSO leaders who act on this assumption often do so first by mobilizing their board members as fundraisers, taking advantage of peer influence. Many PSO leaders attributed successful fundraising campaigns to securing initial contributions from one or two visible and influential board members who could make things go viral. "Once you get one person to dip their toe in," says one PSO leader, "others will want to get in the water."

Fourth, fundraising requires candor. Leaders often mention this in the context of asking members for money beyond dues. "We're happy to work on this, members, but it will cost us and it's not in the dues," says a PSO CEO, relaying how the pitch often goes. "Otherwise you stretch to meet members' needs without the resources to do it. You can't do it for free." Says a PSO leader, "Money candor is hard with members—saying, 'If you want us to keep performing in a high-touch way, we need to think about how to resource that.' Having a list of services for dues helps that because you can talk about what is above and beyond, though that does make the conversation more transactional." Another leader suggests talking about a continuum of benefits. Many benefits result from membership and are available to all. And some benefits are more specialized and require additional investments as well as volunteer leadership.

Fifth, fundraising needs to be built into organizational culture. We were struck by how adept fundraisers not only have a fundraising mindset individually but find ways to cultivate that mindset throughout their organization. "We have become a fundraising organization and we have a culture of fundraising now," says a PSO CEO who says her organization has been transformed by this culture shift. "We have prospect meetings. We prospect for new members. We have a business expansion document. We're creating memberships for individual donors. We're going to launch an annual fund. We wouldn't have thought of those things if we had thought of ourselves just as a membership organization and not as a fundraising organization."

Practitioner Advice on Fundraising Mindset
(from United Philanthropy Forum annual conference session)

"Cultivate relationships."
"Don't do an immediate pitch."
"Don't hesitate to claim a seat at the table."
"Empower and equip staff to be fundraisers."
"Enlist third-party validation."
"Have a positive attitude."
"Have candid dialogue when you're seeking grants."
"Have confidence!"
"It takes a culture shift, with board and staff realizing their fundraising roles."
"Know data about a funder before your appointment."
"Look at new, diverse funding sources."
"Make sure your targets experience value."
"Make the ask, and wait through silence!"
"Offer and articulate value."
"Practice receiving 'no.'"
"Reach out past the usual suspects."
"Savor the victories!"
"Tap networks and get connected."
"Think of fundraising as partnership."
"Think of it in terms of engagement."
"Use systems for tracking and staying in touch."
"You need to know your target."

PRACTICE 6

Three-Dimensional Value

Be a
Pathfinder

We found that PSO leaders are rethinking member value.

They're doing this in part because of the sobering reality check that member associations increasingly face. People can now access information and even services on their own that they once relied on organizations to get. The transactional value of association membership is not what it used to be. That's the bad news.

But there's good news, too. There are paths to value that PSOs are finding they're uniquely able to pave, paths that people will pay for. If the old value was transactional, one-to-one, and straight-line, the new value is transformational, many-to-many, and three-dimensional. The new value is about the collaborative and collective power of networks.

Every leader we talked with touched on the power of PSO networks in one way or another:

"Our product is to connect members with common interests and help them learn and work together."

"When you are a strong network, then people want to join."

"We need a model of how we show value. It's not a bulleted list of what you get. It's about being in a network and the value of connection."

"Thirty years ago, we were the aggregators of information that people needed for grantmaking. Now there are many, many sources of information that are accessible to grantmakers. Our role is shifting from information aggregator to network builder."

When asked what is the most valuable thing they provide, one PSO leader responded simply: "Networked learning."

Many leaders say they had to drop their default transactional mental model of a PSO as the first step toward thinking about their value in broader ways. "If a funder looks at us through a transactional lens, they're not going to fund us," says a PSO leader. "You're not going to be able to quantify the $5,000 of value you got back. It's got to be a broader value proposition—value from the network, the collaboration, the impact." "We're trying to dispel the transactional nature of the work," says another. "In our last strategic planning process, we didn't think about ourselves as separate from the field but a collective that includes everyone."

"Our models inhibit our effectiveness," says a PSO leader. "It's a carryover from trade association models. Instead of 'what do I get for my dues?' it should be 'how can we really advance the work?'"

Leaders who think three dimensionally about PSO value shift from focusing their value proposition on a fixed menu of member services to supporting the collaborative energies of a member network. They support relationships and collaboration among practitioners. They mobilize member efforts to address mission-critical issues. They connect their members with leaders from sectors beyond philanthropy. They highlight and respond to emerging opportunities and challenges in the field. They relate to members as active participants in a community of practice. Says one leader, "The services are the scaffolding, not the cathedral!"

One PSO used a three-dimensional approach in choosing what it describes as a "mid-size tent" strategy. They're not big enough to be a conventional "big tent" association that brings together a wide cross-section of groups, but they still saw opportunity in cultivating a "mid-size" network. And their membership has grown as a result.

"The mid-size tent concept is an interesting feature of our business model," says the organization's CEO. "We could be a small-size tent and try to influence the language of the rest of the field. Instead we're going to be a space where people come to be influenced and to influence each other. We've grown a lot—more than doubled in last five years—and a big reason is that people want to participate in the space and they're welcomed to the space."

Who is your "we"? We often ask this question of PSO clients, and their answer is shifting—from an organization "we" to a community "we", encompassing both the organization as well as the network it supports. This approach can have a subtle but steady effect on sustainability. New members are joining. Current members are becoming more engaged and bringing in more money as they do. Prospective members are drawn to the deeper experience, relationship and learning[4] dividends of membership—benefits that PSOs are uniquely able to provide.

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4. Consider the findings of "Peer to Peer: At the Heart of Influencing More Effective Philanthropy." This is a field scan of how foundations access and use knowledge, conducted by Harder+Company and Edge Research and funded by The William and Flora Hewlett Foundation. The main finding: "Funders prefer communications with peers and colleagues over specific knowledge producers for much of their knowledge acquisition."

PRACTICE 7
Investable Brand

Be a Marketer

How to position the PSO in the minds of stakeholders is one of the essential skills of the Adaptive Business Modeler. We noticed a pattern among those who do this positioning especially well: they think in terms of branding—even if they don't always use the term—and they build investable brands rather than transactional ones. They create a picture of their PSO as a long-term asset for the field, owned by the community of members, focused on big value, meaning and impact. They think about their organizational identity not in terms of clever taglines and spin but in terms of core values and member value. It's not about clothing but character. And when they ask people to contribute to the organization, whether in the form of dues or grants, they make them feel like investors more than consumers.

To do this practice well, you need to be a marketer. Apply the distinction Peter Drucker once made. "Marketing is not selling," he wrote. "Marketing is knowing your customers so well that the product sells itself." That's what we've seen many PSO leaders do, to good effect. They ask: what moves philanthropy practitioners to contribute their time, talent and treasure to an organization? Of course, different practitioners want different things, calling for differentiated marketing strategies. But we found that many deft PSO marketers are approaching members as investors rather than consumers by recognizing that their day job as funders is more about grants than contracts, more about investing in an organization than paying for its products or services. Many leaders assume that members are not inclined to think about a PSO they belong to in the same way they might think about the straightforward fee-for-service relationship for a transactional activity like a gym membership or Netflix subscription. They care about the work. They want ownership in the work. Often, they think about their PSO less as members and more as strategists and investors.

When it comes to branding—what leaders want their members and prospective members to think about when they think about their PSOs—we heard about four common approaches from Adaptive Business Modelers.

First, they see branding as a critical part of business modeling. One PSO sees its brand, which they define as "developing emotional goodwill among potential supporters," as one

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of three elements of their "resource engine," along with "cash" and "time." "We in the infrastructure," says a leader of another PSO, "have done a horrible job of explaining what we do and why it's valuable."

Second, they regularly ask members how they perceive the PSO and its value. In one PSO's discussion on rebranding, says its CEO, "one of our board members put it simply: let's spend our money on what members really value." The comment led the organization to refocus branding dollars onto an effort to interview members and prospective members on perceptions and ways the PSO could create more value.

PSOs widely recommend asking members about their perceptions. That may not be surprising. What is surprising is the reason most often given—not because the inquiry will help you understand how members see you, though that's a benefit, but because the inquiry itself is an engagement strategy. It's a way to build ownership and connection.

One leader said her PSO's breakthrough happened when they asked their members about what they value. "We couldn't articulate why we exist and what we do," says one PSO leader. "We asked members what value they get. Just conducting the interviews seemed to have an impact on perceptions of value. Members appreciate that you're not taking them for granted."

Third, Adaptive Business Modelers tend to resist presenting themselves in fee-for-service terms. "We don't want members asking what goes into their dues," says a PSO leader. "It's too transactional." Urges another, "Market for investment, not member dues!"

> " **Market for investment, not member dues!"**

In one PSO board conversation, it was hypothesized that member dues were remaining static because members have a default frame of dues as fee-for-service. Board members asked: "What if dues were reframed as an investment to fuel and accelerate a mission?"

Fourth, they emphasize member investment and ownership in their branding. One PSO CEO tells the story of a breakthrough pitch for funding. "I had a board member—a community foundation leader—take it upon himself to go out and recruit the largest foundation in the state," she says. "He did it totally in the language of investment, not dues. You have to provide value, but you can talk about it in terms of bigger and broader value."

"All the case studies show that value proposition is directly related to engagement," says another PSO leader. "The more engaged members are, the more they experience value. If everyone owns us, they'll value us."

One of the tests we use in our discovery work with PSOs is whether in interviews members use "they" or "we" when they refer to the PSO. Do they see themselves in it? Do they have a feeling of ownership? The shift from "they" to "we" was seen as a key factor in one PSO's significant growth. "We needed to shift to viewing ourselves as a member-driven organization," its CEO says. "Members began to own the organization more."

Practitioner Advice on Investable Brand
(from United Philanthropy Forum annual conference session)

"Always link to values."
"Amplify policy victories."
"Answer: What difference do we make? What would go away if we did?"
"Ask your members why they invest—and fight for it!"
"Be a category of one. Differentiate!"
"Be a voice of philanthropy."
"Create and convey value via messaging."
"Frame funders as multipliers of impact."
"Invest in transformation."
"Know your answer to why choose us?"
"Talk about investing in our work, impact, community."

How Are We Doing?

Self-Assessment

Use this chart to take a step back and assess how your PSO is doing at the seven practices—as of today. This is a way to track your progress and identify where you might focus your improvement efforts going forward.

	Hang out on the Beach "We don't really do this practice."	Pick up the Board "We've thought about this but haven't done much yet."	Swim Out "We've tried this and are making slow progress."	Body Board "We're getting better and better and picking up speed."	Stand Up and Surf "We've got this practice down and are really moving."
Revenue Intentionality					
Bringing Your Board In					
Testing and Learn					
Eyes Wide Open					
Fundraising Mindset					
Three-Dimensional Value					
Investable Brand					

TRY THESE
TOOLS

Here are twelve tools that can help you shape your business model and apply the practices.

They're organized into three buckets: tools to help you discover, tools to help you plan, and tools to help you adapt. We emphasize the "try" in "try these tools." We encourage you to first skim all the tools and select the handful that seem the most relevant to your circumstances, goals, and capabilities. Give them a test-drive and see if there's a fit. You might find that it would be most useful to do a quick pass at each. Or you might decide to focus on the few that are the most relevant and meaningful for you.

Discovery Tools
Tool 1: Start with Questions
Tool 2: Look at Value Against Profitability
Tool 3: Track Your Data
Tool 4: Ask Your Stakeholders
Tool 5: Name Your Evolutions

Planning Tools
Tool 6: Adjust Your Revenue Dials
Tool 7: Use Your Roles and Values
Tool 8: Map Your Opportunities

Adapting Tools
Tool 9: Find Your Balances
Tool 10: Test Your Hunches
Tool 11: Create If/Then Rules
Tool 12: Ask for Help

DISCOVERY: TOOL 1

Start with Questions

This tool is straightforward but critical: begin your discovery by reflecting on the most important questions you have about your business model. As a preliminary step, jot down a list of the areas of your work related to your business model that you want to explore. Use only a couple of words to describe the areas. They can be directly related to your business model ("Member Growth," "Revenue Sources," etc.) or indirectly related ("Board Engagement," "Value Proposition," etc.). List no more than ten.

Next, frame the question you want to explore related to each area. The key here is to frame it narrowly enough so that it's actionable and gets to the heart of what you want to find out, but not so narrowly that it prematurely presumes an answer. For example, let's say one of the areas you want to explore is "Revenue Sources." "How can we generate more revenue?" is so broad that you won't know where to start. At the same time, something as specific as "How can we make more money from fiscal sponsorship?" would work only if you've already determined through prior discovery that it's a promising source. Otherwise it's narrow enough that it could foreclose other potentially profitable directions. Something like "What revenue sources have we not fully tested or explored, and what are their relative pluses and minuses for us?" could be just right.

Once you've come up with your questions, the final step is to take notes on three things about each one:

1. Why is the question important to your PSO?
Thinking about the why will help you establish a sense of context and stakes. It may also suggest a reframing of the question.

2. What is your hunch about the answer to the question?
This is so important to do. Hunches can sharpen your discovery and encourage an experimental mindset.

3. What is one assumption you might be making about the question that could be challenged?
Unexamined assumptions or beliefs can lead you to miss breakthroughs and repeat mistakes. Identifying and challenging them can help you find your way.

	This is important to us because...	Our hunch about the answer is...	One assumption that could be challenged...
Example question: What revenue sources have we not fully tested or explored, and what are their relative pluses and minuses for us?			
Question 1:			
Question 2:			
Question 3:			
Question 4:			

DISCOVERY: TOOL 2

Look at Value Against Profitability

Clients love doing this exercise, adapted from a tool called the Matrix Map[5], because it helps them think about value, revenue, and costs all together. You can use it as a canvas to draw your organization's unique picture. "It's a fabulous exercise to do and do regularly," says one PSO leader.

Here's how you do it:

1. **Identify all your PSO's important activities over the last year.**

2. **Determine the profitability of each—revenue minus costs**. We realize that it can be hard to measure these precisely. Give it your best estimate. Try to track the full costs of an activity —direct and indirect. Tracking your costs might be the most critical step you can take in shaping your business model. When we asked PSO leaders what are the most important questions to ask about a business model, the most frequent answer was: "What does it cost you to do what you do?"

3. **Estimate the value of each activity.**
   It can be value to members or value to the organization as a whole. Value is even harder to measure! That's okay. The key is not to precisely measure value but to differentiate activities along a spectrum of low value to high value. We find that PSO staff have an easier time estimating the relative value of activities than they anticipated. One question that inevitably comes up: value for whom? This can lead to a useful discussion about member segments.


FIGURE 1

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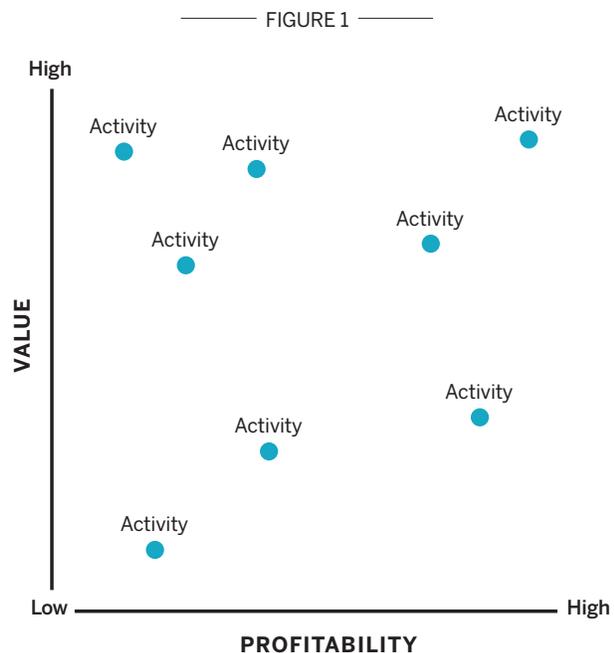
5. See *The Sustainability Mindset*, by Steve Zimmerman and Jeanne Bell, nonprofitsustainability.org.

4. **Now, array them on the matrix**, as in Figure 1. Remember, the key is to array activities relative to each other, not to get the placement exactly right. Some clients do this on a flip chart. Others use a diagramming or design application. This can be an iterative process. Expect to move activities as you go.

5. **Think about other ways to slice and dice your activities.** For example, one client added two dimensions, varying the size of the dots according to the relative scope of the activity in terms of budget dollars and staff time and adding arrows to signify in what direction activities might be headed.

6. **Reflect on what emerges.**
Organize the chart into four quandrants, as in Figure 2. What questions does it raise? Any surprises? Can you envision ways to move activities to the high quadrants? As an example, here's a sample of board member responses to one PSO's matrix: "How do we make Quadrant A more profitable?" "At the same time, if there are programs and services in Quadrant A that are valued and low profitability but also low cost, that's okay!" "Activities in Quadrant D are often responsive to the interests of a small set of members but not the whole membership." "For projects in Quadrant D, we need to figure out if grant funding is covering costs or if we're making a profit." "What activities here are our future?"

———— FIGURE 2 ————
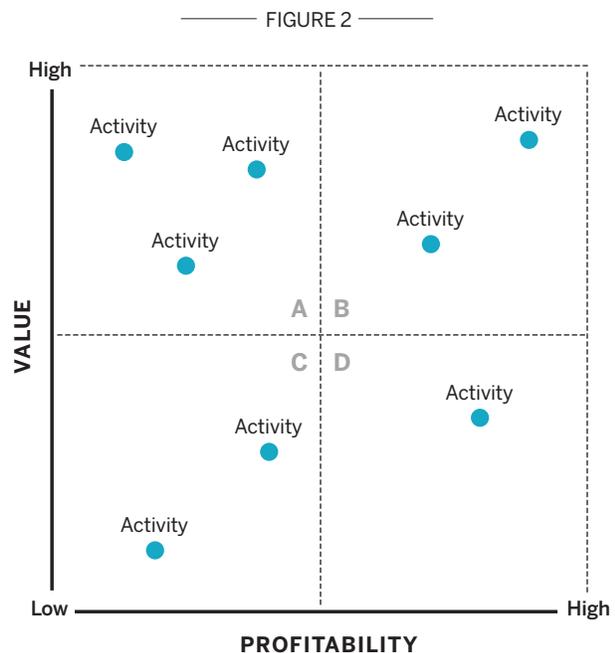
DISCOVERY: TOOL 3

Track Your Data

When it comes to business models, there is power in tracking—and trusting—your data. Data can help you establish a shared understanding of your current state among board and staff. Data can provide a reality-check against your working assumptions. And data can help shape your intuition, too. One question that is on the minds of PSO leaders is how to know which opportunities to go for and which to leave behind. Many leaders make such decisions instinctively. Intuition informed by experience can go a long way. But making decisions need not be an either/or between instinct and spreadsheet. You can do both. "Sometimes your best instincts happen," says one of our consultants, "when data is continually gathered and noticed. More data equals more hunches."

Data can strike some as micro, but when approached the right way it can actually help you see the big picture. The key is to track multiple data points, ideally over multiple years; analyze them in terms of trends; then look at the interrelationships among those trends for business model implications. Here are three places to start.

1. **Market Share.** Use a simple table like the one below to track your market share by member segment. You might choose to segment by geography, organization type, and/or any other meaningful characteristic that helps you understand the marketplace and your share in it. You might need to do some research to estimate the total number of potential members. For each segment, calculate your market share by dividing the number of current members by the number of potential members. (You can get the number of potential members from Candid's Foundation Directory Online.) Note that the number of potential members should be the total number in your market, including your current members. For example, if one way you choose to segment is by organization type, and Segment A is community foundations, and you have 5 current members that are community foundations and you have identified 5 other community foundations who could be members, your number of potential members is 10 and your market share is 50%. Be realistic when calculating potential members. In any region, for example, there are often scores of unstaffed foundations. Don't count them unless you realistically see them as potential members. Once you've run the numbers, reflect on them. What are the implications of your findings? What factors explain your market share for different segments? Where do you see growth opportunities? Where are the challenges? Finish by capturing the market share percentages in a pie chart.

	Current Members	Potential Members	Market Share (%)
Segment A:			
Segment B:			
Segment C:			
Segment D:			

2. **Revenue and Expenses Over Time.** It helps to have a handle on your organization's revenue and expenses and especially changes in those two over time.

First, identify the main categories you want to track for both revenue and expenses. We would recommend using only big buckets here. For example, under Revenue, you could use categories such as member dues, grants, earned income, etc., while under Expenses, you could use categories such as employees, programs, etc. Be sure to include major activities and mission-critical areas of work in your categories, such as your annual conference, public policy activities, research activities, etc.

Second, enter the numbers on a spreadsheet, along with any key trends you're noticing in each of the categories.

Third, create charts based on each set of data. A stacked area chart in Excel can be a useful way to start.

Fourth, reflect on the data. What story does this tell? Any surprises? What are the implications of the trends? Note that this can be a good starter exercise that leads you to decide to dig deeper. Consider engaging a consultant to do a more detailed analysis.

REVENUE	4 Yrs. Ago	3 Yrs. Ago	2 Yrs. Ago	1 Yr. Ago	Key Trends
Category A:					
Category B:					
Category C:					

EXPENSES	4 Yrs. Ago	3 Yrs. Ago	2 Yrs. Ago	1 Yr. Ago	Key Trends
Category A:					
Category B:					
Category C:					

3. **Time Allocation.** Knowing how staff time is allocated across activities can give you a clearer picture of your PSO, the indirect costs of doing the work, and what it really takes to deliver outcomes.[6] Sometimes activities can take significantly more or less time than predicted. And staff-intensive activities, such as annual conferences, can take so much more staff time than initially suspected that time allocation data can lead PSO leaders to reassess priorities and rethink their approach to core activities.

   The first step is to identify different categories of activities that staff spend their time on. You might choose to do big buckets or small ones—whichever approach you think is more likely to generate actionable information. The second step is to track time spent in those categories. A straightforward way to do this would be to ask individual staff to estimate the percentage of time they spend in each category. (And note that for many staff, depending on how specialized their work is, 0% might be a frequent answer in multiple categories.) A more rigorous but time-consuming method would be to have staff members track their time over a specified period. For example, one PSO's staff tracked their time spent over a period of seven weeks leading up to their annual conference to better understand the time impact of conference preparation. Another client asked staff to track time the first week of every month for four months.

Once time data has been tracked, the next step is to summarize that data. You might use a pie chart to provide a visual summary. Finally, assess the allocation for implications. What surprised you? Are staff spending more time than you thought or than might be merited? Do some activities have hidden costs in the form of staff time that need to be managed? How do you think this current allocation might compare to previous points —i.e. compared to months ago or years ago—and what trends might this suggest? If you have already created your value vs profitability chart, does this new info change in which quadrant activities are located?

	% of Time
Category A:	
Category B:	
Category C:	
Category D:	

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6. Note there are a number of sophisticated tools for analyzing the full or real costs of your work. See [Bridgespan toolkit] as one tool…. Staff time is just one of a number of indirect costs to calculate. It won't give you the full picture, but a useful one. (There are also time tracking apps.)

DISCOVERY: TOOL 4

Ask Your Stakeholders

Consulting your stakeholders can be a pivotal step in Discovery. It will give you a more nuanced grasp of the landscape that can help make your business model more robust. And it can double as an engagement strategy for your PSO.

Should you do interviews, focus groups, or a survey? Ideally, the answer to that question is "yes." Each format has its advantages. If you don't have the resources to engage a consultant and do a full-blown, statistically-significant research effort, that's okay! Few do. You can do it yourself, recognizing that a good-enough inquiry can still yield useful findings. Or you can take a more comprehensive approach by engaging an outside resource such as Center for Effective Philanthropy. Many PSOs do member satisfaction surveys and can add business-related questions to that instrument.

Another thing to keep in mind: when we work with PSO clients on doing surveys or other kinds of discovery, we offer the reality check that the findings likely won't be as definitive as you might hope, but they likely will be more generative than you might expect. In short, asking stakeholders won't give you all the answers. But it will help you deeply explore the questions, provide useful insights, and ultimately equip you with the information and confidence to be a more adaptive business modeler. One caveat: what people say about what they want is less reliable than what they do. If what your stakeholders say is in conflict with their actual behavior, trust the latter! And one more: people might not have ready ideas about they want.[7] That can become clear gradually, in the context of an ongoing exploration. But if you listen carefully, there might only be seeds of it in an initial interview.

Let's assume, for the purposes of this tool, that you're going to focus your energy on doing stakeholder interviews.

First, segment your stakeholders. Whose perspectives do you want to learn about? You can do this by member status, organization type, geography, or any other meaningful variable. Some think about segments in terms of who is getting the most value, engaging the most with the organization, or contributing the most to profitability. Don't forget to think about segments beyond the usual suspects, including groups who might not be able to be members but one day could be, not to mention people who aren't even a potential market for you but who still might be good sources of business model ideas and information. (If you do a survey and have difficulty getting participation from certain segments, interviews or focus groups can help you include them in your discovery.) Add your stakeholder segments to a table like the chart on page 56.

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7. In the "Don't Ask, Can't Tell" chapter of his book *Mindware*, psychology professor Richard Nisbett cites customer research warnings from two famous entrepreneurs: "As Steve Jobs said, 'It's not the customers' job to know what they want.' Henry Ford remarked that if he had asked people what they wanted in the way of transportation, they would have said 'faster horses.'"

Second, name names. We recommend identifying a small set of specific people to represent each segment. This will help you think through the next steps in the process. (It can also help you in other ways. To boost ongoing discovery, communications and engagement, we recommend that PSOs develop a List of 100 key stakeholders. These are the people in your close orbit whom you most want to understand and engage.) Add the names to your table.

Third, generate questions to ask. What would it be useful to know? There are two aspects to coming up with questions: deciding what you want to know and then figuring out how to ask about it. (There's a real craft to the latter, which we won't get into here, other than to quickly endorse the value of asking questions that have respondents focus their answers, rank items[8], and give specific examples.) In this step, we want you to emphasize the content of the questions to ask. One way to come up with questions is to imagine what kinds of answers would be most useful to you. You might ask: *What are the big business model choices we need to make? And what do we not know that if we did know would make it a lot easier to make those choices?* Another way: *What do we find ourselves wondering about when it comes to these stakeholders?* Once you have come up with your list, review it to confirm that each question is crafted to result in information that is relevant— as opposed to merely *interesting*—to your business model planning.

It's also fruitful to think about the different roles each stakeholder plays with respect to your PSO and ask questions related to each role. For example, the default is often to approach current or potential members in these interviews as consumers of PSO products and services. But often these members are grantmakers, and asking them questions from their grantmaker perspective— e.g. how would they evaluate the PSO's business model as if it were a potential grantee?—can elicit useful ideas. Add the questions to your table.

Fourth, anticipate answers. What are your hunches about how different groups, and even specific people, might answer? Coming up with hunches in advance can help deepen the inquiry. Many breakthrough discovery findings happen when working hunches end up being contradicted, providing a memorable check on closely-held assumptions. Anticipating answers can also sharpen questions by helping you think about the kind of information you really need to get. Add your hunches to your table.

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8. We find that including one or two ranking questions can be a good warm-up for interviewees. Ask them to rank your areas of work from most valuable to least valuable to them. Or ask them to rank a set of potential factors in their decision to become members of a PSO. And so on. You would need to send them the questions in advance so that they come to the interview with their rankings. Although we recognize that these interviews are qualitative and won't produce statistically significant answers, the results can provide some simple ways to take the temperature of your stakeholders and differentiate their views across segments.

Fifth, do your inquiry! While we would suggest developing an interview protocol and sending it to interviewees in advance, we would also encourage you to approach these interviews as organic conversations more than conventional Q&A exchanges. Question fidelity is not nearly as important as answer generativity. See where the conversation goes and follow the energy. You might think about crowd-sourcing the interview process and asking staff, board members, and members to do a few each. We've seen PSOs do this, with positive results. What you might sacrifice in terms of consistency would be more than made up for by the added learning and engagement that this approach can generate. It can also be cost-effective.

Sixth, review your findings. We find it can be helpful to summarize your findings in the form of headlines and third-person narrative, as if you're preparing a news release on the inquiry. What's the story your research is telling? This can help you get analytical distance, make sense of the findings, and prepare for sharing what you learn with others. Add the headlines to your table.

Finally, explore the implications. What do you think your findings mean for your business model, both your thinking and doing? How do the actual answers compare with your answer hunches? What are the key half-dozen or so conclusions you're coming to that you would want to test with your board? What are you learning from the inquiry?

SEGMENTS	Names	Questions	Answer Hunches	Actual Answers	Implications
Segment A:					
Segment B:					
Segment C:					
Segment D:					
Etc.					

DISCOVERY: TOOL 5

Name Your Evolutions

This is a great tool to help you adapt to emerging opportunities and changes in your landscape.

Everything is in process—your market, your members, your organization, your thinking. But our tools can be static, designed to look at single slices of time, where things are right now. How can we track where things are headed? We call it the "from what, to what?" exercise. Use it to name ongoing evolutions and think about the implications for your business model. This process works best in groups but you can do it solo, too.

First, pick the areas you want to explore. You might think about evolutions in these areas:

- Your organization
- Your organization's business model
- Your particular market
- PSO field
- Philanthropy sector
- The world
- Philanthropy's role in the world

Second, figure out your timespan. The exercise works best when you track evolutions from some time in the past to sometime in the future. In other words, you want to look at ongoing evolutions. For example, your timespan might be from three years ago to three years from now.

Third, name your evolutions. Identify how you're evolving in the different areas you selected in the first step. If you do this exercise in a group, we'd recommend asking participants to do this step on their own or in pairs. Write down all the evolutions that come to mind. Try to frame them in short phrases. They can be positive or negative, general or specific, straightforward or subtle. Quantity is the name of the game for this step.

	→
	→
	→
	→
	→
	→

Fourth, narrow it down. Have each participant or small group pick the 2-3 evolutions that they think are most significant. Write each down (legibly!) on a separate sticky note and post them on a flip chart or wall. Then sort those evolutions into categories and pick the ones that have the most energy for the group.

Fifth, analyze your evolutions. Do you see trends with business model implications? Are there evolutions you want to accelerate, slow down, or redirect? What key factors influencing the identified evolutions is your analysis surfacing? What shifts surprised you, encouraged you, worried you?

PLANNING: TOOL 6

Adjust Your Revenue Dials

This exercise can help you begin planning your business model as well as practice revenue intentionality. What is your revenue allocation? And what do you want it to be? It's designed to help you think deliberately, explicitly, and collaboratively about your revenue sources and current and envisioned allocation. Allocation can tell you something, but not everything. Think of the exercise as a prompt to spark analysis and discussion.

First, identify the core revenue sources you want to focus on. We recommend you begin thinking about six sources: member dues, program grants, operating grants, program fees, fees for service, and sponsorship. You'll notice in that suggested list more than one instance of both grants and fees. Even though they're the same general type of revenue source, program and operating grants tend to have different kinds of impact on your organization. Same with fees—PSO leaders think about fees generated through an annual conference, for example, differently from how they think about fees generated through fiscal sponsorship. The key is to focus on the revenue sources that have the most meaning for you and your PSO.

Second, calculate your current allocation among those revenue sources. You could base that allocation on your latest annual budget or average it over multiple annual budgets if your latest revenue lineup seems like an aberration. Use the chart on the next page—or your own version of it—to mark those current percentages. (If you're doing this exercise with board members, you might first ask them what they think the current allocation is before telling them, then show them the actual allocation as a reality check.)

Third, think about what allocation you would like to have in three years (or whatever timeframe works best). Use the chart below to mark down those percentages, under "Envisioned."

Fourth, compare your current and envisioned allocations. Where are the big shifts? Why are the big shifts? What will it take to make those shifts? Are there any new revenue sources in your envisioned allocation that aren't in your current one? Does your analysis suggest making changes to your revenue dials?

Current

100%	100%	100%	100%	100%	100%
90%	90%	90%	90%	90%	90%
80%	80%	80%	80%	80%	80%
70%	70%	70%	70%	70%	70%
60%	60%	60%	60%	60%	60%
50%	50%	50%	50%	50%	50%
40%	40%	40%	40%	40%	40%
30%	30%	30%	30%	30%	30%
20%	20%	20%	20%	20%	20%
10%	10%	10%	10%	10%	10%
0%	0%	0%	0%	0%	0%
Member Dues	**Program Grants**	**Operating Grants**	**Program Fees**	**Fees for Service**	**Sponsorships**

Envisioned

100%	100%	100%	100%	100%	100%
90%	90%	90%	90%	90%	90%
80%	80%	80%	80%	80%	80%
70%	70%	70%	70%	70%	70%
60%	60%	60%	60%	60%	60%
50%	50%	50%	50%	50%	50%
40%	40%	40%	40%	40%	40%
30%	30%	30%	30%	30%	30%
20%	20%	20%	20%	20%	20%
10%	10%	10%	10%	10%	10%
0%	0%	0%	0%	0%	0%
Member Dues	**Program Grants**	**Operating Grants**	**Program Fees**	**Fees for Service**	**Sponsorships**

PLANNING: TOOL 7

Use Your Roles and Values

Imagine you're looking for a job and have narrowed it down to two offers. One position pays quite a bit more than the other. Would that be the end of the story? Probably not. It's more likely that profitability will be but one of a range of variables that will factor into your decision. Even if it's the most important of those variables, other considerations tend to come into play. What kind of job you pursue will depend on what you want to make. It will also depend on who you want to be.

The same goes for PSOs in thinking about different business opportunities. Consider the example of project management fees. Funders are increasingly looking to PSOs to manage projects, serve as a fiscal agent, and take on regranting projects. If they have the capacity, such work can be profitable for PSOs. In fact, we heard that more and more funders are looking to PSOs to do these kinds of projects and more and more PSOs are intrigued by their compelling benefit-cost ratios. But we also heard counterpoints. As one PSO CEO put it, "We don't want to be the grants manager for our region."

As you think about your business model and the opportunities before you, we recommend you think about what kind of organization you want to be in addition to the revenue potential. In short, think about identity along with profitability. And the two best guides for organizational identity we know are roles and values. This exercise helps you explore the business model implications of both.

First, identify and assess your priority organizational roles. Think about roles in terms of the way your PSO delivers value and meets member and stakeholder needs. For example, you might serve as a convener, relationship-broker, program provider, coalition-builder, technical assistance provider, collaboration supporter, and so on. One way we've encouraged PSOs to figure out their roles is to ask members and stakeholders what roles the organization plays for them. (Ultimately, those you serve will be the best judge of the roles you actually play in serving them.) Or you might have a good sense already. Write down up to six organizational roles. For each, describe what you see as the demand for the role. Do members or broader stakeholders see value in that role? How would you describe the level of that demand? And describe your organizational capacity to deliver in that role. Some roles might be longtime residents of the PSO's comfort zone; others might be roles you're just beginning to take on.

Role	External Demands	Internal Capacity
1.		
2.		
3.		
4.		
5.		
6.		

Second, identify your organizational values and explore their business implications. Values are not only statements about what is important to your organizations. They can be used as guides for organizational decision making and behavior. And values can be lived—or not lived—in everything your PSO does. In the below chart, list six main organizational values and for each think about what it looks like to live this value in your business model and what stands in the way.

Value	What are current examples of living this value in our business model	What stands in the way of living this value in our business model
1.		
2.		
3.		
4.		
5.		
6.		

PLANNING: TOOL 8

Map Your Opportunities

Think of your PSO as traveling through a fertile, varied, and dynamic opportunity landscape. The opportunities you encounter can differ in terms of how financially profitable they might be, as well as in terms of how ready your organization is to take advantage of them. Some opportunities feel right around the corner; others are glimmers in the distance. And opportunities also can change over time. Some small ones you encounter today might be big tomorrow, and vice-versa.

When PSO business modelers are being adaptive, we've observed them doing three things when it comes to mapping their opportunities. This exercise helps you do all three.

First, map your adjacent possibilities. The adaptive business modelers we observed look ahead—but not too far ahead. What opportunities are emerging and also doable, if not now then soon? How is our market or field changing, and what are those changes telling us about what we might do next? In this way, they're thinking about the "adjacent possible."[9] When we think about new opportunities, we can often think several levels out, to a wide horizon with so many possibilities that it can be both overwhelming and misleading. In the chart at right, you can't leap from A all the way to D. In short, possibilities at Level D are difficult to usefully imagine because they're too far out and will be the product of realities yet to exist. By thinking about adjacent possibilities, you look ahead but not too far. You think about the next level of opportunities just outside your current reality. This is how adaptation happens—not through big, radical leaps but small, creative steps.

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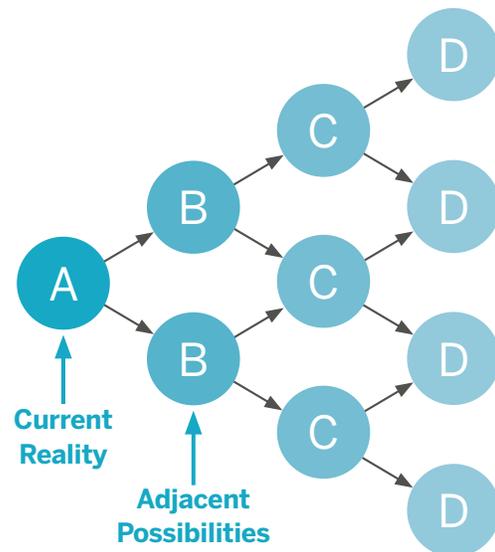
9. The "adjacent possible" is a frame first introduced by biologist Stuart Kauffman and explored by Steven Johnson in *Where Good Ideas Come From*. Johnson calls it "a kind of shadow future, hovering on the edges of the present state of things, a map of all the ways in which the present can reinvent itself…Think of it as a house that magically expands with each door you open."

In the chart below, pick three current projects or areas of work that strike you as having fruitful opportunities ahead. For each, generate 3-5 adjacent possibilities.

Current project or area of work.	Adjacent Possibilities
1.	1. 2. 3.
2.	1. 2. 3.
3.	1. 2. 3.

Second, map your opportunities in terms of profitability and readiness. These are two tried-and-true variables to use in weighing different ways to go. Map each opportunity by filling in the squares in the matrices below, as done in the two examples at right. In those examples, the opportunity of *fiscal sponsorship* rates higher (12 total squares) than *expanding a particular member segment* (10 total squares). The tool provides a quick, scannable way to compare various opportunities.
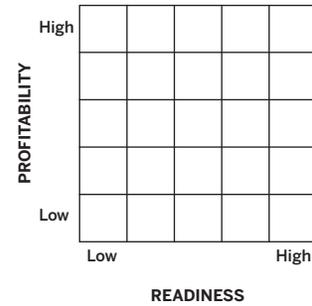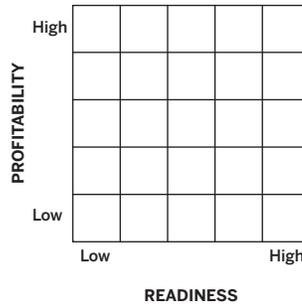
**Example:
Fiscal Sponsorship**
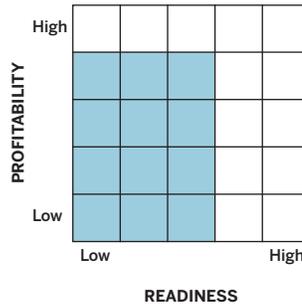
**Example:
Expanding a Member Segment**
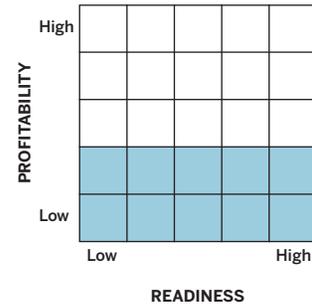
Third, map your opportunities in terms of projected demand over time. For each opportunity, mark where you estimate demand on the five circles between "Low" and "High," both today and in three years. In the examples at right below, demand for both *fiscal sponsorship* and *expanding a particular member segment* are rated on the relatively low side today but are estimated to increase by a greater extent for the member segment in three years. This is a blunt instrument for estimating the growth trajectory of opportunities. As with the other exercises above, it won't generate any definitive direction. It will create a prompt that sparks reflection and conversation.

ESTIMATING DEMAND

ESTIMATING DEMAND

**Example:
Fiscal Sponsorship**

ESTIMATING DEMAND

**Example:
Expanding a Member Segment**

ESTIMATING DEMAND
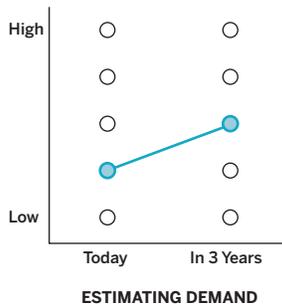
ADAPTING: TOOL 9
Find Your Balances

This tool is designed to help you hold and make use of tensions in your business model. We've seen how grappling with these tensions can help your board and staff better navigate the complexity and uncertainty that comes with PSO work. The key is to work through tensions that don't lend themselves to easy either/or answers and get to your PSO's unique both/and balances between them.

Business models in PSOs carry some fundamental tensions, such as:

• **Measuring Success** (for example, how should we balance value and profitability?)

• **Revenue Allocation** (for example, how should we balance earned and contributed revenue?)

• **Member Type** (for example, how should we balance traditional grantmaking organizations and newer types?)

• **Member Size** (for example, how should we balance attending to larger members and smaller members?)

• **Market Focus** (for example, if we're a regional PSO, how should we balance expanding our reach to our full region and digging deeper in the sub-regions where our members are most concentrated?)

Each one of the examples above isn't a choice as much as a continuum, and useful work really happens when you can engage staff and board leaders in holding these tensions, working through the tradeoffs, and figuring out the balances. Sometimes a both/and balance can be heavily skewed toward one side or the other; sometimes it can be closer to 50/50. In both cases, there is some kind of balance. Given the complexity of PSOs, these tensions won't go away. They need to be held.[10]

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10. For more on paradoxical tensions in complex and adaptive organizations, see the scholarship of Wendy K. Smith and Marianne W. Lewis. In "Toward A Theory of Paradox: A Dynamic Equilibrium Model of Organizing," they define paradox in a way that we suggest you think of tensions in this exercise: as "contradictory yet interrelated elements that exist simultaneously and persist over time." In their Harvard Business Review Article (with Michael L. Tushman), "Both/And Leadership," they encourage shifting from an either/or mindset to a both/and mindset "by seeing the virtues of inconsistency, recognizing that resources are not always finite, and embracing change rather than chasing stability. In practical terms, this means nurturing the unique aspects of competing constituencies and strategies while finding ways to unite them."

1. **Identify your tensions.** These can be fundamental polarities in your work or persistent institutional dilemmas you face where there's right on both sides. We recommend representing your tensions on a continuum such as the visual at right. It helps people grasp the relationship between the two poles, the complexity of the tension, and the need for some kind of balance. For example, a fundamental tension many PSOs reckon with is between "leadership" and "membership." Some regional PSOs experience the tension between serving central areas where most members are and broader geographic regions. Many PSOs struggle with tensions between their core roles—for example, between providing programs and supporting networks.
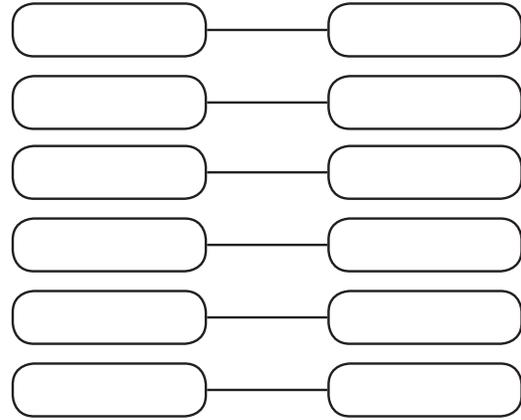
2. **Explore the stakes.** What are some specific examples of how these tensions show up in your work? What are the tradeoffs? Why are these tensions important to your work? Why do they persist?

3. **Work through the tensions.** This is the fun, if messy, part. Engage colleagues to dig into the tensions, make sense of them, and figure out your PSO's unique both/and balances. The best way we know to do this is the stand-and-sort. You can do this through the following steps:

   • Convene your group.

   • Write down both sides of whatever tension you're working through on flip chart pages and post them on a wall, with plenty of room in between.

   • Invite people to stand and walk to the place on the spectrum that best represents their current thinking. If it's difficult for people to place themselves, it might help to approach the exercise in terms of resources, imagining each end of the spectrum representing 100% of the PSO's resources invested in that side of the tension, and the midpoint of the spectrum representing a 50/50 balance.

- Ask participants to share why they are where they are on the spectrum. Encourage them to move if they're persuaded by another's point of view. Invite them to reflect on key questions and tradeoffs that play into how they decide where on the spectrum they go and why they might be persuaded to move to another place.

This is a sense-making exercise, not a decision-making one. You might find more alignment than you expect on a particular tension, and sometimes it ends with a clear consensus about where the PSO ought to be on the spectrum. But that isn't the point of the exercise. The point is the distinctions and questions they generate and the reckoning they do with the complexity of the tension. We predict that after the exercise, your group will have a better sense of the both/and nature of the tension, accept the complex and interdependent relationship between the polarities, and move closer to figuring out your organization's both/and balance.

ADAPTING: TOOL 10

Test Your Hunches

This exercise helps you go from big questions to manageable steps, and to learn through experiments. Our shorthand for it is "Hangups, Hunches and Hacks."

Here's how you do it:

First, identify your critical business model questions. You could start with the questions generated from using Tool 1. Focus on the questions you find especially challenging (hence the "Hangups") and try to frame the question narrowly enough that the distance between you and an answer feels manageable. For example, let's say one of your questions is "What is the best way to increase our earned income?" One way to narrow it would be "What is the best way to increase our earned income without straining our current capacity?"

Second, come up with your hunch about what the answer is. To continue with the example, let's say you've been thinking about two earned income strategies. One is to serve as a fiscal agent for grantmaking initiatives. The other is to charge more for some of your core programs, such as increasing your annual conference fee or begin charging members for your monthly webinars. Both options are intriguing, but your hunch is that charging more for existing programs is the better answer because it wouldn't require new capabilities or much additional time.

Third, think of hacks to test your hunch. "Hacks" are what the design firm IDEO calls small, scrappy experiments that you can do with the resources you have now. (See Practice 3: Testing and Learning.) Our clients love this way of thinking about experiments because it keeps them manageable. When you hear the word "experiment," your mind can jump to images of scientists in lab coats or randomized control trials, and things can get intimidating. But testing a hunch with small steps and no new resources—*that* I can do! Continuing with our example, one hack could be to charge a fee for your next webinar and see if that affects participation compared to the last webinar on the same topic. Or you might decide that such a hack wouldn't be reliable because there are so many variables at play—timing, ripeness of the topic, etc.—or it's not small enough of a step, because if you decide to charge a fee your members might see it as a permanent change and any negative reactions could become magnified. So you might decide on the simpler step of doing a survey of select members on their response to the idea of charging.

Fourth, try your hack and reflect on what you learn. How does your experiment shed light on the original question and your hunch about the answer? Are there other hacks you could try? Other hunches you could test? Doing the simple two-step of hunches and hacks is a straightforward way of getting into the test-and-learn mode that can help make your business modeling adaptive.

Question	Hunches	Hacks	Reflection

ADAPTING: TOOL 11

Create If/Then Rules

Is it possible to plan to adapt? This might seem like a contradiction. If adapting happens in response to emerging shifts in your members and trends in the marketplace, how can that be planned for? This exercise provides a simple way to do adaptive planning. It asks you to envision different scenarios related to your business model and create rules in advance for how you'll respond.

The exercise is adapted from a proven approach to behavior change called "implementation intentions," through which you link critical situations you encounter with behaviors you want to exhibit to achieve your goals."[11] For example, instead of the goal "I will exercise today," an implementation intention would be: "If it's 5:00, then I will exercise." We are stimulus-response creatures. If a goal-directed behavior is tied to situational cues, it makes it all the more likely we'll adopt that behavior. The same goes for PSOs and their business models. Creating if/then rules can help PSOs create automatic responses (the "then" part) to help achieve your goals. But we encourage you to do this exercise for an additional reason: the "if" part. It will push you to anticipate different business scenarios so you're prepared to adapt to a wide range of circumstances.

If...	Then...
If...	Then...
If...	Then...
If...	Then...
If...	Then...

First, think about possible scenarios for your "if" statement. This isn't easy, as there are countless potential scenarios. But even thinking about a few alternative futures—including the road you're on and a few possible detours—can help immensely. Think about scenarios your organization could face, your board could face, your staff individually could face. One way to approach it is to reflect on past "if" scenarios for which you didn't have a "then" response—or you did have a response but not an effective one. This was how one board member came up with a solid if/then rule that we'd recommend for any PSO—by thinking back on how the board would come up with

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11. See "Implementation Intentions: Strong Effects of Simple Plans" by Peter M. Gollwitzer, *The American Psychologist* 54 (1999)

new opportunities to pursue, only to leave it to the CEO to scramble to find and sustain funding for it. Other PSO CEOs are thinking about a scenario in which foundation assets took a sudden turn downward, such as a recession. Inertia is powerful, and when a steady stream of funding is coming in, it can be hard to imagine a drought. Still other CEOs are thinking about more positive possible scenarios. How should we look for and respond to signals of new market opportunities? How might we have better anticipated past developments in our ecosystem that led to new growth? If revenue diversity is an important goal, how can we track when our allocation tips into too much of one source?

Second, think about your "then" responses. If a scenario happens, what's the best way to respond? In the case of the board member who recognized the board habit of going after bright, shiny objects without thinking about what they cost, the rule went: "If the board gets excited about a new idea, then we need to ask: how are we going to pay for it?" (See Practice 2: Bringing Your Board In.)

Third, revisit your rules regularly. To build your PSO's adaptive muscles, we recommend not only creating and following if/then rules related to your business model but revisiting and refreshing them regularly. Sometimes envisioned scenarios have happened, and it helps to confirm that you responded and ask if the response was the right one. Sometimes envisioned scenarios have happened, but you didn't follow the "then" part of the rule. And sometimes scenarios have happened that you didn't anticipate, and thinking about your best "then" responses will lead to important learning.

ADAPTING: TOOL 12

Ask For Help

This last tool might be the most important. When we interviewed PSO leaders about business modeling, we noticed a pattern. Those leaders who felt like they were facing the organization's business-model challenges solo were the least likely to feel good about business modeling in general. Meanwhile, the ones who were able to crowdsource their business-model work, whose board members and staff shared ownership of sustainability questions, found themselves riding the wave more often and more happily. Successful surfers also tended to reach out to their PSO colleagues to share ideas, tools, and stories about business modeling—outreach on the rise due to a growing United Philanthropy Forum network.

They also look for help internally. We've talked about the important practice of "bringing your board in," but leaders we talked to placed equal emphasis on staff. "Within staff, you need to create a culture and ability for staff to ask about your business model and nurture and hire people who want to think about it," said one leader. "Does your staff understand?" asked another. "Often the leadership worries about sustainability, and the staff has no idea."

This tool provides three exercises to help you ask for help.

First, think about roles. The seven practices in this guide are each associated with roles. Use the table below to rate how well you're doing on each, as well as to think about someone who does that role especially well and whom you might ask for help.

Business Model ROLES	🙂 feel good about this role	😐 feel neutral about this role	🙁 don't feel good about this role	Someone who's really good at this role from whom I want to learn
PLANNER (Revenue Intentionality)				
COLLABORATOR (Bringing Your Board In)				
EXPERIMENTER (Testing and Learning)				
ENTREPRENEUR (Eyes Wide Open)				
LISTENER (Fundraising Mindset)				
PATHFINDER (Three-Dimensional Value)				
MARKETER (Investable Bran)				

Second, think about what you want to learn and what you want to share. No one has all the answers. No one has only questions. This exercise will help you identify which you have of each when it comes to business modeling. Imagine you were at a convening of PSO colleagues and you were wearing two buttons. One button says "Ask Me About…", inviting your colleagues to ask you about a topic related to business modeling that you have ideas, experience and knowledge about and want to share. The other button says "Tell Me About…", inviting your colleagues to tell you about a topic related to business modeling that you don't know well and want to learn. Write as many answers as come to mind in the table below.

"Ask Me About…" (Stuff I know about business modeling and want to share)	"Tell Me About…" (Stuff I don't know about business modeling and want to learn)

Third, think about who in your PSO you want help from, then ask them. It could be staff or board. One thing we've observed in PSOs is that often board or staff members don't think about business model questions if they're not explicitly tied to their roles or responsibilities. It's out of sight and out of mind for them. But they might be ready and willing to jump into this work with you. In the table below, write down the names of board or staff members from whom you need help on business-model work and what kind of help you need.

Who (name names!)	What Help You Need from Them (be specific!)

Afterword

Writing this guide was truly a labor of love for us. Yes, love. We are wholly enthusiastic about the work of philanthropy-serving organizations. We think your success makes the entire field of philanthropy better. Without you, foundation staff, trustees, investors, advisors, donors, researchers, academics and others don't have a place to connect and learn and lead together. We honor you for your passion and hope the tools and practices in this guide keep you energized about your work and organizations.

Between our consulting work with PSO's and the interviews we conducted, we heard your request to take what feels overwhelming and ambiguous and turn it into something useful and affirming. We care deeply about the work you do, and it shows in the thoughtful conversations we have had with PSO staff and trustees. It's easy to mistakenly equate adaptive business modeling with numbers, but it's really just like strategy: learn from the past, understand your current and future environment, listen to your partners, talk to the people you want to build relationships with, follow your hunches and those of your board and staff.

Have fun! It's easy to get stressed when it comes to business modeling and sustainability. So remember to invite fun, joy, curiosity and optimism because it will open the doors to possibility. We wish you many meaningful conversations and much joy in your work!

Audrey Haberman
Managing Director
The Giving Practice

About The Giving Practice

The Giving Practice is a national, mission-driven consultancy. We help people and organizations in philanthropy do transformative work through a unique process that is rigorous, generative and joyful. Our consultants bring experience working in foundations and philanthropy-serving organizations and expertise in strategy, facilitation, collaboration, coaching, reflective practice, and diversity, equity and inclusion. We are proudly part of Philanthropy Northwest. *Learning to Ride the Wave* is one in a series of tools and resources designed to share learning with the field from our client engagements.

About United Philanthropy Forum

As the largest and most diverse network in American philanthropy, United Philanthropy Forum holds a unique position in the social sector to help increase philanthropy's impact in communities across the country. We are a membership organization of nearly 80 regional and national philanthropy-serving organizations (PSOs), representing 7,000 foundations and other funders, who work to make philanthropy better. The Forum envisions a courageous philanthropic sector that catalyzes a just and equitable society where all can participate and prosper.

The Forum has created a new kind of philanthropic network that brings together regional PSOs' deep regional roots and connections with national PSOs' deep content knowledge and reach. Given our network's scale and scope, we can lead change and increase impact in philanthropy in a deeper and broader way than any other organization in our field.

About Northern California Grantmakers

Northern California Grantmakers brings philanthropy together with government, business and nonprofits to address complex social issues in our diverse and dramatically changing region. Founded more than 50 years ago, NCG is one of the largest regional grantmaker associations in the nation—supporting over 200 member organizations whose combined grantmaking exceeds $3 billion annually.

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