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A Theoretical Framework and Operational Strategies for Creating "Rivers" of Unrestricted Income for Nonprofit Charities

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Executive Summary

Since the financial crisis of 2008, the nonprofit sector has faced a very challenging funding environment even as the demand for its goods and services has increased. This operating environment suggests that if nonprofit charities are to thrive in the future, they must identify new sources of revenue. The research question this paper addresses is: “Can nonprofit charities identify new sources of revenue and dramatically increase their total amount of unrestricted funding?”

The paper attempts to answer this question by first developing a “Unified Theory of Revenue Generation for Nonprofits” (UTRGN) premised on the notion that all providers of revenue to the nonprofit sector can be ranked in terms of the “Dollar Cost of the Return on Funding” (DCORF) that they require in exchange for the financial support they provide the nonprofit. For example, the “pure altruistic” donor requires nothing of dollar cost in return for his/her donation- and therefore has a DCROF of 0%. Conversely, the pure “fee-for service” customer requires a good and/or service with a dollar value equal to the fee paid to the nonprofit and has a DCROF of 100%. Placing the “pure altruistic” donor and “pure fee-

for-service" customer at opposite ends of a continuum of possible DCROFs between 0% and 100% allows **all** sources of nonprofit revenue to be arranged according to the DCROF they demand in exchange for the provided financial support. This continuum forms the basis of the Unified Theory that predicts there is a potentially vast, and as yet largely untapped, source of potential funders called Donor-Customers (DCs) and that their individual decisions to financially support a specific nonprofit organization is contingent upon several independent variables befitting his/her mixed make-up as part donor and part customer. These variables include: DC's affinity for the benefitting nonprofit and/or its mission, DC's demand for the offered good and/or service, the price of the offered good and/or service, the DCROF, and the DC's level of innate altruism.

The paper then attempts to find and document the existence of these "predicted" donor-customers and how they can be converted into "rivers of unrestricted revenue for the nonprofit sector?" It does this by investigating three large-scale and successful enterprises that lie at different points along the DCROF continuum and by analyzing the success of each through the lens of

the UTRGN and the independent variable that will influence the financial decisions of potential DCs.

- The Pan Mass Challenge (PMC) is far and away the most successful single "walk-run-ride" fundraising event in the USA donating over $30 million annually to the Dana-Farber Cancer Center located in Boston, Massachusetts. Held each year on the first weekend in August, this two-day event has approximately 5,000 riders pedaling over 10 different courses that vary in length and difficulty. The most challenging course stretches 192 miles from Sturbridge (in the middle of Massachusetts) to Provincetown (at the far tip of Cape Cod). The shortest and easiest course is a one-day ride of 48 miles.
- Girls Scouts of the USA Cookie Program is one of the most visible and widely recognized revenue generating activities in the country. For the past several years, this program has annually grossed about $700 million and netted a gross profit of about 70% or roughly $490,000,000. (*Girl Scout Cookies FAQs Frequently Asked Questions,* 2010) This amount exceeds

the total amount given by the 3rd ranking foundation—the Ford Foundation at $474, 095,000.

- Newman's Own, Inc. began with a famous actor giving bottles of homemade salad dressing to neighbors and friends during the holiday season and has grown into a $300 million food company that enables the Newman's Own Foundation to donate about $30 million a year to various charities. (Newman & Hotchner, 2003) Since its inception in 1982, 100% of the after-tax profits of Newman's Own Inc.—slightly more than $300 million—have been donated to charity. As such, it remains a unique experiment in building from scratch a large-scale, for-profit company for strictly charitable purposes. (Tom Indoe, Personal Communication, November 30, 2009)

As detailed in the complete paper, each enterprise presents potential DCs with different but very appealing value propositions in terms of the key independent variable identified as important to them by the UTRGN. Each enterprise also utilizes a different but ultimately replicable operating model to achieve its revenue-generating goal. Thus, these enterprises should not be seen as

unique and singular efforts but rather examples of what is possible if the underlying models are replicated, enhanced and possibly transcended. The challenge for nonprofit charities and the nonprofit sector as a whole is to develop and take to scale hundreds of such enterprises that will motivate and enable currently dormant DCs to become active funders of the charities they would like to support. A colleague has dubbed meeting this challenge as the "Democratization of Philanthropy."

To this end, the paper goes on to analyze more closely the key aspects of the Newman's Own business model and the elements of the value proposition it presents to "donor-customers" to determine if the model is replicable. It is widely assumed that the model is not replicable given its serendipitous beginnings and development, and the aura given to it by its famous and respected founder, Mr. Paul Newman.

And yet, research conducted by Cone, a Boston-based market-research agency, suggest that a vast number of potential DCs are ready to support multiple Newman's Own-like companies with similar value propositions **if** given the opportunity to do so.

Moreover, findings suggest that such companies would be even more successful if their financial records were totally transparent, and if they allowed the customer to direct 100% of the after-tax profits from their individual purchases to the charity of their choice. Conditions for the development of such companies is discussed.

The paper concludes with a positive answer to the posed research question and declares that with the knowledge contained in the paper nonprofit charities should work to develop and present an array of value propositions to DCs --- the public --- and begin realizing the resulting rivers of unrestricted revenue.

Introduction

While the recent deep recession is officially over, nonprofit charities continue to face a very challenging funding environment. State and local governments are continuing to reduce and eliminate contracts with nonprofit providers, the balance sheets of foundations have not regained their previous net asset levels, and the number of private donors and the size of their contributions are down from previous highs. And yet by all accounts the general public's need for the services provided by nonprofit charities continues unabated.

This operating environment suggests that if nonprofit charities are to thrive in the future, they must identify new sources of revenue. The research question this paper addresses is: "Can nonprofit charities identify new sources of revenue and dramatically increase their total amount of unrestricted funding?"

The paper attempts to answer this question by first conceptualizing all nonprofit funders in terms of the "Dollar Cost of the Return on Funding" (DCROF) received by the funder. This leads to the redefining of all funders as "donor-customers" and the development of a "Unified Theory of Revenue Generation for Nonprofits" (UTRGN). This is followed by an overview of three major fund-generating enterprises and an analysis of their success through the lens of the UTRG and the value proposition the enterprises present to donor-customers. Results of recent "cause marketing" research is then presented that strongly suggests there are large numbers of donor-customers who are ready to support nonprofit charities through their purchasing decisions and that this would result in "rivers" of new income for nonprofit charities. A short discussion is offered regarding the prerequisite normative and market conditions that will facilitate the development of these "rivers" of revenue. Finally, the ability of nonprofit charities to generate income through the ownership of unrelated for-profit companies will be revisited.

Toward a Unified Theory of Revenue Generation for Nonprofits

Traditionally, the nonprofit sector has obtained most of its revenues from two types of funders. The first type is the "pure altruistic" donor who asks for nothing of dollar cost in return for his/her donation. The pure "altruistic" donor simply wants to make a donation to the nonprofit because (to him/her) it is the "right" thing to do. The second type of funder, the pure "fee-for service" customer, is just the opposite. This funder typically wants a good and/or service with a dollar value equal to the fee paid to the nonprofit. There is no altruism involved in this transaction. It is simply a quid pro quo relationship between the funder—acting like a customer—and the nonprofit—acting like a "seller."

If one conceptualizes these two traditional types of nonprofit funders in terms of the dollar cost of what the funder demands in return for his/her funding dollar, one can create a continuum running from 0% to 100%. The pure “altruistic” donor is located at the 0% “return” end of the continuum and the “fee-for-service” customer is located at the 100% “return” end of the continuum. This required return on funding is called the “Dollar Cost of the Return on Funding” or DCROF. (See Figure 1)

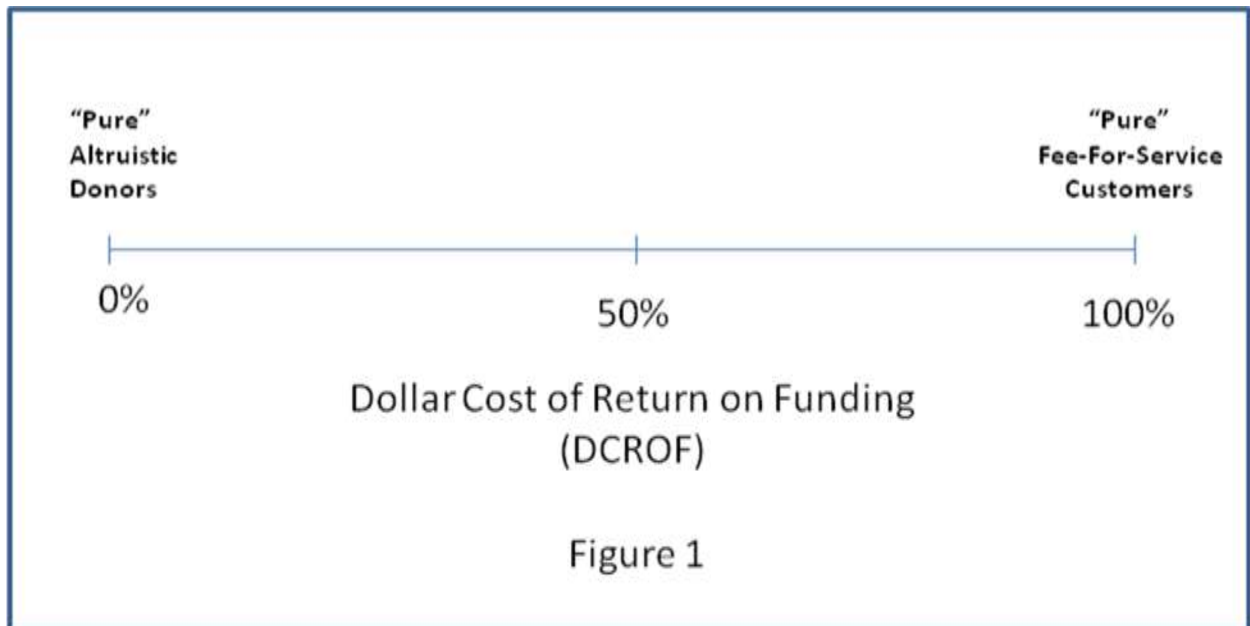

Figure 1

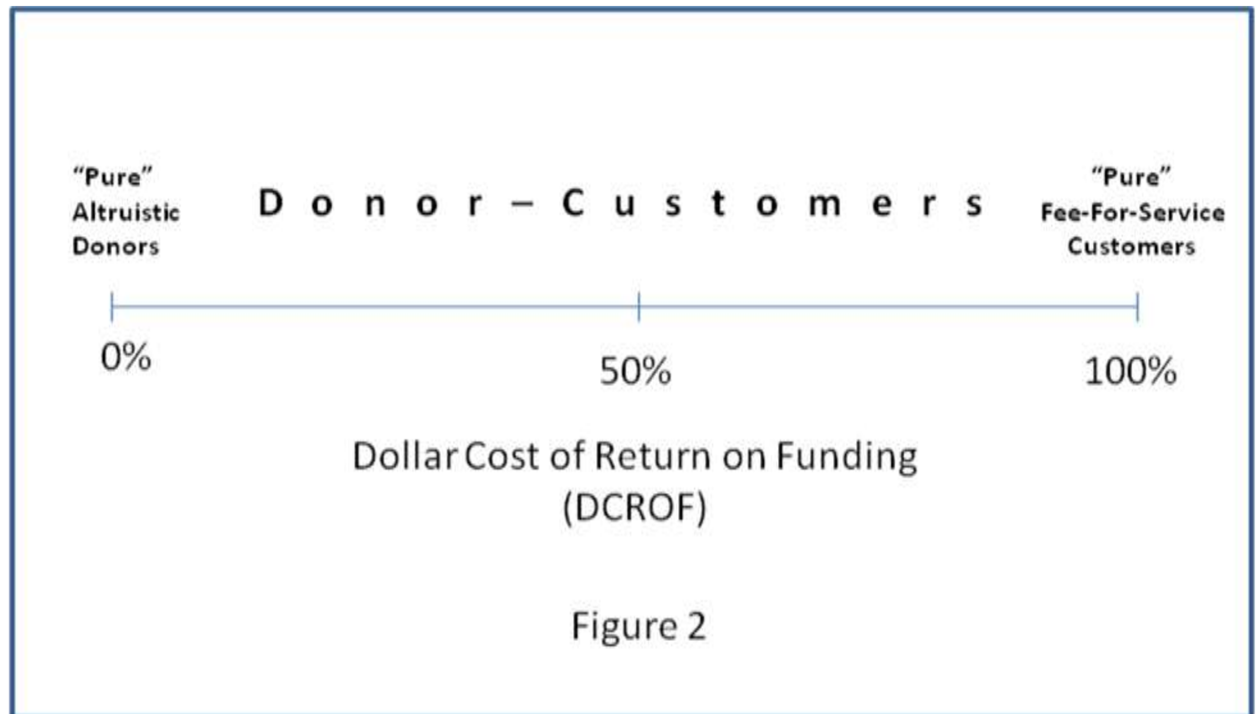

Figure 2

This conceptualization leaves a significant visual gap on the continuum between the pure "altruistic" funder (at 0% DCROF) and the "fee-for-service" funder (at 100% DCROF). This gap begs the question: "Are there large numbers of currently "dormant" funders who could be converted into active funders if presented with various value propositions that fall at various points along the DCROF continuum?" For discussion purposes, these dormant funders are called "donor-customers" (DCs). (See Figure 2).

These theorized DCs are a cross between the sector's pure altruistic "donors" who ask for nothing of dollar cost in return for their donation, and the sector's fee-for service "customers" who expect to receive a good and/or service with a cost equal to the paid fee. While DCs recognize the value of nonprofits and the importance of providing them financial support, they also require some level of financial motivation as a quid pro quo for providing that support. For DCs, the size of the DCROF can vary from as little as 1% to as much as 99%. DC's falling on the left hand side of the continuum (where the DCROF is below 50%) are more interested in the percent of their funding that actually goes to the benefiting nonprofit and are less interested in the product/service that they receive in exchange for their funding. DCs who fall on the right side of the continuum (somewhere above 50% DCROF) are more interested in the return they receive and are less interested in the percent of their funding that actually goes to the benefiting nonprofit.

Viewed in terms of any individual funder's required DCROF, the identification of DCs creates a theoretical continuum between the sector's "pure" donors (with DCROFs of 0%) and its "pure" customers (with DCROFs of 100%). This continuum forms the basis of a Unified Theory of Revenue

Generation for Nonprofits (UTRGN) for the nonprofit sector that conceptualizes all sources of nonprofit revenues as funders with varying DCROF requirements. (See Figure 3)

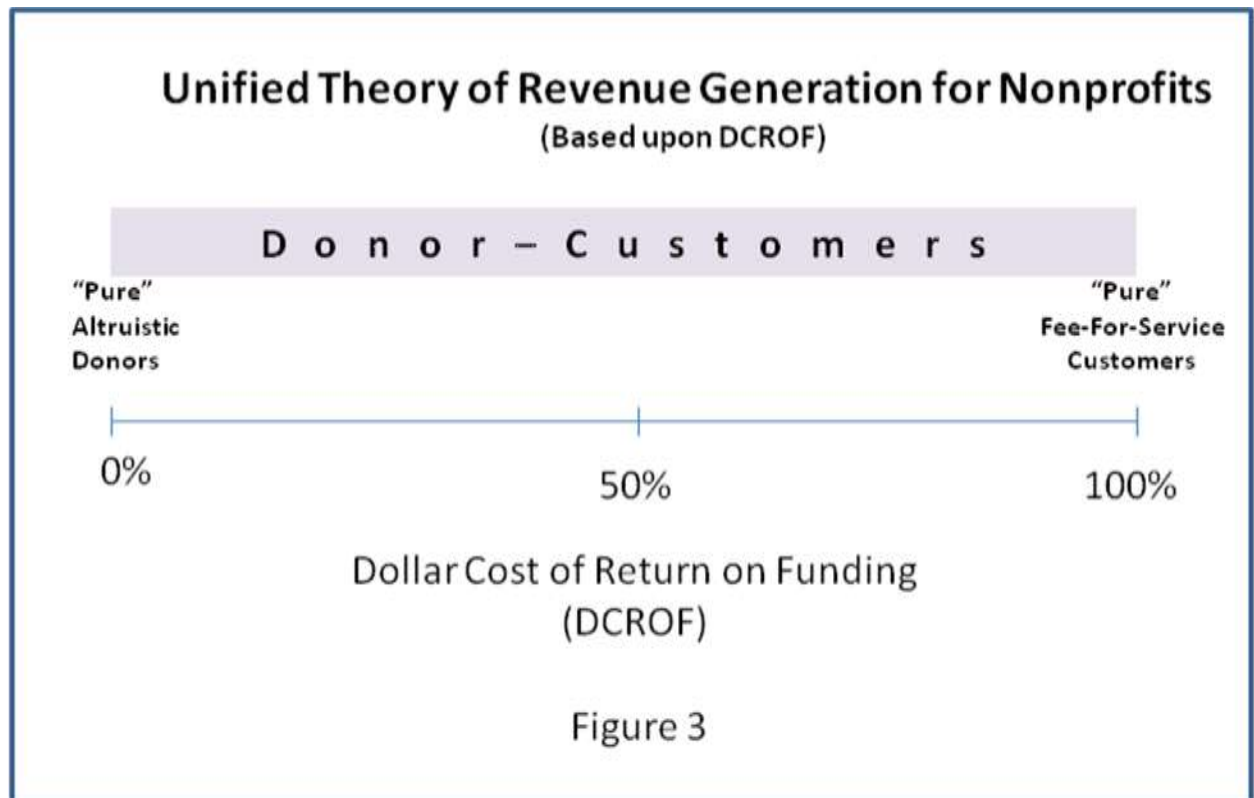

Figure 3

This conceptual framework implies that the choice of an individual DC to become an active funder is dependent upon a combination of independent variables befitting his/her mixed make-up as part donor and part customer: DC's affinity for the benefitting nonprofit and/or its mission, DC's demand for the offered good and/or service, the price of the offered good and/or service, the DCROF, and the DC's level of innate altruism. The influence of these independent factors on the funding decisions of DCs can be represented in the following equation:

$$\text{Decision to Fund} = x_i A + x_{ii} B + x_{iii} C + x_{iv} D + x_v E$$

where

A = DC's affinity for benefiting nonprofit and/or mission;

B = DC's desire for the offered good and/or service;

C = Price of the offered good and/or service;

D = Dollar cost of the good and/or service returned to the funder (DCROF); and

E = DC's general level of altruism.

While each nonprofit charity must determine for itself if the theorized DCs actually exist and can be converted into action, a close analysis of current funding strategies indicates that DCs are everywhere and they are supporting charities every day. For example, who are the people who attend benefit concerts where the donor gets free admission to the concert; who are people who contribute to radio fund drives and request a particular donation "gift"; who are the people who itemize their charitable donations (if they can) as deductions on their federal tax returns, who are the people who buy a 50-50 raffle ticket from which half of the gross proceeds goes to a "charity" and the other half goes to the lucky person holding the winning ticket; and who are the golfers who pay a premium to play at an exclusive golf course as part of a golf benefit? These are all simple examples of DCs who respond to currently used revenue-generating strategies that entice them to become active funders. (See Figure 4)

But how can the recognition that DCs exist be converted into "rivers" of unrestricted revenue for the nonprofit sector? To answer this question, three large-scale, successful enterprises that lie at different points along the DCROF continuum will be investigated through the lens of the Unified Theory (UTRGN): The Pan Massachusetts Challenge; the Girl Scouts cookie program, and Newman's Own. (See Figure 5)

Figure 4

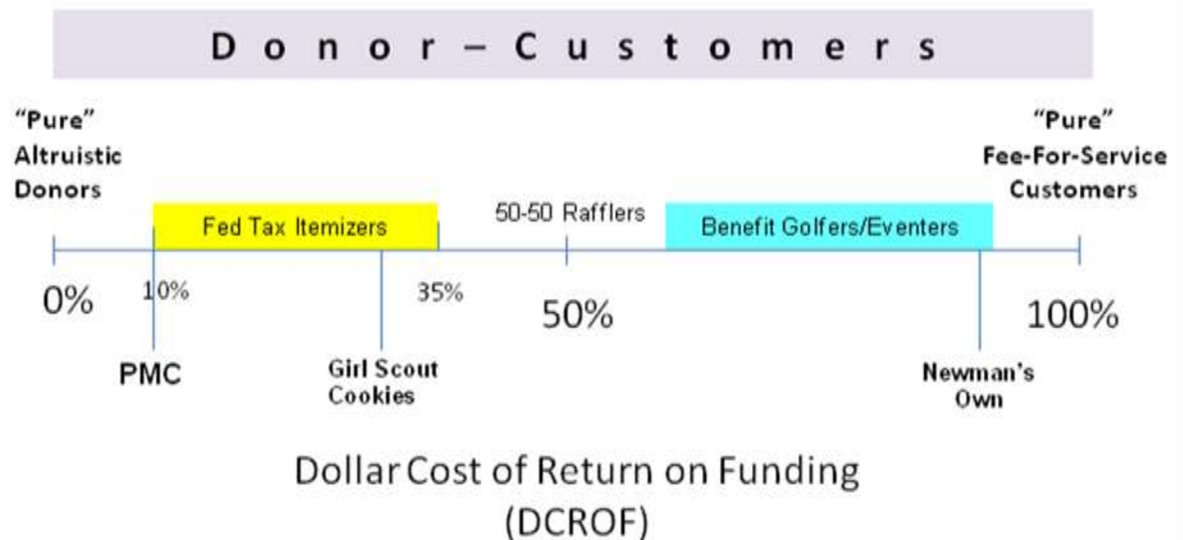

Figure 5

Each enterprise presents potential DCs with different value propositions and each utilizes a different but ultimately replicable operating model to achieve its revenue-generating goal. Thus, these enterprises should not be seen as unique and singular efforts but rather examples of what is possible if the underlying models are replicated, enhanced and possibly transcended. The challenge for nonprofit charities and the nonprofit sector as a whole is to develop and take to scale hundreds of such enterprises that will motivate and enable currently dormant DCs to become active funders of the charities they would like to support. A colleague has dubbed meeting this challenge as the "Democratization of Philanthropy."

I. Pan Massachusetts Challenge

The Pan Mass Challenge (PMC) is far and away the most successful single "walk-run-ride" fundraising event in the USA donating over $30 million annually to the Dana-Farber Cancer Center located in Boston, Massachusetts.[1] Held each year on the first weekend in August, this two-day event has approximately 5,000 riders pedaling over 10 different courses that vary in length and difficulty. The most challenging course stretches 192 miles from Sturbridge (in the middle of Massachusetts) to Provincetown (at the far tip of Cape Cod). The shortest and easiest course is a one-day ride of 48 miles. At the time of registration, riders have to guarantee with a credit card a minimum contribution that varies depending upon the length of the course they choose to ride. The shortest course has the lowest minimum--$1,000 ($500 if the rider is between 13 – 18 years of age) —and the longest course has the highest minimum--$4,200. There is also a category of riders called the "Heavy Hitters" who are required to donate a higher amount of funds. In 2010, this amount was $6,300. Heavy Hitters also get to attend a dinner and a wine tasting event in their honor in addition to participating in a few other minor events during the year.

Clearly, planning for and holding this annual event is a major undertaking and involves the effort of many people. Taking the lead is Billy Starr, the PMC founder, and 6 full-time and 3 part-time paid staff who are employed by Starrting Events, a private company established by Mr. Starr in 1994 to do this work. (Billy Starr, Personal Communication, November 9, 2010 and About the Pan-Mass Challenge's Relationship with Starrting Events. Retrieved November 10, 2010, from

[1] The second most successful "walk-run-ride" fundraiser is the AIDS LifeCycle--a seven-day, 545 miles bike ride from San Francisco to Los Angeles--that grossed $11 million dollars in 2009 for two California AIDS organizations. (*2009 RUN WALK RIDE 30 SURVEY SUMMARY.* Retrieved November 11, 2010, from http://www.runwalkride.com/uploads/2009_Run_Walk_Ride_30_Summary.pdf , and *AIDS LifeCycle.* Retrieved November 11, 2010, from http://www.aidslifecycle.org/)

http://www.pmc.org/contact.asp?ArticleID=1458) There are also cadres of volunteers who annually help operate the various “stations” along the bike routes. Mr. Starr calls the “lead volunteers” at these sites “professional volunteers.” In total, there are approximately 3,000 volunteers who help with the event. The event also receives a total of $3 million in financial support from corporate sponsors, a $170 rider registration fee, the sale of PMC merchandise, and auxiliary revenues. An additional $3 million of in-kind donations were made in 2010 by over 220 corporations and organizations. (Billy Starr, Personal Communication, November 10, 2010 and *Pan-Mass Challenge 2009 30th Year*, (2009) P. 22)

Several factors account for the PMC being the biggest net revenue producing “walk-run-ride” event in the USA. The answer becomes apparent when the value proposition presented to DCs is analyzed in terms of the independent variables influencing DC funding decisions as theorized by the Unified Theory of Revenue Generation for Nonprofits:

- DC’s Affinity for Benefitting Nonprofit
  - Dana-Farber Cancer Center is the premiere cancer center serving the entire New England region. It has a great reputation and is considered to be **the** place to receive cancer treatments. Most people living in New England know someone who has been treated there. So the affinity of riders—and the broader community--to the benefiting nonprofit is very high.
- DC’s Desire for the Offered Good and/or Service
  - For bike enthusiasts, the offered bike ride is a singular event that cannot be purchased in any other market at any price. Not only is it an opportunity for the rider to challenge him/herself physically, it is an opportunity to be part of a community event that is bigger than the sum of its parts. As Billy Starr says, “The PMC is a mega event—an unbelievably emotional event—that demonstrates the best of what we can be when we work together as a community.” (Billy Starr, Personal Communication, September 28, 2010) One participant, who has ridden in the event for many years, has described the ride as a “happening” with many spectators holding signs along the route thanking riders for saving the life of a loved one who has been treated at the Center.
- Price Point of the Product/Service Returned to the Funder
  - As the prestige and singularity of the PMC has increased, so has the price to ride—now anywhere from $500 to $4,200—depending upon age of rider and the length of the ride. This elevated price has resulted in the event becoming more

exclusive for the participant, more manageable for the operators, and increasingly more "profitable" for the Dana-Farber Cancer Center. Everyone who rides is paying significantly more than the actual cost of conducting the event. This limits how many people are participating but greatly increases the total amount of net money being generated.

- DCROF
  - Lastly, while the actual dollar cost of conducting the PMC event is about 10% of the price of riding, from the perspective of the rider, the DCROF is 0%. That is, the dollar cost of the product the rider receives is zero because other funding sources cover the full cost of the event. Consequently, every dollar a rider pays to ride is a dollar that goes to the Dana-Farber Cancer Center.

Therefore, the value proposition that PMC presents to middle and upper income cycle enthusiasts is a "homerun." This is evidenced by several simple facts:

- 70% of all riders each year are "alumni"—people who have participated before;
- The average number of years these alumni have been participating is 8 years;
- About 30% of all participants are "Heavy Hitters"- riders who pay more than the minimum amount required to participate, and many of them contribute more than the Heavy Hitters minimum. (Billy Starr, Personal Communication, September 28, 2010)

While the PMC remains a signature event in Massachusetts, the model appears to be replicable in other locations. Mr. Starr is currently consulting around the country to develop similar bike events to benefit the premier local cancer center(s) in a number of cities including (but not limited to) Columbus, Ohio; St. Louis, MO; and Miami, FL. This year, in its second year of operation, the Columbus event—Pelatonia—had 4,200 participants and raised $7.8 million for The Ohio State University Comprehensive Cancer Center - James Cancer Hospital and Solove Research Institute, the benefiting centers. (Billy Starr, Personal Communication, September 28, 2010 and *Pelatonia,* 2010)

Transcending the PMC model requires the identification of other recreational pastimes of a target DC population that can be turned into community "happenings" where a relatively small cost of operating the event is underwritten by sponsors--so the DCROF for the DC is 0%---and the entire donation/purchase price can go to a well-known and beloved charity. A short list of possibilities activities that deserve further thought include: kayaking (down the East River and/or around Manhattan and the Statue of Liberty);

rollerblading (down the length of the Venice Beach cement walk way); poker tournaments; chess tournaments; and dancing marathons (like the Penn State IFC/Panhellenic Dance Marathon (THON, 2010)).

II. Girls Scouts of the USA Cookie Program

One of the most visible and widely recognized revenue generating activities is the annual Girl Scout cookie program. What began in 1917 as a few Girl Scouts going door to door to sell homemade cookies has evolved into a national program that teaches girls entrepreneurial skills and raises a significant amount of unrestricted income to fund the operations and activities of regional Girl Scout Councils and local Girl Scout troops. While some pre-ordering occurs and some Girl Scouts still sell door-to-door, for safety and marketing reasons, most sales occur at sales tables set up in public spaces. For the past several years, this program has annually grossed about $700 million and netted a gross profit of about 70% or roughly $490,000,000. (*Girl Scout Cookies FAQs Frequently Asked Questions,* 2010) In fact, the Foundation Center's latest ranking of US Foundations "by total giving" shows that only the Gates and AstraZeneca Foundations donate more annually, and that the "cookie profits" exceed the total amount given by the 3rd ranking foundation—the Ford Foundation at $474, 095,000.

Exact national revenue and "profit" figures are difficult to obtain in part because of the decentralized program administration. At the national level, the Girl Scouts of the USA licenses two bakeries to produce the Girl Scout cookies. They are the ABC Bakers and the Little Brownie Bakers. ABC Bakers is a part of Interbake Foods, LLC, a Richmond, VA-based private label manufacturer of bakery goods and dairy products. Little Brownie Bakers is a division of Keebler and is ultimately owned by Kellogg Company. (Brenda Wolf, Personal Communication, November 2, 2010)

But the actual contracts for producing the cookies are negotiated and signed by over 100 regional Girl Scout councils that have complete control over the cookie program in their respective regions. Each regional council independently decides the amount and type of cookies it wants to order, when and where the cookies are to be delivered, and the price/box it will pay for the cookies. In 2009, the national average wholesale price paid for a delivered box of Girl Scout cookie was $.85. The regional office also sets the retail price of the cookies. At present, the price ranges among councils from $2.50 to $4.00 per box. (Brenda Wolf, Personal Communication, November2, 2010)

While there are regional variations in the distribution network and the collection and transfer of revenues, typically the regional office has the vendor schedule delivery trucks to arrive on particular dates and times at a central location. From there, the cookies are distributed from the truck into the vehicles of the Girl Scout troop adults. The cookies are then either stored centrally at one or more local places or distributed to individual girl scouts

and/or their guardians. At each step along this distribution network, authorized people sign-off for the cookies they are receiving and are then held responsible for returning proceeds after they have been sold. These revenues are then aggregated and passed back up the Girl Scout structure to the regional office that pays the bill from the vendor for the total amount of cookies delivered to the region. The net revenues are then split between the regional office and the local troops based on local agreements. Typically, the local troop retains about 10 – 20% of the gross revenue. Funds retained by the regional council fund items that directly benefit the girls such as program development, financial assistance, upkeep of camps, volunteer training, regional operations, etc. (Brenda Wolfe, Personal Communication, November 2, 2010)

If looked at through the lens of the Unified Theory of Revenue Generation for Nonprofits, the appeal of the value proposition that the "cookie program" presents DCs becomes clear:

- DC's Affinity for Benefitting Nonprofit
  - Girl Scouts have remained an icon of "mainstream" America. Over the years the organization's reputation has remained intact and has not been compromised by the national level scandals or the divisive policy disputes that have befallen other national charities. Furthermore, the sales model employed allows the DC to at least see a beneficiary of his/her purchase. Often times, the salesperson and the partial beneficiary is the Girl Scout who lives in the neighborhood.
- DC's Desire for the Offered Good and/or Service
  - Girl Scout cookies taste good and they are only available for a limited time each year. This creates pent-up demand for the product that the program satisfies every year during the sales period.
- Price Point of the Product/Service Returned to the Funder
  - Even though DC's are paying a premium on each box of cookies they buy, the price point of the product is still relatively low. This means that almost everyone walking by the sales table on their way into the retail store can afford the purchase price. In comparison with the PAN MASS event, the Girl Scouts make up with volume the relatively low dollar amount they make on each purchase.
- DCROF
  - Taken on a national average, the DCROF for the purchasing DC is about 30%. Because of the price of the cookies are relatively low, it is almost as if the purchase price is a

donation and the cookies are a fantastic "ROF" that literally and figuratively "sweetens" the quid pro quo transaction.

These factors result in the sale of about 200 million boxes of Girl Scout cookies each year. (Brenda Wolf, Personal Communication, November 2, 2010)

What is particularly noteworthy regarding this model is its similarities to other centralized production and decentralized distribution and marketing networks. In this case two large vendors produce and deliver a relative low-priced product to a vast but ultimately localized distribution network that is economical. The cookie program's sales force primarily consists of volunteer parents and the Girl Scouts themselves. Through local networks and personal relationships Girl Scout troops market and sell a relatively low-priced product desired and consumed by a large segment of the general population. This is very similar to any of the other famous neighbor-to-neighbor, friend-to-friend, and door-to-door models used by AMWAY, TUPPERWARE, and any number of high-end cosmetic and health care products.

The operational challenge for replicating this model is to identify any number of highly desired, frequently-purchased consumer product(s) that could be produced by a private label manufacturer and then marketed and sold through a decentralized network with the proceeds benefiting a well-known, well-liked charity. This model would seem to be imminently adaptable by a national organization that has local chapters that in turn have a cadre of local volunteers.

III. Newman's Own Inc.

Newman's Own is often thought of as a one-of-a-kind social enterprise because of its serendipitous beginnings, its subsequent growth and its ongoing commitment to donate 100% of its after-tax profits to charity. With parallels to the Girl Scout cookie "storyline", what began with a famous actor giving bottles of homemade salad dressing to neighbors and friends during the holiday season has grown into a $300 million food company that enables the Newman's Own Foundation to donate about $30 million a year to various charities. (Newman & Hotchner, 2003) Since its inception in 1982, 100% of the after-tax profits of Newman's Own Inc—slightly more than $300 million—have been donated to charity. As such, it remains a unique experiment in building from scratch a large-scale, for-profit company for strictly charitable purposes. (Tom Indoe, Personal Communication, November 30, 2009)

Newman's Own is a particularly interesting business model for several other reasons as well. First, it is continuing to grow and expand its product-line and so, as its CEO Tom Indoe has said, "the brand has great potential." Secondly, the Newman's Own line of products gives everyday DCs the everyday opportunity to become active donors when making daily purchasing decisions—

and at little or no additional costs to themselves. (This is different from the premium incurred by the purchasers of Girl Scout cookies.) For example, every time a shopper purchases the Newman's Own brand of salad dressing instead of the same priced competing brand, the shopper knows that roughly 10% of the purchase price will end up going to charity. (Tom Indoe, Personal Communication, November 30, 2009)

Tom Indoe, (2009) CEO of Newman's Own, Inc. explained the critical factions of the Newman's Own business model:

1) A quality product, sold at a competitive price that has a "differentiation point."

Mr. Indoe stressed that the product a company sells must be of high quality and be in some way different from competing products. He said that some people will buy a product once because of the notoriety associated with it, but that repeat business depends solely on the quality of the product and a competitive price. (Mr. Indoe stressed that he would never price a Newman's Own product above that of a comparable competitor in order to make more money for charity. He said the consumer probably would not pay the "premium" simply because the profits were going to "charity." (Note the difference between the assumed DCROF required by the DC who purchases Newman's Own products and the DC who purchases Girl Scout cookies.)

2) Third-party production of the product.

Newman's Own does not directly produce any of its products. All the production is performed by third party manufacturers to exacting standards using industry "best practices." This allows Newman's Own to avoid incurring the capital costs of owning the means of production. It currently has six warehouses where some of the products are temporarily stored before shipment to the market retailers. This allows Newman's Own to operate with only 29 staff. (Mr. Indoe said that while Newman's Own has always used third-party producers, this practice is becoming increasingly common in the food business.) (Tom Indoe, Personal Communication, November 30, 2009)

3) Someone to run the business who knows the business.

Mr. Indoe has spent his entire career in the food business, having previously worked at RJR Reynolds and Del Monte. Therefore, he possesses significant expertise regarding the food business and knows how to grow a business. By sticking to central tenets of the Newman's Own business model, he has been able to grow the business from a $60 million company in 1998—he joined the company in 1997-- into the nearly $300 million company it is today. Along the way, major deals with McDonald's and Kirkland have fueled this growth. Mr. Indoe stated that his next goal is to have Newman's Own reach the $500 million mark. A novice can't be learning on the job and achieve these kinds of results. (Tom Indoe, Personal Communication, November 30, 2009)

But this raises the issue of compensation. Mr. Indoe acknowledged that his compensation is not comparable to what he would be making in a typical for-profit company of comparable size. So in effect, he is making a sizable un-declarable charitable contribution in the form of foregone wages every year while at the same time increasing the charitable giving of Newman's Own from $8.5 million in 1998 to about $30 million in 2009. (Tom Indoe, Personal Communication, November 30, 2009)

4) "Star Power" to launch the product and to remain a driving force in the company until the "brand" becomes established.

Mr. Newman's presence and influence is everywhere at Newman's Own. The corporate office is in the center of downtown Westport, CT., but it is hard to find. It occupies a suite of offices on the second floor of an unremarkable small brick building that is undifferentiated from the other storefronts that line the narrow main street, the Boston Post Road. Nothing denotes that it is the home of Newman's Own except a small sign listing the several tenants of the building.

And yet, in the actual office space, there are posters everywhere of Mr. Newman. In some, he is promoting Newman's Own products. Others are posters of his movies. His original office space remains a shrine to his memory and that of A. E. Hotchner, his original partner and long time friend. On the walls are also many framed letters of gratitude from the people and organizations to whom Mr. Newman contributed the profits of Newman's Own. He was always personally involved in selecting the recipients and writing the checks until his failing health made this impossible.

Mr. Indoe stated that it was vitally important for the "celebrity" to be "strong enough" to carry the mantel of the organization—particular in the early stages of the company's growth and development before the company's brand is established. This notoriety provides the product with instant publicity. As importantly, it allowed Newman's Own to obtain the critical shelf space in retail outlets before the sales figures proved the brand worthy of this stocking. Shelf space puts the product in front of DCs and makes it easy for them to act on their desire to purchase Newman's Own products. (Tom Indoe, Personal Communication, November 30, 2009)

It is not clear that a championing "celebrity" will make the conscious effort to put so much of themselves into a "Newman's Own"-like enterprise if s/he knows at the outset what it will take for it to be successful.

5) 100% donation to charity of after-tax profits

This stipulation appears to be a necessary but not sufficient factor in Newman's Own success as demonstrated by the preceding four factors. (Alas, good intentions do not a successful business make.) However, the commitment to donate 100% of all after-tax profits seems to be the final key factor that appeals to the customer. Nothing is sullied or compromised by

some gimmicky "portion" of the revenues and/or profits going to charity. The unqualified 100% standard sets the bar at its highest possible level and places everyone's motives beyond reproach. Again, in the case of Newman's Own, the buying public knows that about 10% of the purchase price is going to go to charity and this profit margin is comparable to the food industry standard.

The difficulty of bringing all these factors together in the right amounts and at the right time is suggested by Mr. Indoe's references to several failed efforts to replicate the Newman's Own model.

And yet when looked at through the lens of the Unified Theory of Revenue Generation for Nonprofits, the elements of Newman's Own business model that make it a success would seem evident:

- DC's Affinity for Benefitting Nonprofits

  While Newman's Own doesn't print an exhaustive list of charities to which its profits are donated, there seem to be two main reasons why Newman's Own customers form a bond with the benefitting nonprofits. The first is the high profile and stellar reputation of the Hole in the Wall camps started by Paul Newman and funded by the Newman's Own profits. These camps serve children who have various types of cancer. Secondly, Paul Newman's own direct involvement in the selection of benefitting nonprofits and the distribution of the money during the company's formative years seems to have created a lasting halo effect over the whole enterprise. While Newman was alive and involved, DCs implicitly trusted his judgment by continuing to purchase "his" products. A significant challenge for Newman's Own Inc. is to continually reassure the general public that the trust it placed in Paul Newman the man can safely and confidently be transferred on an ongoing basis to Newman's Own Foundation, his legacy.
- DC's Desire for the Offered Good and/or Service

  As Mr. Indoe noted, Newman's Own markets a high-quality "differentiated product" that customers value. In the first instance, buying a Newman's Own product is not a matter of making a donation. DCs make the repeated choice to buy a high quality product because it tastes good and secondarily happens to benefit a charity.
- Price Point of the Product/Service Returned to the Funder

  The price point is very low—just like the pricing of the Girl Scout Cookies--and so is within the means of most of the general buying public. This means that the number of potential DCs for Newman's Own products is very large. The pricing is also equivalent to other comparable brands. Therefore, the DC

incurs no opportunity cost when selecting the Newman's Own brand.

- DCROF

  The DCROF for the customer is 90% and 10% is passed on to the benefiting charities. While 10% might not seem significant, the commitment to contribute 100% of the after-tax profits to charities is clearly appealing to DCs in comparison to the smaller "gimmicky" contributions to charity made by other for-profit companies. Newman's Own customers also assume that this amount of after-tax profit is not being compromised by unnecessary expenses or inflated salaries. For example, Newman's Own does not have any advertizing expenses and Paul Newman never took a salary nor benefited financially from the company. Again, the challenge for Newman's Own is to maintain the level of customer trust that Paul Newman the man commanded.

Thus, the value proposition that Newman's Own presents to the general public who like quality food products at the same price as comparable brands is very appealing to DCs.

The challenge for nonprofit charities is to replicate the Newman's Own business model. While Mr. Indoe said that the model **can** be replicated, he was skeptical that it **would** be given the serendipitous combination of factors that has brought Newman's Own to its current state. However, recent research findings in the field of "cause marketing" suggest that the Newman's Own business model could be replicated on a large scale if modified in a few particular ways.

"Cause Marketing" Research

Cone is a Boston-based market-research agency that specializes in researching and promoting synergistic partnerships between nonprofit organizations and for-profit companies. For the last two decades, it has developed the strategy of "cause branding," the effort of for-profit companies to link their "brand" with popular social causes as a way of improving their public image and their bottom-lines. Cone has been involved in developing the following campaigns: *Avon Breast Cancer Crusade*; Procter & Gamble *Live, Learn and Thrive*; Yoplait *Save Lids to Save Lives*; *JCPenney Afterschool*; *ITT Watermark*; Time Warner Cable's *Connect a Million Minds*; American Heart Association's *Go Red for Women* and American Cancer Society's *Choose You*.

Cone's website provides links to several research reports related to "cause branding"—particularly the "2010 Cone Cause Evolution Study."[2] In combination, the findings suggest three main conclusions:

1) The public wants for-profit corporations to act in a socially responsible way and consumers are willing to support such companies with their purchasing decisions.

- 83% of Americans wish more of the products, services and retailers they use would support causes.
- 88% bought a cause product/service in the past 12 months (94% of Millennials, and 95% of Moms[3]).
- 80% of Americans are likely to switch brands, if they are equal in price and quality, to one that supports a cause.
- 81% want the opportunity to support causes such as buying a product in which a portion of the sales goes to the support of the cause or issue (85% of Millennials, and 92% of Moms).

2) The public wants more input into corporate decisions about the causes corporations are supporting and the strategies they are using to support them.

- 75% of Americans want to offer their ideas and feedback on the company's cause-related efforts and programs (83% of Millenials, and 80% of Moms).
- 89% believe that when choosing an issue to support, companies should choose one that is important their customers.

3) The public's perceptions is that corporations are not providing it with enough good information about either the causes corporations are supporting or the actions they are taking.

- 61% of Americans don't think companies are giving them enough details about corporate support of causes.

[2] All cited data comes from "The 2010 Cone Cause Evolution Study" [which] presents the findings of an online survey conducted July 29-30, 2010 by ORC among a demographically representative U.S. sample of 1,057 adults comprising 512 men and 545 women 18 years of age and older. The margin of error associated with a sample this size is ± 3%. P. 30

[3] "Moms" refer to female survey respondents who have children 17 or under living in their households. P 12

"Millenials" refer to survey respondents 18-24 years old. This is only one –age segment of the entire millennial generation. P12

- 53% of Americans believe corporate cause marketing should be regulated.
- 34% of Americans will choose another brand or not make the purchase if the company doesn't offer them enough information about how their purchases will affect the cause.

These findings suggest that a vast number of potential DCs are ready to support multiple Newman's Own-like companies with similar value propositions **if** given the opportunity to do so. Moreover, findings suggest that such companies would be even more successful if their financial records were totally transparent, and if they allowed the customer to direct 100% of the after-tax profits from their individual purchases to the charity of their choice. Modifying Newman's Own model in these two ways would compensate for the instant trustworthiness that Paul Newman gave his enterprise and, by extension, his products. It remains unclear whether or not such a business concept alone without celebrity involvement would generate enough interest in the general buying public to generate significant business. However, it is noteworthy that Newman's Own started before the Internet age, before ideas and business concepts could go "viral on the web."

Additionally, such a business model would enable individual charities to drive customers to the donating company and thereby proactively generate revenues for it. Individual charities could do this in two ways. First, the nonprofit could encourage its supporters--as individuals--to buy from the donating company and have the individual designate the specific nonprofit as the beneficiary. This would be similar to how Market America, an on-line marketer of name-brand consumer products, is currently working with nonprofits through its "Recylebuyingpower.com" program. However, in Market America's program, it seems that the donation is a relatively small percentage of the total profit. A nonprofit could also buy in bulk directly from the for-profit company, direct the profits of those purchases to itself, and then resell the products to DCs through a decentralized network that could be some combination of the Girl Scouts model and the generic neighbor-to-neighbor model.

Prequisites for Developing New Revenue Sources

So, if one views these three examples—the PMC, the Girl Scout cookie program, and Newman's Own—not as unique endeavors but as examples of the various types of value propositions along the DCROF continuum to which various segments of the total DC population will respond, then one can imagine the development of a potentially large, niche "market place" in which pure social enterprises provide quality goods and/or services to DCs at varied prices and at

all possible DCROF values for the benefit of various charities and thereby generate significant amounts of new net revenue for them. [4]

But for this potential to be fully realized several developments must occur:

1) The nonprofit sector must judge the value of a net dollar provided by a CD to be equal in value to the dollar provided by a “pure” altruistic donor. Hidden or overt moral judgments about where along the DCROF continuum different DCs choose to become active funders are simply impediments to the sector focusing revenue-generating efforts on new revenue sources. The constructs of traditional philanthropy must not be allowed to limit these new possibilities.

2) The dollar cost of the good and/or service returned to the DC must not be counted as an administrative overhead cost in any evaluation of a nonprofit’s merit and/or fundraising efficiencies. Such costs should simply be considered an expense against revenues just as the sector currently considers the cost of any good and/or service currently provided to a fee-paying customer to be a program expense that offsets revenues.

3) A new class of businesses—either nonprofit or for profit—must emerge with the imagination, capacity, and commitment to produce and offer to DCs the envisioned array of goods and/or services at various prices and DCROF values. The development of the new L3C and B Corp legal structures are possible indications that this new class of businesses is emerging. These companies should compete within a free-market setting for the gross dollars of DCs. However, the scope of their efforts and the limits of their employee compensation would/could be specified in *negotiated* contracts signed with the benefiting nonprofit charities which in turn will be competing with other nonprofits for the services of the “best” of these new companies.

Senior-level managers from the for-profit sector, like Mr. Indoe, could make a significant contribution to the public good by using their talents to build and guide these social enterprises. Ideally, the start-up costs would be financed by foundations through grants or Program-Related Investments (PRIs) and thereby eliminate the need for private sector venture capital and the ownership demands of initial investors. In

[4] While probably never becoming a dominant segment of the consumer market, this sector may someday be seen as analogous to the “organically grown” portion of the retail food market in terms of size and importance.

this way, foundations could underwrite the initial cost of creating income streams instead of making annual grants to fund the ongoing operating expenses of non-profit charities and/or their programs.

4) There must be "perfect information" among the DC, the benefiting nonprofit, and the social enterprises so that each can make informed decisions and not be surprised by something they learn after they have committed to and/or taken a specific course of action. In particular, the DC needs to know the total price of the good and/or service s/he is "funding/buying", the percentage of that price that is guaranteed to go to charity, and optimally, the benefiting charity. This information will enable the DC to make informed funding decisions that cannot be second-guessed or somehow invalidated by others.

Nonprofit Ownership of For-Profit Companies

With all the current discussion about hybrid corporations and new for-profit models—to which this paper has hopefully contributed—the benefits of nonprofit ownership of for-profit companies seem to have been pushed to the background. As demonstrated by NYU Law School's defacto ownership of the Mueller Company from 1947 to 1976, nonprofit investment in for profit companies can be financially rewarding and may be a far easier way to obtain a slice of the private sector's revenue stream.

This lesson is being realized today by the Seven Hills Foundation of Worcester, MA. Seven Hills is an umbrella nonprofit charity that controls and operates 7 nonprofit organizations with combined annual revenues of about $150 million. (David Jordan, Personal Communication, May 11, 2010) As stated on its website, "The mission of the Foundation is to promote and encourage the empowerment of people with significant challenges so that each may pursue their highest possible degree of personal well-being and independence." (Retrieved on November 3, 2010 from http://www.sevenhills.org/toolbox/about-us/)

To enhance its financial position, Seven Hills has taken ownership positions in two for-profit companies providing products and services in fields related to their nonprofit programming. One is Sequest Technologies, in Lisle, IL, "a software and services company focused on helping healthcare providers elevate patient care, while at the same time maximizing profitability." (http://www.sequest.net/contact (11/03/10)) Seven Hills has taken a 36% ownership position in Sequest as part of its endowment building strategy. It hopes to "flip" its ownership position in several years after a period of anticipated dramatic growth and realize a 10-fold return on its investment. (David Jordan, Personal Communication, May 11, 2010)

Seven Hills also has an ownership position in Group 7 Designs, an architectural and construction-management company located in Franklin, MA. (http://www.group7design.net/about.html (11/03/10)) While Group 7 provides architectural services to the general public at market rates, it also does all the design work for the Seven Hills Foundation and its affiliated nonprofits at a 25% discount. When profits are distributed, Seven Hills get its share as "donations" because it only has a 49.9% ownership position in the company. Therefore, Group 7 Designs and Seven Hills both benefit by not being negatively impacted by neither the UBIT law nor the associated court rulings regarding the "donation" of profits by for-profit companies to the "owning" nonprofit charity. (David Jordan, Personal Communication, May 11, 2010)

Conclusion

This paper started with the research question, "Can nonprofit charities identify new sources of revenue and dramatically increase their total amount of unrestricted funding?" It ends with a resounding answer of "Yes!!" The development of the Unified Theory of Revenue Generation for Nonprofits (UTRGN) and the identification of the independent variables that influence the funding decisions of "donor customers" have created a theoretical framework for creating value propositions which will convert dormant DCs into active funders. Our review of three revenue generating enterprises operating at scale, along with the findings of current cause marketing research, indicate the validity of the theory and the willingness of large numbers of DCs to provide new rivers of unrestricted revenues for charities if offered appealing value propositions at various points along the DCROF continuum. With this knowledge, nonprofit charities should work to develop and present an array of value propositions to DCs—the public—and begin realizing the resulting rivers of unrestricted revenue.

In closing, it needs to be emphasized that the impetus for thinking about new ways to generate revenues for the nonprofit sector is the recent and dramatic drop in its revenues. The purpose of the resulting new paradigm is certainly not to diminish the importance of traditional altruistic philanthropy or the fee-for-services programming that has mushroomed in dollar size over the last 40 years. Rather, the purposes are to 1) expand the realm of possible revenue generating strategies used by the non-profit charities; 2) increase the total net unrestricted revenues of nonprofit charities; and so, 3) allow them to maximize their missions.

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