

# ***Entrepreneurial strategic planning and the “organized abandonment” process***

***By Jerr Boschee***

Entrepreneurs in the nonprofit sector have encountered a stunning irony.

When they began exploring earned income strategies during the 1980s and 1990s, they were searching for new sources of revenue to help them maintain and expand their programs. They were attempting to deal with a simple, deadly fact: Traditional sources of revenue – charitable contributions and government subsidies -- couldn't keep pace with social needs.

So they set out to find the money they needed to serve more people – only to learn that the first rule of entrepreneurship is contraction. The last thing they expected to wind up with was fewer programs, but the pioneers in the field learned a harsh lesson: It is not possible to be all things to all people.

## **THE GOSPEL ACCORDING TO DRUCKER**

Management guru Peter Drucker began preaching a new message in the 1980s that has enabled nonprofit entrepreneurs to simultaneously sharpen their organizational focus *and* expand their impact.

When Jack Welch took over as CEO at General Electric in 1981, he asked Drucker to tell him the single most important thing he could do to improve the company. Drucker's answer was simple: If your products or services are not number one or number two in the market, kill them. In other words, *stop trying to be all things to all people*. Since then, Drucker has repeatedly urged nonprofits to do the same. He calls it “organized abandonment.”

Drucker's advice runs against the grain of the traditional nonprofit mentality, but most nonprofit executives *will* admit they are spread too thin, that they are trying to do too many things for too many people . . . and that they are therefore unable to give *any* of their clients the attention they deserve. Organized abandonment gives them a way out of the morass. Rather than trying to be all things to all people, they can concentrate on doing the best possible job in a relatively few areas.

The process can be agonizing. It isn't easy to kill programs, especially if they are beloved by Board members or funders. And there *is* an important caveat: Being an entrepreneur in the nonprofit sector does *not* mean eliminating a program just because it loses money. If a nonprofit is the best or the only provider of a program that is critically needed, it has an obligation to continue the program . . . and a managerial challenge to find other sources of revenue to cover the cost.

Fundamentally, organized abandonment relies on a nonprofit's ability to be honest with itself . . . exceedingly difficult for *any* organization, nonprofit or otherwise. But the results have been worth it, and the ultimate winners have been the clients. *Nonprofit entrepreneurs have discovered that reducing the number of programs they offer has actually enabled them to serve more people, and to serve them better* -- because they've had the time and resources to expand their efforts.

## “THE ORGANIZED ABANDONMENT GRID”®

One of the decision-making tools nonprofits have been using for the past decade to decide which programs to eliminate is called “The Organized Abandonment Grid”® (*please see separate pdf file*), which enables them to *simultaneously* analyze the social purpose and financial impact of each program they offer – and, ultimately, weigh the programs against each other.

Before they can use the tool effectively, however, nonprofits must decide whether they are pursuing a “sustainability” or a “self-sufficiency” model. Sustainability can be achieved through a *combination* of charitable contributions, public sector subsidies and earned revenue, but self-sufficiency can only be achieved by relying completely on earned revenue. If a nonprofit decides it is more interested in sustainability than self-sufficiency, it can factor philanthropic and government support into its calculations of financial impact; if it would prefer to concentrate on self-sufficiency, then they are used only as tie-breakers at the very end of the process when final decisions are being made about which programs to expand, maintain, reduce or divest.

The Organized Abandonment Grid® is designed to answer two questions about each product or service the nonprofit offers:

- Regardless of who provides it or whether anybody can pay for it, how many people in the community truly need it – and how critical is their need?
- What are the financial implications? Can the product or service be profitable or will it result in losses?

Nonprofits use the horizontal axis on the grid (a five-point scale) to answer the “social purpose” question and the vertical axis (a seven-point scale) to answer the “financial impact” question. The intersection of the two scores leads them to a cell with one of five labels, each with a specific set of mandates.

- **“Definitely”**: These programs *definitely* deserve more resources – they are high on *both* the social purpose and the financial impact scales
- **“Probably”**: These programs *probably* deserve more resources – they are high on *either* the social purpose or the financial impact scale
- **“Maybe”**: The mix of social purpose and financial impact is inconclusive – the organization may or may not want to keep these programs (and the decision may rest in part on the size, strength and number of competitors)
- **“Probably not”**: These programs should *probably* be eliminated – either there is very little or no social purpose or they *could* cause severe financial damage to the rest of the organization
- **“Definitely not”**: These programs should *definitely* be eliminated -- either there is very little or no social purpose or they *will* cause severe financial damage to the rest of the organization

## THE “SOCIAL PURPOSE” SCORE

The first task for a nonprofit’s senior management team is to decide where each product or service should be placed on the social purpose continuum:

- *Is there a critical need? (a score of “5”)*
- *Is there a significant need? (a score of “4”)*
- *Is there some need? (a score of “3”)*
- *Is there minimal need? (a score of “2”)*
- *Is there none? (a score of “1”)*

But assigning the social purpose score is tougher than most nonprofits expect, and is more of an art than a science. It’s relatively easy to count the number of people who need a particular product or service, but how does a nonprofit decide whether one is more critical than another?

Decisions of this sort are frequently fueled by the passions of the people involved, and most nonprofits are reluctant to classify anything they do as less than critical. People who work in the sector are driven by a missionary instinct and loathe the idea of turning anybody away. When they see somebody in pain, they try to help. Somebody else is hurting? Start another program. Before too long the typical nonprofit is stretched beyond its resources and capabilities.

The ingrained tendency to view all their programs as equally important is almost impossible to root out without doing something drastic. So we tell our clients to practice triage: No more than 20 percent of their products and services should be considered “critical,” no more than 20 per cent “significant,” and so on. They *really* don’t like to take that approach, but most organizations that comply tell us later that two things happen: It’s one of the most emotionally wrenching experiences they’ve ever had – but it’s also been one of the most liberating, because (often for the first time) they’ve given themselves permission to be candid.

Practicing triage successfully, however, frequently means leavening the decision-making environment by bringing in neutral observers who can provide a broader perspective. Some of the most helpful have been men and women who are themselves successful entrepreneurs. Even then, however, there are no hard and fast rules about which products and services should go into which categories. Making the final decisions frequently requires the members of a senior management team to compromise with each other, but the overall result is usually a consensus everybody can live with.

## THE “FINANCIAL IMPACT” SCORE

Once the social purpose score has been determined, nonprofits can concentrate on a task that is much more time-consuming, if less emotional: Assigning a financial impact score to each of their products and services.

To do so, the nonprofit must determine the following:

- Could the product or service be profitable?
  - *20% or more? (a score of “7”)*
  - *11% to 20%? (a score of “6”)*
  - *0% to 10%? (a score of “5”)*

- Or will it result in a loss?
  - 1% - 10%? (a score of "4")
  - 11% - 40%? (a score of "3")
  - 41% to 70%? (a score of "2")
  - 71% - 100%? (a score of "1")

Historically, nonprofits attempting to determine the financial viability of a particular product or service have relied primarily on charitable contributions and government subsidies, with earned income a distant third. Nonprofit entrepreneurs have turned that formula on its head. Earned income has become primary, especially because of the pressures impinging on the nonprofit sector today: Operating costs continue to rise, the resources available from traditional sources are less dependable, the number of nonprofits competing for grants and subsidies has more than tripled in the past 20 years, and the number of people in need continues to escalate.

Charitable contributions and government subsidy are still welcome, but no longer central. So, to make the financial impact calculation as useful as possible, most nonprofits adopt the self-sufficiency model and concentrate only on earned income. Philanthropic and public sector dollars come into play later, but only as tie-breakers if the intersection of social purpose and financial impact scores is inconclusive.

Assigning the financial impact score for a particular product or service is based on the interplay of numerous factors: The nonprofit's ability to compete (a combination of critical success factors, environmental forces and competitive advantage); break-even analysis; and the size and direction of the market. So nonprofits must gather at least five types of information before the score can be assigned:

- **What are the critical success factors?** The factors will be different for each product or service: They might include price, convenience, quality, volume, direct mail, access to referral sources, or numerous other possibilities. For example, one of the most critical factors for a nonprofit providing non-medical services in the home for the elderly is the ability to recruit and retain home care aides.
- **What environmental forces will have an impact?** The forces could be positive or negative, and they could emerge from any number of sources (demographic, economic, sociological, technological, regulatory, political). An obvious example during the past few years has been the impact of managed care on health and human service organizations.
- **Who are the primary competitors – and how strong are they?** Competitors could come from the for-profit, nonprofit or public sectors. Do any of them have a significant advantage? The best way to find out is to test them against each of the critical success factors and environmental forces.
- **What do the numbers say?** What is the unit cost to deliver a single product or service? What are the fixed and variable costs? How much investment will be necessary to compete effectively? Will it take a year to break even? Two years? Five years? Will profitability ever be possible?
- **Finally, what is the size and direction of the market?** How many dollars will be available to pay for the product or service -- and from what source(s)? Is the market growing, flat or declining? Does it really make sense to compete in a dying market? Is it okay to take some additional risks if the market is expanding?

## **SOME FINAL THOUGHTS**

Assigning the social purpose and financial impact scores may be time-consuming, but they are still the easy part of the organized abandonment process. It's one thing to finish doing research, quite another to act. Organizational courage is frequently in short supply when it comes to making final decisions about what to do with specific products or services.

But if nonprofits can summon the courage, the results can be dramatic: Sharpened focus, more people served -- and higher levels of sustainability or self-sufficiency.