

# Nonprofit Funding Models<sup>1</sup>

As society looks to the nonprofit sector and philanthropy to solve important problems, leaders of nonprofit organizations need to understand and identify the funding model for their organization. When funding gets tight, it is especially important to stay on track, be disciplined about how to raise money, understand the various funding models and be able to articulate which is best for the growth of the programs. The following funding models are based on three factors: the source of funds, the types of decision makers and the motivations of the decision makers.

## Heartfelt Connector

The Heartfelt Connector model is used by nonprofits focusing on causes that resonate with the existing concerns of large numbers of people at all income levels, and by creating a structured way for these people to connect where none had previously existed. These organizations are largely funded by many individual donors, and they often host special events that allow individuals to give money while creating relationships with volunteers.

Your organization should ask itself the following questions if considering this model:

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

## Beneficiary Builder

The Beneficiary Builder model is used by nonprofits that are reimbursed for services provided to specific individuals but rely on people who have benefited in the past from these services for additional donations. Although the vast majority of the services provided by these organizations are funded by the fees from individuals that have already been received, they develop long-lasting

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<sup>1</sup> Excerpted from "Ten Nonprofit Funding Models" [http://www.ssireview.org/articles/entry/ten\\_nonprofit\\_funding\\_models](http://www.ssireview.org/articles/entry/ten_nonprofit_funding_models)



relationships with former clients who are extremely appreciative of the quality of the services provided. Two of the best examples of Beneficiary Builders are hospitals and universities.

Your organization should ask itself the following questions if considering this model:

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

## Member Motivator

The Member Motivator model is used by organizations that rely on individual donations. These individuals (who are members of the nonprofit) donate money because the issue is integral to their everyday life and is something from which they draw a collective benefit. These organizations connect with members by offering or supporting the products and services they already seek. These organizations are often involved in religion, environment, arts, culture or humanities

Your organization should ask itself the following questions if considering this model:

- Will our members feel that the actions of the organization are directly benefiting them, even if the benefit is shared collectively?
- Do we have the ability to involve and manage our members in fundraising activities?
- Can we commit to staying in tune with, and faithful to, our core membership, even if it means turning down funding opportunities and not pursuing activities that fail to resonate with our members?

## Big Bettor

The Big Bettor model is used by organizations that rely on major grants from a few individuals or foundations. Often, the primary donor is also a founder, who wants to tackle an issue that is deeply personal to him or her. The problems these organizations are dealing with can usually be solved with a large influx of money. Some organizations receive a large amount of money when they start, allowing them to grow quickly, and others receive a large amount of money for a new or important approach to the problem.

Your organization should ask itself the following questions if considering this model:



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

## Public Provider

The Public Provider model is used by organizations that work with government agencies to provide essential social services, such as housing, human services, and education, for which the government has previously defined and allocated funding. In some cases, the government outsources the services to be provided but establishes specific requirements for the nonprofit to follow, often through an RFP or reimbursement formula.

Your organization should ask itself the following questions if considering this model:

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

## Policy Innovator

The Policy Innovator model is used by organizations that rely on government money and have developed novel methods to address social issues that are not clearly compatible with existing government funding programs. They have convinced government funders to support these alternate methods, usually by presenting their solutions as more effective and less expensive than existing programs. In contrast, the Public Providers tap into existing government programs to provide funds for the services they offer.

Your organization should ask itself the following questions if considering this model:

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

## Beneficiary Broker

The Beneficiary Broker model is used by organizations that compete with one another to provide government-funded or backed services to beneficiaries. Among the areas where Beneficiary Brokers compete are housing, employment services, health care, and student loans. What distinguishes these nonprofits from other government-funded programs is that the beneficiaries are free to choose the nonprofit from which they will get the service.

Your organization should ask itself the following questions if considering this model:

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

## Resource Recycler

The Resource Recycler model is used by organizations that have grown large by collecting in-kind donations from corporations and individuals, and then distributing these donated goods to needy recipients who could not have purchased them on the market. In-kind donations generally account for the vast majority of the organization's revenue, but they must raise additional funds to support their operating costs. Most Resource Recyclers are in the business of food, agriculture, medical, and nutrition, and often are internationally focused.

Your organization should ask itself the following questions if considering this model:

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



## Market Maker

The Market Maker model is used by organizations that provide a service that straddles an altruistic donor and a pay or motivated by market forces. Even though there is money available to pay for the service, it would be unseemly or unlawful for a for-profit to do so. Organ donation is one example where Market Makers operate. There is a demand for human organs, but it is illegal to sell them. These nonprofits generate the majority of their revenues from fees or donations that are directly linked to their activities. Most of these organizations operate in the area of health and disease, but some operate in the area of environmental protection.

Your organization should ask itself the following questions if considering this model:

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

## Local Nationalizer

The Local Nationalizer model is used by organizations that have grown large by creating a national network of locally based operations. These organizations focus on issues - such as poor schools or children in need of adult role-models - that are important to local communities across the country, where government alone can't solve the problem. Most of the money for programs is raised locally, often from individual or corporate donations and special events. Very little of the money comes from government agencies or fees.

Your organization should ask itself the following questions if considering this model:

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

