

# MEETING THE NEED

## BUSINESS MODEL INNOVATION IN SOCIAL-SECTOR ORGANIZATIONS

By Zhenya Lindgardt and Benjamin Shaffer

**T**HIS IS A TIME of change for nonprofit organizations. New technologies—and the new approaches they enable—hold enormous potential for good. At the same time, charitable resources are constrained. The tension between the magnitude of need and the level of resources has long been a spur to creativity as nonprofit leaders seek better, more efficient, and more sustainable ways to fulfill their missions. In the current environment, the need for creativity is even more acute: organizations will have to go beyond simply tweaking existing programs in order to deliver the impact they seek. They will have to become more innovative in their underlying models, as well—and to do this, they will need to embrace the discipline of business model innovation (BMI).

The weak worldwide economy has led to both a dramatic increase in the demand for nonprofits' services and a drop-off in funding. Deeper changes in the economy, such as globalization and the unemployment brought about by advances in technology, mean that these shifts are

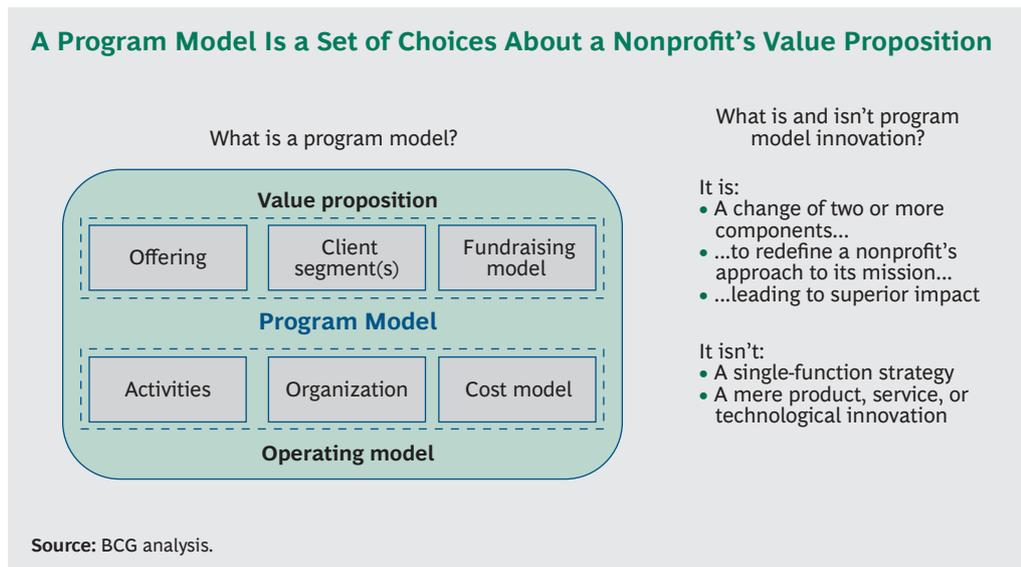
likely to persist beyond the current economic cycle. For-profit companies such as Apple and Ikea have overhauled their business models in order to succeed in their increasingly tough industries. BMI can help nonprofits thrive as well.

As we have written about before, BMI is about reinventing an organization's value propositions and operating models in order to pursue growth, respond to trends, or bounce back from decline or ineffectiveness. BMI involves changing multiple components of a business simultaneously, and in a coordinated way, in order to align the organization so that it can deliver a superior value proposition. It goes beyond upgrading single functions, cutting costs, or making operational improvements; and it involves more than a change in products or technologies. Organizations have to rethink the "story" of how they operate and why.

Instead of a business model, nonprofits have a "program model" that outlines the value that they aspire to create in order to contribute to the solution of a particular problem.

It comprises not just the immediate activities associated with delivering the program's products and services but also all the supporting operations necessary to maintain these activities—as well as the fundraising to pay for it. We have found that BMI—or, in the case of nonprofits, program model innovation—can yield a substantial boost in effectiveness for nonprofits, allowing them to serve their clients better within existing budgets. (See the exhibit below.)

New models attack problems from a different angle to help nonprofits do more. They can complement or replace traditional programs. Program model innovation can be used to change program economics in order to make it possible to serve more clients with similar or declining resources or to meet new kinds of needs. For example, a model that leverages mobile technology, cloud computing, or predictive data can yield dramatic results. New approach-



## Why Pursue Program Model Innovation?

Four kinds of challenges can signal that the time has come to pursue innovation in a nonprofit's program model:

- *Declines in fundraising*, which require nonprofits to increase their efficiency in order to maintain service levels
- *Changes in needs or the external environment*, such as new or increased demand for services, or new entrants into the program "space" that call for an expansion or shift in offerings
- *New technologies* that cannot be leveraged without a reconsideration and redesign of program activities
- *Unaddressed related problems* in client populations that could be addressed with a new approach

es can likewise help nonprofits work effectively with for-profit entrepreneurs that are moving into areas that were once served exclusively by nonprofits, such as education.

## From Threat to Opportunity: An Anti-Hunger Example

Most kinds of program model innovation must address multiple challenges and opportunities in order to be effective. That's what we saw when we worked with a leading U.S. anti-hunger organization. This nonprofit works to feed struggling families by helping food banks source food and by raising the overall awareness of hunger.

Not surprisingly, the organization was seeing a large increase in demand as individual hunger agencies sought more supplies from food banks. Yet those supplies, in the form of in-kind donations

from large food manufacturers, were declining as these companies got better at minimizing excess production. These suppliers were also increasingly taking advantage of a secondary private market and selling some of their surplus to retailers such as Big Lots.

This external change led the organization to seek a model that could tap alternate food sources in order to meet growing demand. Food is left unconsumed in many venues, not just by large manufacturers. A great deal of usable food is lost locally by farmers, grocers, restaurants, institutional food services, and caterers. When added together, these local operations generate sizable quantities. In the United States alone, more than 20 billion pounds of food every year is left unconsumed after it has been prepared, according to the U.S. Department of Agriculture.

Capturing excess food from local providers, however, is much harder than the current model of trucking the excess from manufacturers to food bank warehouses. The food is perishable and the individual quantities are fairly small. The nonprofit would need to change the economics of distribution in order to make the challenging economics of this new food source work for local food banks and agencies.

The organization hit upon a Web-based, just-in-time approach that would coordinate these local food sources with volunteers and agencies. It conceived of a system in which the donating organizations' managers could go to an online portal to offer food to those who needed it. Nearby hunger-focused agencies would monitor the portal for supplies and deploy a cadre of volunteers willing to transport food on short notice.

Suppose a local college cafeteria made too many trays of lasagna. The cafeteria manager could log on to the website and enter the details. A local service organization would claim the lasagna, alerting a volunteer via her smartphone that a pickup was available in her area. Logging

in, the volunteer would be directed to pick it up on her way home from work and deliver it to her church's soup kitchen.

In the course of the project, the organization discovered that elements of this new model were already in place at some food banks and agencies. In order to scale up these activities, the national organization was going to need a new program model altogether. While the value proposition—food for the hungry—remained the same, carrying it out was going to require an array of new capabilities. The nonprofit would need to set up and manage the new portal as well as recruit and manage lists of donors, agencies, and volunteers. Everyone involved would need training in giving or receiving these micro donations. And food banks would have to be convinced that the new model would be viable in their areas.

The national organization may need to provide startup funds, yet this foray into local service could also attract new donors. The nonprofit will also have to learn how to measure results from the program—the number of incremental meals delivered at lower cost—rather than the traditional metric of total pounds delivered.

For this one nonprofit, the new business model will complement, not replace, the existing model oriented around warehouse collection. Big companies are still donating food, just at lower levels, and the organization will still ensure that this vital source remains for food banks. At the same time, it has begun working to understand how it could help food banks and agencies take advantage of local, micro donations through this technology-based model. While the details are still being tested, the new model could be revolutionary. Over time, it could increase the engagement of local communities, energize volunteers, enable best-practice sharing among food banks, and change the way local infrastructure is funded.

Finally, even in the development stages, the work has helped the national organization establish a deeper appreciation of its

role and has opened the door to considering new opportunities in the future. We can hope that models such as this one will begin feeding families across the country within a few years.

## How to Develop an Innovative Program Model

Based on our work with for-profit as well as nonprofit companies, we have developed a five-step approach that any nonprofit can follow for program model innovation:

1. Articulate the current model, both its strengths and weaknesses. Assess whether and why the model needs to change: to make up for funding shortfalls, meet a new or increased client need, adapt to change in the service marketplace, or incorporate new technology.
2. Broaden the organization's opportunity set to deliver value, including redefining how such value can be delivered—such as leveraging new solutions, technologies, capabilities, or tools.
3. Identify the details of the new model, including the operations, capabilities, and investments necessary to deliver a new value proposition for meeting the clients' needs. A new model will fit with the nonprofit's original mission but will attack a problem in a novel way. If this model complements rather than replaces an existing model, clarify the structures that will keep the programs separate while allowing them to share some organizational resources.
4. Test the new model before scaling it up to full operation.
5. Embrace an innovative culture in order to continue developing new models to test on an ongoing basis.

Beyond this repeatable process, we recommend paying particular attention to three BMI imperatives that are particularly critical to nonprofits:

- *Leverage the broader mission.* It's natural for a nonprofit to become caught up in established ways of doing things. It helps to remind the organization of the underlying mission that inspires everyone's efforts. Nonprofit mission statements, after all, rarely specify a particular model for getting the all-important results. We encourage nonprofits to dream big. Use a broad mission and vision as a license to explore and be creative. The missions and models of other organizations in the same area can help—and can perhaps even suggest “white spaces” where the nonprofit can make a difference.
- *Bring along extensive stakeholder networks.* Nonprofits usually have wide networks of stakeholders willing to help with the new pressures and opportunities. The advice and support of affiliated agencies, fundraisers, foundations, and volunteers will not only increase support for the final model but also help the nonprofit come up with the model in the first place. Borrowing capabilities or assets from stakeholders, for example, can help generate new models. While it can be challenging to manage a diverse collection of stakeholders, these outsiders can facilitate change within and outside the organization. It is best to bring them in early in order to maximize the learning from them as well as to ensure that they have a stake in the new model and buy into required change. Educating stakeholders and asking for input early—getting everyone on board with the need for BMI—pays dividends later during implementation. As the model develops, the nonprofit needs to be transparent not just about the potential benefits but also the inherent tradeoffs.
- *Find the proper metrics for success.* Nonprofits sometimes lack measures as clear as revenue, profit, or shareholder value to demonstrate the results from a new program model. But some kind of metric—aligned with the model—is essential for testing and managing the

new approach. It is likely that these metrics will differ across models; leadership should select those metrics that measure each model's unique contribution to the organization's mission. Metrics are also critical to understanding whether the model has generated sufficient results to continue operations.

With these considerations in mind, leaders of nonprofits and their boards might ask five questions to determine whether it is time to explore program model innovation:

- Are the needs of our clients changing, and therefore is our value proposition as relevant to them as it once was?
- Are we achieving the same impact from our operations as we used to?
- Do we have an asset, skill, or expertise that we could better apply?
- Have we taken advantage of new technologies to serve our target population?
- Are new nonprofits or private-sector corporations serving this population in different ways?

Business model innovation takes concerted effort, but the payoffs can be enormous. The same is true for program model innovation. It can propel a nonprofit to new levels of service to its mission—and help it to overcome current challenges.

Rethinking a program model can also position the organization for ongoing innovation. We've gotten used to constant innovation in technology and markets. To turn those improvements into sustained progress, nonprofits need not only new program models but also the development of a culture of program model innovation.

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