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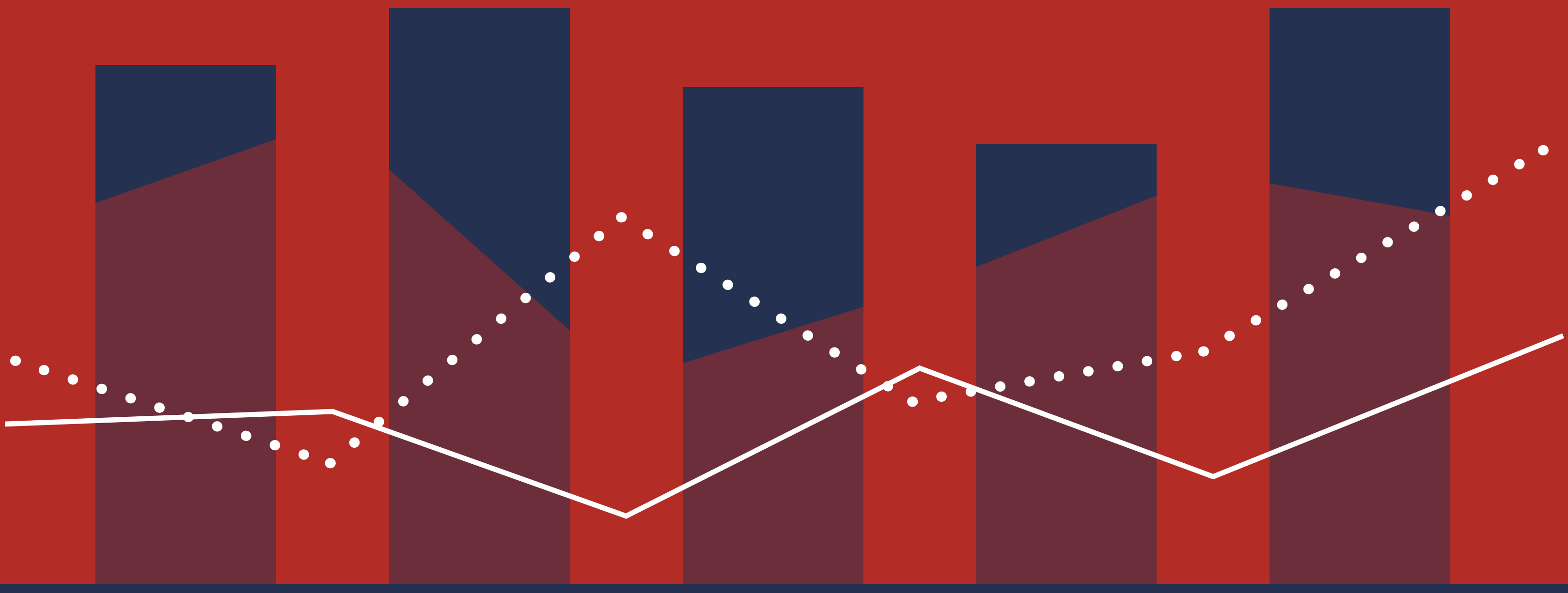

AMERICAN MARKETING ASSOCIATION

# Three Ways Nonprofits Grow Revenues

By Yixing Chen | 11.17.2020

**The nonprofit sector contributed more than $1 trillion to the U.S. economy in 2016, 5.6% of the country's gross domestic product, according to a recent National Center for Charitable Statistics brief. In 2019, U.S. charities raised an estimated $449.6 billion. The funds support nonprofit hospitals, nonprofit professional theaters, public schools, and food banks, among other organizations.**

Yet with rising demand for nonprofit services, 62% of the sector's leaders say financial sustainability is a headline challenge. Thus, nonprofits must find ways to grow their revenues. Three revenue sources nonprofits might consider are: 1) offering free and paid services by client segment, 2) investing in premium services, and 3) aligning product innovation to market needs.

## Offering One Segment Free Services and Another Paid Services

Nonprofit hospitals in low- and middle-income countries serve poor patients with limited healthcare access. To fill the access gap, the hospitals have historically spent money on outreach efforts targeting poor patients. The organizations sustain their outreach efforts while serving the poor patients for free by charging well-off patients market rates.

Many therefore assume serving poor patients for free is a pure cost that must be subsidized by paying patients. Gupta et al. (2018) challenged the assumption. The researchers analyzed data on outreach "camps" and patient visits at Aravind Eye Hospital from 2006 to 2014. The India-based eyecare network operates vision screening camps for patients around the country, preventing and treating eye problems for those with no other access to healthcare.

Gupta and colleagues examined Aravind's outreach camp marketing activities, targeted only at poor patients, to determine whether they also drew paying patients to their eyecare centers. Their results indicate that when nonprofits market free services for poor patients (e.g., outreach camps), they can bring in more paying patients and earn more revenue. Specifically, Aravind's outreach camps increased revenue by $2,273 on average, or three times each camp's total cost.

Nonprofits' social mission outreach efforts may therefore offer a standalone revenue stream. By implication, nonprofits should consider devoting more funds to the efforts, which also communicate their tangible value to the community.

## Investing More in Premium, Differentiated Services

Nonprofit and for-profit U.S. hospitals generate revenue by offering both basic (e.g., diagnostics, nursing) and premium, specialty services (e.g., transplants). Moon and Shugan (2020) found nonprofit hospitals actually earn more than for-profit hospitals. Why? The nonprofits focus more on premium specialty services than the for-profits.

Moon and Shugan examined the for-profit healthcare industry and $1 trillion nonprofit sector by collating data from public sources. Through analytical and empirical analyses, they determined which marketing strategies led to the nonprofit hospitals' superior performance, as measured by output and profits.

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The study showed nonprofit and for-profit hospitals chose different competitive marketing strategies to maximize their objectives. The nonprofit hospitals they examined invested more in premium services to increase both their output (i.e., number of treatments) and profits. In contrast, they found for-profit hospitals could increase profitability by charging higher prices for basic services. They determined the difference was even more pronounced in situations where competition was intense.

Moon and Shugan's findings provide a useful framework to guide nonprofits in selecting marketing strategies. By differentiating themselves from competitors, particularly by providing premium services, they can improve their financial sustainability.

## Aligning Innovative Products with Market Receptiveness to Innovation

Voss, Montoya-Weiss, and Voss (2006) examined how nonprofit professional theaters could use product mix to grow revenue. Studying 124 theaters across the United States, the researchers examined how innovation, product exploration experience, promotion, and market sophistication impacted objective measures of financial performance.

Nonprofit professional theaters usually offer a variety of plays, such as new productions, modified productions, and classics. The theaters earn revenue from single and season ticket sales. Thus, they must understand the optimal production mix for each customer segment. For example, single ticket holders might be more willing to experiment on new-to-the-world plays. Should nonprofit theaters therefore offer a higher proportion of new productions to single ticket holders than season ticket holders?

Voss, Montoya-Weiss, and Voss found the answer depends on how receptive each market is to innovation. They found innovation had a positive impact on revenue from single ticket holders onlyin markets valuing their community arts program.

Based on the research, nonprofits must be mindful of two issues when trying to grow revenues through innovative new products and services. First, radical innovation might provide value only to some customer segments. And second, innovation's effectiveness depends on market characteristics.

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## CITATION

Chen, Yixing (2021), "Three Ways Nonprofits Grow Revenues," *Impact at JMR,* (January), Available at: https://www.ama.org/2021/01/26/three-ways-nonprofits-grow-revenues/

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