RESEARCH PAPER

RESEARCH REPORT

A RAPID SCAN OF INCOME INNOVATION IN THE NOT-FOR-PROFIT AND FOR-PURPOSE SECTORS IN AUSTRALIA

2019-2023

WHY AND HOW INCOME INNOVATIONS CAN INCREASE THE IMPACT AND REVENUE OF NOT-FOR-PROFIT ORGANISATIONS, BUT NOT THEIR INCOME

Authors

Gemma Hardie: *IWDA – Director People, Finance and Operations*

Min Wah Voon: *Impact Advisory Group - Founder*

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IWDA INTERNATIONAL WOMEN'S DEVELOPMENT AGENCY

Impact Advisory Group.

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TERMS AND DEFINITIONS

Not-for-Profit (NFP)

A not-for-profit organisation doesn't operate for the profit, personal gain or other benefit of its members, the people who run it, or any other people. Rather, any profit made is used to further the aims of the organisation.[1]

For-Purpose Sector (FP)

The for-purpose sector is broader than the not-for-profit sector. For purpose organisations put social and environmental concerts at the centre of their business model.[2] This includes charities, not-for-profit organisations, social enterprises and for-purpose businesses.

Traditional Funding

A catch-all term used to describe any well-utilised and typical form of fundraising currently in use across the for-purpose sector; primarily fundraising, philanthropy and government funding.

Income Innovation

For this report: an activity that seeks to generate income for a not-for-profit that is not traditional funding.

Untied Income

For this report, this means income that is not 'tied' to a specific project by the donor and that can be used flexibly. Untied income is income that can be used flexibly, like funds donated through an individual giving program. These funds can be used for a range of activities, depending on the need at the time. By contrast, an example of 'tied' income would be a government grant to deliver a specific project.

Income-generating Innovation

For the purpose of this report, this refers to an income innovation that is generating enough untied income that this untied income can be channelled into other areas of the organisation (outside of the income innovation).

Surplus-generating Innovation

For the purpose of this report, this refers to an innovation that is generating some untied income (i.e. a 1-3% profit), but this is not enough untied income to be channelled into other areas of this organisation. The innovation is financially viable, but not generating significant additional untied income.

Social Enterprise

Social enterprises are businesses that put people and planet first. They have a defined primary social, cultural or environmental purpose consistent with a public or community benefit, and derive a substantial portion of their income from trade, and invest efforts and resources into their purpose such that public/community benefit outweighs private benefit.

1. https://www.nfplaw.org.au/free-resources/getting-started/what-does-not-for-profit-mean
2. https://www.csi.edu.au/tools-and-guides/what-is-the-social-economy/
3. https://www.socialtraders.com.au/what-is-a-social-enterprise/

EXECUTIVE SUMMARY

This report shares the findings of rapid research by the International Women's Development Agency (IWDA), conducted in 2019 and 2023, on **income innovations in the not-for-profit and for-purpose sectors in Australia.**

In 2019, IWDA explored ways to diversify its funding beyond traditional grants, fundraising and philanthropy. IWDA was particularly interested in **how it could generate more 'untied income'** – that is, income that is not tied to a specific project, which can be used flexibly. Untied income is important for organisations like IWDA because it can be used flexibly to support partners and pay for innovation, research and advocacy. Additional untied income is also helpful to cover administrative and overhead costs, which is often not fully covered by 'tied income'.[4]

IWDA was hearing about different income innovations (outside of traditional funding) – innovations like social enterprise and impact investment - and wanted to learn more. IWDA engaged the Impact Advisory Group (IAG) to do a rapid scan on income innovations in the not-for-profit (NFP) and for-purpose (FP) sectors in Australia. We asked, ***Which income innovations are generating a 'profit' (i.e. untied income) for NFP and for-purpose organisations?*** *What could we learn from them? Are they suitable for an organisation like IWDA?* In 2023, IWDA commissioned a light-touch update on the 2019 research.

This report shares the compiled research findings; and offers some insights and recommendations for NFPs. It is important to note this was rapid research with a limited budget. It is not a comprehensive study of income innovation in the NFP and for-purpose sectors, but an informed 'snapshot' based on interviews with leading experts and organisations, who generously shared their knowledge and real-world experience. In total we interviewed 26 individuals and organisations from the NFP and for-purpose sectors. Rich data and insights were shared on the conditions of confidentiality and that we would report back the compiled research findings for their own learning (which IWDA did in roundtables in 2020 and 2024).

The research found **in general, income innovations are not generating any significant 'profit' or surplus for NFPs in Australia.** This means that income innovations are not generating any untied income for NFPs.

It also found **income innovations require substantial investments of time and money – starting from $1m – over long periods of time (8-10 years).** They require forms of expertise and organisational attributes that NFPs do not typically have. **A key recommendation is for NFPs to learn from others' experiences** (like those captured in this report) before embarking on a new income innovation. The research identified common success factors and challenges.

This does not mean income innovations are not worthwhile. **While income innovations are not generating untied income for NFPs, they may offer other benefits for NFPs.** Income innovations may be another way for NFPs to do activities that are aligned to their purpose, while generating enough revenue to justify them. An example is a NFP that runs training courses: the revenue from these courses may not generate any profit, but the training courses support the purpose of the NFP, and the revenue covers most of the cost.

A key recommendation is for **NFPs to not rely on income innovations as a source of new untied income** (as they are likely to operate at a financial loss), but they can be **another way to support a NFP's mission and strategic goals.** It is very important for NFPs to be very clear about what they are trying to achieve through the income innovation (that is, what impact), because that will be the main benefit and measure of success for the organisation (not income).

Returning to IWDA's original query – how to generate untied income - this research led IWDA to conclude that traditional fundraising, particularly individual giving, remains the most effective and appropriate method to generate untied income.

Research Outcomes

The outcomes of the evaluation were to:

- Identify income innovations in the not-for-profit and for-purpose (NFP+FP) sectors that currently generate untied income (excluding traditional funding).
- Help inform IWDA's broader strategic planning and decision making.

4. Like many across the sector, IWDA also experiences the same pressures many across the sector also experience, in adequately recovering administrative and overhead costs from tied income. This is typically capped at 10%, which is significantly under actual operational costs.

Scope + Methodology

- With limited budget, the scope was not to do a comprehensive scan of the NFP+FP sectors in Australia. Rather, to speak with leading experts and organisations to identify five examples of income innovations that were generating untied income (excluding traditional funding), and see what we might learn from these successful examples.
- **In 2019,** our methodology involved: i) desktop research, ii) in-depth interviews with 23 leading experts and organisations in the Australian NFP+FP sectors.
- We reviewed a wide range of income innovations models, including impact investment, private sector engagement, fee-for-service, social enterprise, licensing and venture philanthropy. In total, we analysed over 40 actual examples of income innovations, mostly in Australia.
- **In 2023,** we did a 'light-touch' review by re-interviewing 13 of the experts and organisations from the 2019 research.

Methodology		**Remarks**
2019 – Research		
Desktop Review	Yes	
Key Informant Interviews	23	10 International NGOs; NFP association [5] or network; 2 universities; 3 for-purpose businesses; 3 NFPs
No. of Income Innovation Examples Analysed	40	
Roundtable with Research Participants	Yes	
2023 – Research Update		
Key Informant Interviews	13	
Roundtable with Research Participants	Yes	

Key Findings		
2019 – Research	**No.**	**Remarks**
Income-generating innovations	**2**	
Profitable	2	Generating untied income.
Non-income generating innovations	**38**	
Small surplus	3	2-3% profit margin. Financially viable but not generating untied income.
Growing but not yet profitable	2	Revenue growing but not yet profitable.
Breaking even	2	Revenue steady, breaking even.
Significant investment, future potential	3	Significant investment into a new income innovation (more than $2m) – too early to be profitable.
"Reality check" findings		
Minimum initial investment	$1m	In Years 1-3
Expected timeframe to become income-generating (profitable)	8-10 years	
2023 – Research Update		
Any new income-generating innovations identified?	No	
Did any 2019 examples become income-generating?	No	
2019 findings still valid?	Yes	

5. An organisation that exists to represent NFP members or the NFP sector at-large.

1 INTRODUCTION

1.1 Project Background and Rationale

In 2019, IWDA was considering ways in which we could invest in activities to grow and diversify "untied income"; funds that were not linked to traditional grants or funders, that could be expended at our discretion. With an already established individual giving fundraising program, we wanted to understand if there was further diversification we could consider.

In considering options, there was an almost overwhelming range of approaches that could be considered to trial. Many of these initiatives had strong reputations or profile. IWDA had limited budget to consider an investment or trial into these areas.

As a result, IWDA engaged Impact Advisory Group (IAG) to review the current offerings in income innovation across the Australian not-for-profit and for-purpose (NFP+FP) sector. The starting point was, *could IAG identify 5 or more income innovations that were generating untied income? What could we learn from them?*

As we began outreach for the research, we found our peers and key informants were also eager to understand the "unembellished" truth of income innovations.

It seemed that everyone was asking the same question of how to source more untied income, and whether income innovations were generating untied income. In 2019 and 2023, none of our research participants were aware of any similar research across the NFP+FP sectors.

1.2 Research Outcomes

The intended outcomes of the research were to:

- Identify income innovations in the not-for-profit and for-purpose (NFP+FP) sectors that currently generate untied income (excluding traditional funding).
- Help inform IWDA's broader strategic planning and decision making.

1.3 Scope and Approach

The scope of the research was to:

- With limited budget, the scope was not to do a comprehensive scan of the NFP+FP sectors in Australia. Rather, to speak with leading experts and organisations to identify five examples of income innovations that currently generate untied income (excluding traditional funding), and see what we might learn from these successful examples.

Our approach was to:

- Speak with leading experts, organisations and peers to rapidly identify 'successful' examples.
- An important part of our approach was to conduct in-depth interviews with two conditions: confidentiality, and an invitation to a participant-only roundtable where the compiled findings would be shared back in an anonymised format. This roundtable gave research participants the opportunity to benefit from the collective insights and learning, and connect with peers on opportunities and challenges. These conditions supported the open sharing of data and insights that may be 'business sensitive" and usually not shared outside an organisation.
- We also found a high level of good will and generosity among peers and organisations and a genuine interest for the sector to learn from and share our collective experiences.

1.4 Methodology

2019 Research:

- **In 2019,** our methodology involved: i) desktop research, ii) in-depth interviews with 23 leading experts and organisations in the Australian NFP+FP sectors, iii) roundtable with research participants to share back and sense-check findings.
- We reviewed a wide range of income innovations models, including impact investment, private sector engagement, fee-for-service, social enterprise, licensing and venture philanthropy. In total, we analysed over 40 actual examples of income innovations, mostly in Australia.

2023 Update:

- **In 2023,** we did a 'light-touch' review by: i) re-interviewing 13 of the experts and organisations from the 2019 research, ii) roundtable with research participants to share back and sense-check findings.
- A rapid scan of the published finances of leading Australian social enterprises. This was done by a leading for-purpose consultancy.

The following table provides a summary of the research methodology:

Methodology		Remarks
2019 – Research		
Desktop Review	Yes	
Key Informant Interviews	23	10 International NGOs; 6 NFP association or network[6]; 2 universities; 3 for-purpose businesses; 3 NFPs
No. of Income Innovation Examples Analysed	40	
Roundtable with Research Participants	Yes	
2023 – Research Update		
Key Informant Interviews	13	
Roundtable with Research Participants	Yes	

We took a broad lens on potential income innovations. Types of income innovations explored included:

Income Innovation Mode	Description
Impact investment	Impact investments are investments made into organisations, projects or funds with the intention of generating measurable social and environmental outcomes, alongside a financial return.
Private sector	Corporate partnerships, funding agreements and shared activities (such as "shared value partnerships" between business and NFPs[8]) to scale impact and revenue with commercial organisations.
Fee-for-service	Activities that deliver a range of products or services for a fee, including consultancy and training
Licensing	Where a NFP organisation uses its intellectual property for profit, via product development, brand association, or a tool
Social enterprise *(products, services)*	Social enterprises are businesses that put people and planet first. They have a defined primary social, cultural or environmental purpose consistent with a public or community benefit, and derive a substantial portion of their income from trade, and invest efforts and resources into their purpose such that public/community benefit outweighs private benefit.[9]
Venture philanthropy	Targeted philanthropic gifts that act as an investment into an initiative, with the aim of generating a financial return on their investment.
Blended finance	Blended finance uses development finance and philanthropic funds to attract private capital into deals, for positive impact and financial returns.[10]

6. Blended finance uses development finance and philanthropic funds to attract private capital into deals, for positive impact and financial returns.

7. https://impactinvestingaustralia.com/new-to-impact-investing/

8. https://www.dfat.gov.au/sites/default/files/creating-shared-value-through-partnership.pdf

9. https://www.socialtraders.com.au/what-is-a-social-enterprise/

10. https://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders.pdf

Questions for our key informant interviews:

Research	Interview Questions
2019	1. Are you aware of any successful examples where an NFP is reliably generating a revenue stream, without depending on ongoing government or philanthropic funding? If so, please describe the organisation(s) and the income-generating activit(ies). 2. Are you able and willing to introduce us to the organisation for further discussion, share contact details of key personnel or refer us to any other relevant information? 3. In your opinion/knowledge: • On what basis do you believe the example is successful? (for example, it is well-known for providing significant net income) • What were some of the major issues and considerations in setting up this income-generating activity? How were these overcome? • What were the key resources required (Staffing? Competencies? Seed funding?)? • What were the success factors? • What were the key challenges and how were they overcome? 4. In your opinion/knowledge: • How feasible do you think it is for NFPs to seek income diversification and innovation? • How successful or unsuccessful do you think this is, generally speaking? • If so, why? 5. Any other comments or suggestions on the topic of income innovation for NFPs generally, or IWDA specifically?
2023 Update	1. Are the key findings still valid? If so, why? If not, why not? 2. Are there any new success stories or promising developments?

2 KEY FINDINGS

2.1 2019 Research – Income Innovations

Overall, the research found i**n general, income innovations are not generating any significant 'profit' or surplus for NFPs in Australia.** This means that income innovations are not generating any untied income for NFPs.

Successful examples of income innovations generating untied income were **very hard to find** in the not-for-profit and for-purpose (NFP+FP) sectors.

Our desktop review and key informant interviews (total: 23) led to 40 income innovations which we analysed.

Out of 40 income innovations, we found **only 2 income innovations that we called income-generating** – that is, generating enough income that this could be used as 'untied income' and channeled into other areas of the organisation.

For reasons explained below, we considered these two examples as **unique outliers that were not viable options for an NFP like IWDA.** Even then, their untied income was relatively modest.[11]

We identified **no other examples of income innovations in the NFP+FP sectors that generate significant untied income.**

The remaining 38 examples – which did not generate untied income for their organisations – were put into 5 categories to help inform IWDA's learning. These were: i) Small surplus, ii) Growing but not yet profitable, iii) Breaking even, iv) Significant investment, future potential, v) Not profitable. These are explained and explored more below.

2019 Research	No.
Income-generating innovations	**2**
Profitable	2
Non-income-generating innovations	**38**
Small surplus	3
Growing but not yet profitable	2
Breaking even	2
Significant investment, future potential	2
Not profitable	28

A. Income-generating Innovations

Profitable

We found **2 income innovations that we called income-generating** – that is, generating enough income that this could be used as 'untied income' and channeled into other areas of the organisation.

Those organisations were the Adara Group, and the Thank You Group.

ADARA GROUP

Adara Group was started in 1998 by its founder, an international finance and investment lawyer. Adara's model is based on "profit-for-purpose" – that is, the profits generated from its financial services business is channelled – what we are calling 'untied income' – into its philanthropic arm. As of 2019, Adara had donated $12.3m (avg. $600k per year).

THANK YOU GROUP

Thank You Group was started in 2008. It is widely considered Australia's most successful social enterprise. Thank You's model is also based on "profit-for-purpose'. As of 2019, Thank You had donated $7m (avg. $600k per year) through its philanthropic arm.

For context, in FY18, Thank You's annual revenue was $30m;with a profit of $1.5m; and donations made of $700k.

The fact these were the only two examples we could identify points to their status as outliers.

There were also compelling reasons that their success would be extremely hard to replicate by an NFP like IWDA. In the case of Adara Group, this builds off the founder's proven track record and commercial success. In the case of Thank You Group, it would require the financial and operational capacity to manage a sizeable business operation.

Like all businesses, these enterprises need the financial and operational capacity to ride business highs and lows. Often NFPs are not well equipped to host this type of venture.

Both examples, as at 2019, distributed an estimated average of 600k per year since they began. Compared to the net "untied income" from successful individual giving fundraising programs, this could be considered relatively modest for many medium to large NFPs.

11. When compared to traditional funding sources.

B. Non-income-generating Innovations

i) Small surplus

We found 3 examples of income innovations that generate a marginal surplus (2-3%). This surplus was enough to classify the income innovations as financially viable, but not enough to say they are generating untied income for the organisation. All 3 examples happened to be fee-for-service (FFS) consultancies.

This was a valuable finding as FFS consulting is often proposed to NFPs as a model to generate untied income. These well-established examples demonstrated FFS consulting is unlikely to generate untied income.

CASE STUDIES: SMALL SURPLUS

> Income innovations that are generating a small surplus (2-3%) – enough to be financially viable, but not enough to generate additional 'untied income' for the organisation to spend elsewhere. We found 3 examples, which all happened to be fee-for-service consulting models.
>
> **Charlie Consulting**
>
> Founded by a well-known expert, Charlie Consulting was a team of research, policy and practice experts. This fee-for-service was a separate registered entity owned by an NGO. Its purpose was impact and influence, but also to be income-generating. As of 2019, it had been running for 3 years.
>
> **Delta Consulting**
>
> Delta Consulting was established by an NGO to influence the sector through implementing programs, as well as undertaking professional development and research. It found the consulting environment to be extremely competitive and driven by clients' priorities, rather than the NGO's mission and values. Profits generated were not significant and did not provide the scope to do the independent research and influencing originally desired. In the end the NGO felt neither its impact nor income objectives were met, and Delta Consulting was sold to a large consulting firm for $4m.

Key Take-aways

- The fee-for-service consulting space is **very competitive with small net margins.** In social sector consulting, with less-resourced clients, it takes at least 2-3 years to finesse a viable business strategy.
- Successful examples were initiated by high-profile individuals with **strong track records** (**subject matter** and **consulting** expertise) and **networks** (which help develop a client base) and were backed by **financial support** and/or **underwriting**, especially in first 2-3 years.
- **Strong consulting** experience and **operating model** essential (tenders, finance, HR etc).
- Examples treat **alignment with NFP mission** as key and continue to reflect on its evolution

ii) Growing but not yet profitable

We found 2 examples of income innovations that were growing their revenue but were not yet profitable. These were 2 highly regarded social enterprises that had both built off 10 years+ NFP and industry experience.

For both, significant investment in business ideation and incubation was critical. Both committed two staff part-time in a social enterprise incubation program for 1-2 years.

CASE STUDY: GROWING BUT NOT YET PROFITABLE

> NFP "Alpha" is a well-established NFP and leader in its sector with a track record of 10+ years. External stakeholders within its sector wanted to benefit from the expertise of Alpha and asked for training and said they'd be willing to pay for it. Alpha set up a training provider called "Bravo". Bravo is a social enterprise arm that sits within Alpha. As of 2019, Bravo is generating revenue, which is increasing, and is projected to start generating a surplus by Year 8 of its operation.

iii) Breaking Even

We found 2 examples of income innovations that were generating steady revenue and breaking even.

In both examples, the income innovation is part of the NFP's mission, so breaking even was adequate to serve the NFP's purpose.

CASE STUDY: BREAKING EVEN

> NFP Echo is a well-established NFP and leader in its sector with a track record of 10+ years. Echo exists to serve a group of affected people. This group, and their families, were in need of a specific type of counselling. Building off its knowledge and expertise, the NFP was well-placed to offer this service. It set up a fee-for-service social enterprise, Foxtrot, which provides counselling to affected people and their families. Echo estimates that Foxtrot is breaking even, or close to breaking even. Given that Foxtrot is strongly aligned with the NFP's mission, Echo is pleased to continue this activity.

iv) Significant Investment, Future Potential

We found 3 examples of income innovations that were relatively new but were interesting for several reasons. All 3 examples belonged to NFPs.

All 3 examples had attracted significant investment from external sources (from $2m to $20m). For 2 examples, seed funding came from impact investors. For the third example, seed funding came from a corporate philanthropic foundation (arguably with a business interest in the income innovation).

All 3 built off significant 10+ years of the NFP's areas of expertise and networks.

While all 3 examples had the potential and intention to generate profit (via products and services), their emphasis was on mission-alignment and tapping into new sources of investment for impact, rather than generating 'untied income'.

CASE STUDY: SIGNFICANT INVESTMENT, FUTURE POTENTIAL

> Golf is a highly regarded international NGO with significant subject matter expertise and has set up a separate for-profit entity, Hotel of which they are a major shareholder. Hotel uses emerging technology (blockchain, AI) and services to ensure responsible sourcing in a food supply chain. Responsible sourcing is strongly aligned to Golf's mission. As of 2019, $5.5m was raised for seed funding for Hotel; mostly from external sources (that is, impact investors looking for a financial return). Over time, it is intended that Hotel will become profitable. In this way, Golf will make a positive impact, aligned with its mission, while in future, generate 'untied income' from Hotel that can be used elsewhere.

v) Not profitable

The remaining 28 examples reviewed were not profitable as of 2019 – that is, not generating income. Based on interviews and analysis, they did not appear likely to become profitable in the foreseeable future.

Examples included:

- An accreditation/labelling system by a NFP for supermarket products.
- A social enterprise café set up by a NFP.
- An NFP's corporate partnership with a clothing label to support their overseas factories to be responsible and ethical.
- Shops selling 'fairtrade' products sourced by an NFP.

2.2 2019 Research – But What About?

As noted above, we only found 2 examples of income innovations that were income-generating (Thank You Group and Adara Group).

This section explores further the research on two types of income innovations that are often proposed to NFPs (by internal or external parties) as a way to generate untied income: i) social enterprise, ii) corporate partnership.

i) Social enterprise

As mentioned above, we were unable to identify any social enterprises that were income-generating, except for Thank You group.

This may be surprising for some. Again, this research was not intended to be a comprehensive scan. Key informants within the social enterprise sector shared that that it is incredibly challenging to generate any profit (untied income) from social enterprises.

As the case studies below show, they require significant seed funding plus often a 10-year timeframe to become profitable.

WHAT ABOUT SOCIAL ENTERPRISES?

"Less than 10% of social enterprises generate a profit before grants. Currently, the profitable ones are in the recycling business (e.g. charity bins), or rely on significant volunteer time, or are NDIS providers. Or they have some type of unfair or unique advantage: the founder is someone with deep industry with a successful business idea, or has significant networks/ support, or happens to be in the right time or place, or a particularly charismatic leader."

– Social Enterprise Expert

"…it can be hard to create impact with a profit for purpose model…they're incredibly difficult…and shouldn't be seen as a silver bullet…you may create more impact through your business activities than your profit"

– Social Enterprise Expert

CASE STUDY: "X" SOCIAL ENTERPRISE

> "X" social enterprise began in 2016 with a seed investment of $6m. It offers retail services, while employing marginalised people. Its target timeframe to reach surplus is 10 years.

CASE STUDY: "Y" SOCIAL ENTERPRISE

> "Y" social enterprise began in 2009. It runs several business in the restaurant and hospitality sector that employ marginalised people. Its target timeframe to reach surplus is 12 years.

iv) Corporate partnership

We were unable to identify any corporate partnerships within the international NGO sector that were resulting in untied income for the NFP. This applied even to well-established partnerships (10-15 years). We even spoke with an international NGO based in the US, well-known for their corporate partnerships, who reaffirmed this was also their experience.

Nonetheless, corporate partnerships can be an effective viable way to achieve impact. Oxfam's Burberry partnership is an example of a multi-faceted partnership where, while Oxfam did not generate significant untied income, there were many benefits that supported Oxfam's mission. This partnership consisted of three components: i) Burberry financially support Oxfam to implement programs to benefit herders in Afghanistan (for cashmere), ii) a small philanthropic grant, iii) working together on research and technical advice for responsible practices and to influence the broader garment sector.

Based on our interviews with various NGOs that have engaged in corporate partnerships, NFPs need to consider how to manage any ethical issues raised by corporate partnerships,[12] as well as the staff time and capabilities required to manage such partnerships.[13]

2.3 2023 Research Update

In 2023, we sought to update the research through follow-up interviews with 13 of the research participants from 2019.

We were unable to identify any new income-generating innovations among the NFP+FP sectors in Australia.

None of the 2019 examples that were identified as having potential to become income-generating (e.g. "Growing but not yet profitable") had become income-generating by 2023.

The 2019 findings continued to resonate strongly with interviewees based on their knowledge and experience and we identified additional examples that supported the 2019 findings.

A rapid scan of the published finances of leading Australian social enterprises found only one example that delivered any surplus in FY23.

This suggests that generating untied income through income innovations continues to be elusive for NFPs in Australia.

2.4 2019 and 2023 Research – Key Take-Aways

Based on the interviews and case studies, we draw some key take-aways for NFPs to consider, if they decide to embark on a new income innovation activity, like those mentioned in this report.

A. "Reality Check" Factors

To get started, income innovations require a **minimum initial investment of $1m** in the first 3 years and a **minimum 8-10 years to become income-generating.**

Adequate seed capital is necessary to support growth and working capital needs. Successful projects typically started with an initial investment of around $300,000, scaling up as milestones are met. This funding is essential to cover initial expenses and facilitate early-stage development.

Even then, 'success' is not guaranteed, given that we identified only 2 examples of income innovations generating untied income. As mentioned, their untied income was relatively modest, and they were unique outliers that were not suitable or viable options for an NFP like IWDA.

While income innovations are unlikely to generate significant untied income for NFPs, they may fund – in part or in full - activities that support a NFP's mission (e.g. fee-for-service training for key stakeholders).

B. Success and Enabling Factors

Values alignment remains critical. It is crucial that activities remain aligned with organisation mission and values. Shared value activities were arguably the most successful initiatives under review, as they worked to deliver funds plus impact.

Successful projects typically require **a long-term commitment,** with the timeframe for generating significant income spanning 8 to 10 years. This extended period allows for the development, refinement, and maturation of the partnership or project, ensuring it can achieve its financial and impact goals.

A period of at least one year is often required to **refine the business proposition.** During this time, the focus is on developing a robust and viable business model that can sustain itself and generate income. This phase is critical for ensuring the long-term success and financial viability of the project.

A **significant investment in staffing** is crucial during the initial stages of the project. This generally involves hiring at least two staff dedicated to the work for at least two years during the start-up phase. Their roles are critical in building the foundation and ensuring the project's success.

The organisation must recognize that **start-up business acumen** differs significantly from traditional business acumen. Post-COVID, new streams of income, such as online training, are emerging, necessitating a refined business model and operations, including **enhanced marketing and finance systems** for real-time data.

The recruitment of staff with **strong business and commercial acumen is essential.** At least one staff member should possess significant expertise in business management and operations. This expertise is vital for steering the project towards its financial and strategic objectives. A focus on income innovation can bring new skillsets and capabilities into organisations which can provide benefit across other areas also.

Additionally, it is beneficial to have staff members with extensive experience in the specific business model being implemented. For example, having team members with a background in consulting can provide the necessary skills and knowledge to manage and grow the project effectively

Cultivating **a culture of experimentation and allowing room for failure** are crucial components for success. NFPs that are leading the way in innovation suggest this is a 5-7 year journey.

Gaining board buy-in and support, along with strong leadership from the CEO, can create a safe space for innovation and growth. Board members should have knowledge of start-up dynamics as opposed to regular business operations.

12. One example is reputation risk for the NFP, if the corporate is found to engage in unethical behaviour.

13. Corporate partnerships were found to require considerable staff time to develop and maintain.

Flexibility and adaptability in organisational processes are essential to respond to changing market conditions. Establishing a separate entrepreneurial arm can focus efforts and mitigate risks associated with innovation.

Leveraging external expertise is a common feature among successful projects. This can include engaging incubators, business mentors, and management consultancy services. These external resources provide valuable insights, guidance, and support, helping to navigate challenges and optimize the business strategy.

C. Challenges, Barriers and Risks

Common challenges and barriers faced by interviewees were often the flipside of the success and enabling factors.

Most organisations were required to navigate **external economic and market conditions** outside their control. These impacted demand, pricing, and overall business viability and were difficult to predict and plan for.

NFPs may be successful to "crowd in" a market – that is, they may be one of the first with their income innovation, but this may attract **commercial operators, with whom they must then compete.**

High competition alongside tight profit margins is a challenge for any business, and this includes NFPs seeking to generate income. This pressure means NFPs must remain focused on delivering highly efficient operations and cost management to maintain profitability, rather than having the space to consider what might best support their mission and strategic priorities.

Securing sufficient funding for operations, growth, and marketing initiatives remained an ongoing challenge for most research participants, particularly in a competitive funding environment.

Income innovations activities require significant time. This is challenging for most NFPs, who are often resource-constrained, from being able to balance priorities and invest the time to get an income innovation up and running.

Working to deliver an income innovation within traditional NGO structures was another shared challenge. This means transitioning from **traditional NFP structures to business-oriented processes,** which are very different. In general, NFPs financial, operational and HR systems are designed to manage traditional grants and project implementation. These are very different to what is required to run a business.

For example, an NFPs financial system may be able to run a report on how much of a project budget has been spent, but is unable to provide real-time data on customer demand and trends over time.

Another example is most NFPs have employee policies around hours worked and overtime, but as many are aware, "start-ups" famously require intense, long hours in the initial period and to respond to rapidly changing market conditions.

Another challenge identified by interviewees was governance. Several NFPs shared how their internal decision-making framework was too slow and cumbersome for the rapidity and risk appetite required to develop an income innovation.

D. Other Benefits

Research interviewees noted that, while income innovations may not result in significant untied income, this does not mean income innovations are not worthwhile. **While income innovations are not generating untied income for NFPs, they may offer other benefits for NFPs.**

Income innovations may be another way for NFPs to do activities that are aligned to their purpose, while generating enough revenue to justify them.

An example is a NFP that runs training courses: the revenue from these courses may not generate any profit, but the training courses support the purpose of the NFP, and the revenue covers most of the cost.

Other benefits highlighted by research interviewees were:

- "Halo effect" – that is, the creativity of income innovations may bring benefits to an NFP's brand, as the NFP seeks to be more innovative and future-focussed, attracting supporters, interest and talent.
- Income innovations can be used to leverage government funding and traditional philanthropy (who may co-invest).
- Income innovations can be used to open doors to new donors or new sectors for influencing.
- Focus on income innovation can bring new skillsets and capabilities into an organisation (e.g. tech, consulting, entrepreneurial) and strengthen its effectiveness and culture.

3 CONCLUSION

This report shares the findings of rapid research by the International Women's Development Agency (IWDA), conducted in 2019 and 2023, **on income innovations in the not-for-profit and for-purpose sectors in Australia.**

In 2019, IWDA explored ways to diversify its funding beyond traditional grants, fundraising and philanthropy. IWDA was particularly interested in **how it could generate more 'untied income'** – that is, income that is not tied to a specific project, which can be used flexibly.

The research found **in general, income innovations are not generating any significant 'profit' or surplus for NFPs in Australia.** This means that income innovations are not generating any untied income for NFPs.

It also found **income innovations require substantial investments of time and money – starting from $1m – over long periods of time (8-10 years).** They require forms of expertise and organisational attributes that NFPs do not typically have.

This does not mean income innovations are not worthwhile. **While income innovations are not generating untied income for NFPs,** they may offer other benefits for NFPs. Income innovations may be another way for NFPs to do activities that are aligned to their purpose, while generating enough revenue to justify them.

Returning to IWDA's original query – how to generate untied income - this research led IWDA to conclude that **traditional fundraising, particularly individual giving, remains the most effective and appropriate method to generate untied income.**

Organisations looking to strengthen flexible income will continue to be served well by traditional fundraising programs – that is, individual giving programs focused on major and monthly gifts, bequests and other complementary programs (workplace giving, events etc). In IWDA's experience, these activities continue to outperform the examples explored in this research. The research underscores the need for IWDA to focus on its strengths in fundraising while cautiously exploring innovative funding avenues that align with its mission and long-term objectives.

The insights gained from this research will inform IWDA's strategic planning, helping to navigate the complex landscape of income innovation. While the pursuit of untied funding through non- traditional means is not without its challenges, IWDA will leverage these findings to refine its approach, invest wisely, and explore opportunities that align with our goals and values.

4 RECOMMENDATIONS

Based on our 2019 and 2023 research, in the spirit of sharing learning with peers for a resilient and thriving NFP sector in Australia, we offer these recommendations:

- We suggest that NFPs may not want to rely on income innovations as a source of new untied income, as our research shows they are unlikely to generate significant untied income.
- This does not mean income innovations are not worthwhile. **While income innovations are not generating untied income for NFPs, they may offer other benefits for NFPs.** Income innovations may be another way for NFPs to do activities that are aligned to their purpose, while generating enough revenue to justify them[14]
- It is very important for NFPs to be very clear about what they are trying to achieve through the income innovation (that is, what impact), because that will be the main benefit and measure of success for the organisation (not income).
- It is highly recommended that **NFPs to learn from others' experiences** (like those captured in this report) before embarking on a new income innovation. The research identified common success and enabling factors, as well as challenges and barriers.
- It is highly recommended that NFPs consider that **income innovations require substantial investments of time and money – starting from $1m – over long periods of time (8-10 years).** They require forms of expertise and organisational attributes that NFPs do not typically have.
- Like IWDA, NFPs may conclude that traditional fundraising, particularly individual giving, remains the most effective and appropriate method to generate untied income.

14. An example is a NFP that runs training courses: the revenue from these courses may not generate any profit, but the training courses support the purpose of the NFP, and the revenue covers most of the cost.

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ABOUT IWDA

IWDA is an Australia-based organisation, resourcing diverse women's rights organisations primarily in Asia and the Pacific and contributing to global feminist movements to advance our vision of gender equality for all.

We have worked for more than 35 years to defend and advance the rights of diverse women and girls.

Our roots are in the development sector, as Australia's only development organisation entirely focused on gender equality. This brings strengths in the form of deep and long-lasting relationships with the network of women's rights organisations we support. And increasingly, our future lies as part of the global feminist movement.

IWDA's approach represents a third way between the models of women's funds and international development NGOs: we resource the work of diverse women's rights organisations, enable them to be more effective by providing support that goes beyond money, and we make our own contributions to feminist movements through advocacy, knowledge creation and translation.

ABOUT IMPACT ADVISORY GROUP

Impact Advisory Group (IAG) is a consultancy specialising in business development, philanthropy, research and strategy for NGOs and not-for-profits. Recent clients include International Women's Development Agency, Urgent Action Fund for Women's Human Rights – Asia and Pacific, Our Peoples Foundation (a First Nations-led multimedia agency) and the Responsible Investment Association Australasia.

Level 1, 250 Queen Street
Melbourne VIC 3000

1300 661 812
iwda@iwda.org.au
www.iwda.org.au

ABN 19 242 959 685
ACN 126 216 165

INTERNATIONAL WOMEN'S DEVELOPMENT AGENCY