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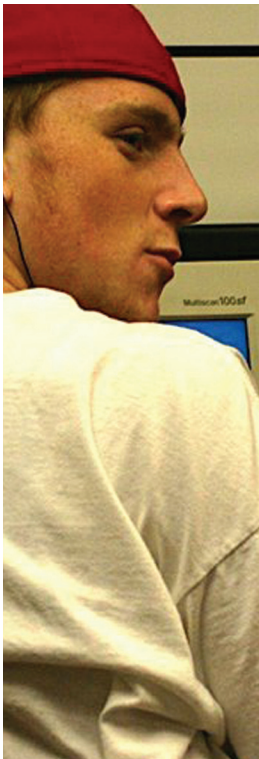
CASE STUDY

Business Insights from
Social Innovators

» FINANCIAL SUSTAINABILITY

WRITEBOSTON: Moving from Free to Fee

This case study is designed for nonprofit organizations that currently provide their services for free or a limited fee and seek to implement or increase fees in the short or long term. "Moving from Free to Fee" describes how one organization made the transition, while outlining the steps to take and factors to consider for other organizations seeking to do the same.



ABOUT THE AUTHORS

Andrew Wolk: Widely recognized as a leading social innovator and a pioneering teacher of social entrepreneurship, Andrew founded Root Cause in 2004 and now leads its overall strategic direction. He has consulted to dozens of organizations and recently authored the book *Business Planning for Enduring Social Impact*. Additionally, he published a chapter in the Small Business Administration's annual report to the president of the United States on social entrepreneurship and government. Andrew designed and taught one of the first courses on social entrepreneurship in the country. Currently, he is a senior lecturer in social entrepreneurship at MIT, and recently he was appointed a Gleitsman Visiting Practitioner in Social Innovation at David Gergen's Center for Public Leadership at Harvard University.

Colleen Connolly: As a Graduate Fellow at Root Cause, Colleen helped develop the concept for the *Business Insights from Social Innovators* case studies series and co-authored this first case study. Colleen is currently working at Fidelity Investments, where she is part of a team that manages corporate-wide environmental sustainability initiatives. Colleen holds an M.B.A. from Babson College, and a B.A. in Journalism and Mass Communication from the University of Iowa.

ABOUT ROOT CAUSE

Root Cause is a nonprofit organization that advances enduring solutions to social and economic problems by supporting social innovators and educating social impact investors.

Through Root Cause Knowledge Sharing, we are committed to developing practical and thought-provoking information based on our experience with business planning and implementation, leadership development, and the creation of networks that unite the public, private, and nonprofit sectors.

This case study is the first in a new series entitled *Business Insights from Social Innovators* — an opportunity for socially innovative organizations to share knowledge with their peers through “how-to” case studies developed by Root Cause.

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WRITEBOSTON:

Moving from Free to Fee

by Andrew Wolk and Colleen Connolly

Nonprofit organizations have demonstrated a growing interest in developing sources of earned income. Yet, too often, they seek to develop new products and services, while overlooking what tend to be the most effective and expedient sources of earned income: the services that nonprofits are already providing to carry out their missions. This case study describes how one organization, WriteBoston, began charging fees for its programming to cover a portion of the costs.

About WriteBoston

WriteBoston works to improve writing proficiency among high school students by matching teachers with expert writing coaches and creating opportunities for students to engage in the writing process with peers and community members. Founded in 2002 in partnership with the City of Boston, the organization seeks to close the performance gap in writing proficiency for students in Boston public high schools.

Writing coaches constitute the centerpiece of the organization's model. Each WriteBoston high school has a part-time writing coach who works with four to six teachers to model writing instruction across the school community and provide the teachers with classroom support. Coaches share best teaching practices for motivating students, incorporating volunteers, publishing student work, and improving writing abilities. They integrate their work with each school's English Department and eventually participate on school-wide curriculum teams.

WriteBoston also offers its high schools an array of programs that cultivate a culture of writing and integrate with school curricula. The organization facilitates author visits, journalism internships, poetry slams (in partnership with Starbucks), and other writing events both during and after school.

In addition, WriteBoston partners with *The Boston Globe* to publish *Teens in Print*, a city-wide newspaper by and for Boston public high school students.

Since 2002, WriteBoston has grown from a three-school pilot program to a renowned organization that serves 4,000 students in ten Boston Public Schools. Results from the 2006–2007 academic year showed that 83 percent of the organization’s students demonstrated improvements in writing assessments. In addition, 100 percent of teachers working with WriteBoston reported that their writing instruction improved.¹

The Challenge: Building a Financially Sustainable Organization

In 2005, WriteBoston Director Betty Southwick faced a challenge familiar to many nonprofit organizations. She was about to complete a three-year pilot period, which meant reaching the end of about \$300,000

in funding from the foundations that had supported the organization’s start-up phase. Much of WriteBoston’s future funding would need to come from new sources.

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BUSINESS INSIGHT

Strive for Financial Sustainability

Many nonprofits generate the vast majority of their revenue from unpredictable philanthropic sources—mostly foundation grants that tend not to support the same organizations over long periods of time. As Southwick realized when she sought new sources of revenue for her organization, earned income can serve as a major step toward making your organization’s financial situation more predictable. This is particularly true if you think of earned income as part of a larger financial sustainability plan.

Plans for achieving financial sustainability tend to include two fundamental components, which your organization should consider seeking out if it isn’t making use of them already:

1. **Predictable revenue sources:** These are long-term, repeat, and performance-based funding sources. In addition to earned income, such funding can come from individuals, government, corporations, and some types of foundation grants.
2. **Non-financial resources:** These are skilled or unskilled volunteers and one-time or recurring in-kind donations that can provide a major boost to your budget.

enue and the sources of that revenue with reasonable certainty.²

Including earned income in WriteBoston's funding mix proved particularly attractive.³ Such income, if sourced from current services rendered, would grow to meet the costs of an expanding organization. Also, unlike most foundation funding, earned income is unrestricted and can cover costs such as overhead, which are notoriously difficult to fund with grants. As Southwick explained, "I had always hoped Boston Public Schools would recognize this as an asset and eventually pay because we're adding so much value to the schools. How and when—I don't think we knew that at the outset."

As WriteBoston concluded its start-up phase and prepared to expand its program into more schools, Southwick recognized that WriteBoston's current services were providing value in such a way that they could be a source of earned income. She concluded that the time had come to attempt charging

Earned Income as Part of a Financial Sustainability Plan



a fee for these services in order to cover at least part of the costs of programming.

To succeed in moving from free to fee, Southwick sought to demonstrate that WriteBoston had created significant value

BUSINESS INSIGHT

Identify Your Customers

To generate reliable revenue, WriteBoston turned one group of its stakeholders — schools — into customers. Identifying your own potential customers will help you think about who could help cover the costs of your programming. To identify your own customers, list all of your stakeholders and identify the group or groups that might be willing and able to pay fees to cover at least a portion of your costs.

and delivered results for the schools. Her ultimate goal was to convince the schools in which the organization operated to become her customers: stakeholders who pay a fee in order to receive WriteBoston's services.

Since WriteBoston's potential customers were resource-strapped public schools, the organization could not expect to recover its full programming costs through fees. The challenge was to understand WriteBoston's programming as a service that could be sold, while determining what would make Boston Public Schools willing and able to share its costs. Ultimately, the goal was to make service fees one of several funding streams that would allow WriteBoston to ensure its ability to continue helping Boston students improve their writing skills.

Paving the Way for a Fee-based Service: Creating Value and Building Relationships

Looking back at WriteBoston's development over its first three years helps to illustrate how the organization succeeded in transitioning to a fee-based model. Two major actions that

WriteBoston took during its start-up phase paved the way for including fees as part of its funding model:

- First, WriteBoston committed to including stakeholders in the development and refinement of its organizational model. As a result, the organization was able to develop programming that provided a great deal of value to its schools.
- Second, Southwick worked to build relationships with teachers and administrators. This meant that she was already working in partnership with her potential customers and had a good sense of their needs by the time the start-up phase ended.

From the beginning, WriteBoston invited and acted upon feedback from the organization's stakeholders: students, teachers, school administrators, and funders. Southwick explains, "You're not going to get it right the first time, and you can't change the culture of writing in a school in one year. The start-up phase of WriteBoston's program was critical to developing a model that worked, was proven, and showed results."

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Guided by such input from all of its stakeholders, WriteBoston used its three-year pilot period to take risks, experiment with a variety of projects, and develop its staff and curricu-

BUSINESS INSIGHT

Create a Customer Feedback Loop

A customer feedback loop is simply a method of learning about your programming from those who benefit from it. Common methods for collecting such feedback include surveys and regular meetings with key stakeholders. Involving your stakeholders in your program development process helps you to see where and how you can create value for them. Customer feedback loops are helpful at later stages as well, as they can aid in adapting your program to your beneficiaries' changing needs.

lum. The organization provided its schools with a wide array of program options—such as author visits, poetry events, writing fellowships, and pen pals—while keeping an eye out for what worked and what didn't. The organization also surveyed the teachers at the end of each year to measure the impact of various aspects of the program, as well as to learn what program components they felt were most effective.

This feedback guided program improvements, and, at times, generated new programming. One pilot school, for example, requested writing coaches in math classes in addition to English and language arts classes. In response, WriteBoston developed a program that supplemented mathematics instruction with assignments that required students to write explanations of equations and solutions. Bringing writing to math classes proved to be effective, and WriteBoston now includes math classes as part of its program offerings in a number of its schools.

Working with schools and teachers as partners in developing WriteBoston's programming also enabled Southwick to build sound relationships with principals and teachers. Building relationships with the principals proved particularly crucial, since they were the main decision-makers in bringing WriteBoston to their schools. Each time WriteBoston signed up a new school, Southwick would ask the principal, "What do you want to accomplish with this program?" Together, they would review the needs of the school and discuss writing education, assessment, and teacher selection. Then, each quarter, Southwick met personally with the principal to gauge the program's progress. Southwick also worked to build relationships with teachers, who worked closely with WriteBoston staff and had a great deal of influence on the principals' decision-making.

BUSINESS INSIGHT

Identify Decision-Makers and Influencers

Within any customer group are decision-makers and key influencers. Decision-makers tend to hold the purse strings, while influencers contribute to the decision-making process. As you seek to build relationships, make sure to identify and get to know the key decision-makers and influencers for your organization's customers.

As a result of its commitment to learning from feedback and building relationships, by the end of its third year, WriteBoston had clearly demonstrated its value to Boston Public Schools. In Boston Public Schools that partnered with WriteBoston, students' scores on the English and Language Arts component of the Massachusetts Com-

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prehensive Assessment System (MCAS) were increasing at a higher rate than in the district's schools that did not work with WriteBoston. Students were enthusiastically participating in school-wide poetry events and applying for writing fellowships. According to one principal, "The 'culture of writing' changed when WriteBoston began working with our teachers and students." Principals from other Boston Public Schools who had heard about the program's success from the pilot schools' principals began inquiring about expanding WriteBoston to their schools. This made it easy for the organization to approach principals about the idea of a fee-based service when the pilot period ended. Southwick had created a situation in which the principals would be reluctant to see WriteBoston go.

Making the Transition from Free to Fee: Sharing Costs

With a program model that had incorporated stakeholder feedback, established strong relationships with teachers and principals, and demonstrated its value to Boston Public Schools, WriteBoston was able to openly address the question of funding. Southwick recalls, "I went to the principals and told them, 'I can't continue without revenue. How can we work together to do this?'" All parties agreed that they wanted to keep

WriteBoston in existing schools and to expand to others.

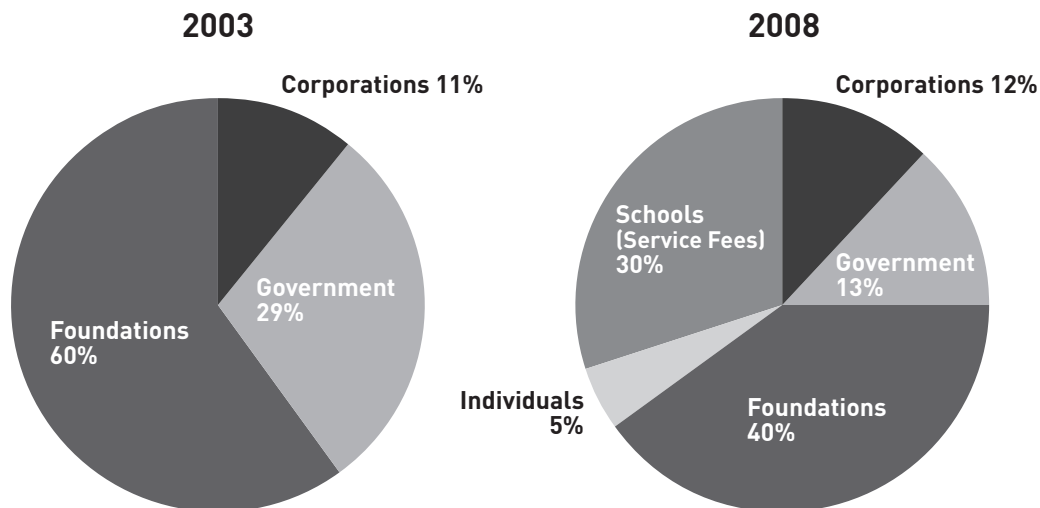
The next question was determining how to price the program. Southwick began calculating a fee by considering the total costs to deliver the program, including overhead. Although the City of Boston paid a small portion of WriteBoston's overhead, Southwick raised all programming and remaining overhead costs through foundations and other fundraising. Writing coaches constituted the bulk of WriteBoston's programming costs. For a full-time writing coach, the organization spent \$60,000 plus benefits, which did not include overhead costs. Coaches work in multiple schools, making the cost per school for a writing coach approximately \$40,000 per year. Southwick determined that sharing the direct costs of the writing coach was a reasonable and pragmatic approach. Asking for half seemed practical from a marketing perspective, as it would demonstrate a partnership between WriteBoston and the schools. When she approached the principals, they agreed with Southwick's proposal to split the \$40,000 cost 50/50.

Because both Southwick and the school are investing in the program financially, both parties can truly say, "We're in this together."

According to Southwick, because both she and the school are investing in the program financially, both parties can truly say, "We're in this together." "It makes the partnership stronger. It pushes the ante on both of us to commit to make this shared mission happen," she explains. "When you have a principal who is paying \$20,000, they want to know what you're doing. They make sure you're working with the right teachers. It makes a huge difference."

Reaching Financial Sustainability

Charging a fee to cover a portion of WriteBoston's funding has not only provided the organization with a reliable funding stream, but also helped the organization to identify other reliable sources of funding. As the



Calculate the Costs of Your Service in Three Steps

Setting a price for your service or product can be a sensitive and difficult process, especially if you are providing it to other resource-constrained entities like public schools. To get started, it is best to calculate the full cost to deliver services or products to customers, including program expenses and overhead. This will help you to better understand what percentage of budget will be recouped.

- 1. ESTIMATE YOUR COSTS** — Consider the full cost of delivering your service. Include direct costs (such as labor and/or materials) and indirect costs or overhead (such as management salaries and rent).

For example, an after-school tutoring program working with 10 students may estimate its costs as such:

PROGRAM COSTS	
Program Supplies	\$50
Tutor Wages	\$200
Total Program Costs	\$250
Program Cost per Student	\$25
FIXED OVERHEAD COSTS	
Rent	\$800
Management	\$400
Total Overhead	\$1,200
Full Cost (Program and Overhead)	\$1,450
Full Cost Per Student	\$145

- 2. PRICE YOUR PRODUCT OR SERVICE** — Now that you know your full cost, you can determine how much of those costs you might be able to cover with fees. Most nonprofits moving from free to fee find they can only collect fees for a portion of their costs, which they subsidize through philanthropic sources. For the above example, the organization may choose to set a price between the program cost per student (\$25) and full cost per student (\$145). It is important to assess your customer's ability to pay when determining what price is reasonable.
- 3. TEST** — Keep in mind that the price you initially charge is not set in stone. You'll need to continue reevaluating the market for your service and retesting your price, especially if your costs increase or the funding environment for you or your customers changes.

charts below show, before it began charging fees, WriteBoston relied on foundations for 60 percent of its funding. Service fees now account for 30 percent of the organization's income, and the organization has reduced its reliance on foundation funding to 40 percent. This success also enabled the organization to grow its revenue without increasing government funding and develop a more diversified mix of income that includes not only earned income, but also increased revenue from corporations and individual donors.

Earned income through service fees, along with increased corporate and individual funding, has made it possible for the organization to significantly reduce its reliance on foundation funding. Since earned income, corporate funding, and individual donations all tend to be more reliable and renewable than foundation funding, WriteBoston has a much more predictable budget. As a result, Southwick can devote more of her time to carrying out WriteBoston's work.

In addition, Southwick has noticed that being able to show potential funders a financial sustainability plan that includes

Potential customers will be more willing to pay for WriteBoston's services when they see that the organization not only has current paying customers, but also data to support its success.

earned income has significantly boosted fundraising efforts. The payment serves as an endorsement that increases her bargaining power in fundraising. By showing funders that WriteBoston is on a path toward financial sustainability and being paid for its services, the organization establishes both the credibility and value of its program.

Looking Forward: Using Data to Stay in Current Schools and Expand to New Schools

In the schools in which WriteBoston operated during its start-up phase, Southwick has succeeded in moving from free to fee through building relationships with her key stakeholders. Now, the challenge is to maintain the program in current schools as well as expand to new schools with a

BUSINESS INSIGHT

Measure and Report Performance

To continue to grow and attract larger sources of revenue, nonprofits need more than a relevant mission and strong programming. It is also vital to measure and publicly report on your performance and social impact.

While such public reporting can be accomplished via existing publications such as an annual report, we recommend what we call a report card — a publication dedicated to performance measurement that highlights your commitment to learning and improvement and shares some of your results and insights.⁴

Demonstrating your ability to quantify your progress signals that you are credible and accountable. It will also help you to identify and make improvements to your model that will ensure that you are carrying out your mission effectively.

fee-based model. To appeal to administrators who do not yet know the program, WriteBoston plans to make use of the data demonstrating the results of its current and past programming. Potential customers will be more willing to pay for WriteBoston's services when they see that the organization not only has current paying customers, but also data to support its success. Furthermore, the results confirm to current customers that resources allocated to WriteBoston are well spent.

Measuring and publicly reporting WriteBoston's performance will build the organization's credibility and help to attract other sources of revenue, such as foundations and corporate funders. Ultimately, sound data will enable the organization to build new relationships, potentially reevaluate the pricing of the program, and broaden its sources of reliable revenue.

Conclusion

WriteBoston succeeded in developing a strong earned income source by finding a way to collect fees for what it does best: helping students become skilled and passionate writers. Moving from free to fee proved to be less intimidating than it initially appeared. After involving teachers and administrators in the development of the organization's program and responding to their needs in order to provide a valuable service to Boston Public Schools, WriteBoston was able to make a strong case for a fee-based service.

The organization's new financial partnership with its schools has enabled WriteBoston to continue to expand and improve its model. WriteBoston has grown from a three-school pilot program to a renowned organization operating in ten schools, eight of which

are fee-based.⁵ As mentioned in the introduction to this case study, results from the 2006–2007 academic year showed that 83 percent of the organization's students demonstrated improvements in writing assessments. In addition, 100 percent of teachers working with WriteBoston reported that their writing instruction improved.

WriteBoston's accomplishments in moving from free to fee have also helped the organization to attract new support from foundations to test methods of further expanding and improving the program. In 2007, Boston Public Schools and the Calderwood Foundation partnered with WriteBoston to create two Writing Centers that supplement WriteBoston's classroom programming with one-on-one tutoring for students. By 2008, two such Writing Centers were serving seven Boston public high schools.

IMPLEMENTATION GUIDE

How to Lead Your Organization From Free to Fee

Nonprofits seeking to implement or increase a fee for their services can use this implementation guide to apply the lessons learned from WriteBoston to their own efforts to move from free to fee. Listed below are key actions that your own organization can take. If your organization has already taken some of the actions listed below, we recommend that you focus on those you have yet to accomplish. If the actions listed here are new to your organization, we recommend starting with the first one—identifying your customers.

- **IDENTIFY YOUR POTENTIAL CUSTOMERS AND OTHER KEY STAKEHOLDERS.** With your staff, discuss and list your potential customers, in addition to the other stakeholders whom you believe will have the greatest direct or indirect impact on your ability to charge a fee. For example, Southwick identified school principals or other administrators as the most likely potential customers and teachers as additional key stakeholders.

Once you have created your list, evaluate the current state of your relationships with each of your stakeholders, and consider how you might strengthen those relationships.

- **BUILD RELATIONSHIPS WHILE INVOLVING YOUR STAKEHOLDERS IN THE DEVELOPMENT OR REFINEMENT OF YOUR PRODUCT OR SERVICE.** It is never too late to involve your stakeholders if you have not already done so—particularly because this is essential to building the relationships that will make it possible for you to transition from free to fee. Getting your stakeholders involved can be as simple as having a conversation about your current offerings, and it is most effective when you can be specific about areas in which you would like to hear feedback. If you are still in the process of developing your programming, take full advantage of collaboration and feedback opportunities with all of your stakeholders. For WriteBoston, soliciting and acting on feedback increased the value that the organization was able to provide to schools, while strengthening relationships with the teachers and principals involved with its programming.

Keep in mind that, as part of the process of building relationships, you will also want to make your stakeholders aware that you seek to charge a fee for your organization's service at some point in the future.

- **CALCULATE COSTS.** With your accountant or financial advisor, determine the full cost, including overhead, to deliver your service. Then estimate what your customer will be willing to pay, by researching your competitors' prices or by asking a few potential customers what they might be willing to pay. Based on this information, decide whether you will subsidize your service and, if so, by how much. For example, Southwick knew she would not be able to cover all of her costs through a fee to schools. In the end, she decided to subsidize 50 percent of her costs through revenue from foundations, corporations, and individuals.

Once you have begun charging a fee, you will want to keep a close eye on your costs, and look for signs that your customer might be willing to pay more.

- **PREPARE AND MAKE THE ASK.** When you have begun to note that your stakeholders see the value of your programming, set up a meeting with the decision-maker who is positioned to act on your request. Remember that, by this point, the ask should not come as a surprise—as informing stakeholders of your intention to charge a fee should have been part of the relationship-building process.

In preparing for the meeting, develop a presentation, which could include data, testimonials, a presentation from a beneficiary of your program, or a written summary of your reasons for seeking to transition from free to fee. If you have a close relationship with your potential customer, the 'ask' may be as simple as a conversation, as was the case for WriteBoston.

Endnotes

- 1 WriteBoston gathered these results through surveys of participants at the end of the 2006–2007 academic year.
- 2 For more information on building a financial sustainability plan, see Andrew Wolk and Kelly Kreitz’s *Business Planning for Enduring Social Impact: A Social-Entrepreneurial Approach to Solving Social Problems* at http://www.rootcause.org/knowledge_sharing/business_planning_guide.
- 3 Earned income is any revenue generated by a nonprofit by charging for a particular service or product in order to finance its mission.
- 4 For more information on how you can measure your organization’s performance and impact, see the Root Cause Solutions issue “Measuring Performance and Impact,” November 2006, at http://www.rootcause.org/knowledge_sharing/solutions/fall2006 or Andrew Wolk, Anand Dholakia, and Kelly Kreitz’s “Performance Measurement for Enduring Social Impact: Using Data to Improve Your Organization” at http://www.rootcause.org/knowledge_sharing. (Currently in press.)
- 5 The remaining two schools are pilots funded wholly by foundations.

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