

DECEMBER 2003

VolunteerMatch

A Case Study in Balancing Mission and Margin



Seth Barad

Liz Maw

Interest in earned-income ventures is rocketing. In a recent Bridgespan survey of 53 nonprofits with budgets mostly in the \$3M to \$15M range, for example, more than 50% said they planned to initiate a venture in the next two years. And in the face of an increasingly competitive funding environment, this interest is easy to understand. Earned-income ventures hold the promise of diminishing an organization's dependence on potentially unreliable sources, while also diversifying its funding base. They can supply funds for general operating support, which public and philanthropic funders seldom provide. Moreover, these ventures are very much in the news—not to mention in the sights of a growing number of foundations and individual donors who believe that running a business has organizational benefits as well as economic ones.

Making earned revenue contribute to margin is extraordinarily challenging, however, just as it is in the for-profit world. Although some 2.9M businesses start up in the United States each year, only 39% are profitable over their lifetime and roughly half fail in the first 5 years.** It's hardly surprising, then, that the odds of success for nonprofits are equally daunting, if not more so. In fact, one way to approach an earned-income venture is to ask yourself if it didn't end up making money, would you run the venture anyway? In other words, is the venture strongly aligned with your organization's mission?*

Even when you have a venture that's highly related to your mission, it still requires a lot of careful thought, analysis and planning. Consider VolunteerMatch. The organization had developed two revenue-generating business units in its first three years of operation, and the management team believed there were other possibilities worth pursuing as well. At the same time, neither of the existing operations was generating a positive contribution, and many on the staff were fearful that some of the new options might make VolunteerMatch too commercial and profit-driven. Were there ways to improve the performance of existing

* 1997 U.S. Census Bureau data

** National Federation of Independent Business' Education Foundation

ventures? Which of the potential new activities, if any, could contribute to the organization's margin without compromising its mission? These were some of the questions VolunteerMatch was asking when its founder and CEO, Jay Backstrand, invited a team from the Bridgespan Group to help them explore the challenges of earned-income ventures.

VolunteerMatch at a Glance

Suppose you've recently moved to a new city and are looking for a place to volunteer, or you're developing an interest in an important social issue, or you want to spend a weekend doing something to make the world a better place: how can you turn your good intentions into action? VolunteerMatch has provided an effective answer to this question for hundreds of thousands of people across the U.S. since its founding in 1998.

Launched at the height of the Internet start-up boom, VolunteerMatch is the largest web-based volunteer-matching service in the country. Its founder, Jay Backstrand, began his career at Sun Microsystems where he was one of the principal organizers of NetDay, a service day that mobilized more than 25,000 volunteers to connect California schools to the Internet. Inspired by the Internet's potential, Backstrand decided to create and run a website that would allow nonprofit organizations to post their volunteer opportunities for free. The idea took off, and before long he had left Sun to run the nonprofit site full time.

VolunteerMatch pursued its mission, "to help everyone find a great place to volunteer," by creating an easy-to-use online database of volunteer opportunities with community service organizations throughout the country. Volunteers could search the database of listings by location, date, or type of nonprofit. They could also look for opportunities to suit their own needs; for example, organizations that welcomed large groups or volunteers who wished to bring their children with them. Once a potential volunteer found an interesting opportunity in the database, she or he would send an e-mail referral to the nonprofit organization. From that point, the nonprofit organization and volunteer communicated independently to arrange a meeting. By September 2001 when VolunteerMatch and Bridgespan began working together, the site had registered over 17,000 nonprofit organizations and tracked over 500,000 referrals between volunteers and organizations.

Backstrand secured the organization's initial \$200,000 in funding by approaching individuals in his personal and professional network. As the organization expanded to over a dozen employees and moved its offices to central San

Francisco, its fundraising strategy expanded as well. The development team initially focused on contributions from individuals, but then shifted towards grants from small foundations and then to multi-year grants from national foundations. At the same time, the organization's senior managers were eager to find ways to support VolunteerMatch's activities without relying exclusively on philanthropy. To this end, they developed VolunteerMatch Corporate, a fee-based customized version of the VolunteerMatch site that companies could host on their intranets to encourage employees to volunteer in their communities. They also entered into a few licensing deals, which allowed other Internet-based organizations to display a version of the VolunteerMatch database on their websites. By the end of 2000, although both of these business units were generating revenue, genuine earned income—meaning a positive contribution to VolunteerMatch overall—was still an ambitious goal.

Key Questions

As the VolunteerMatch team moved forward with Bridgespan to explore its earned-income potential, several key questions emerged to guide the process:

- What changes would be required for the organization's current business units to start making a positive financial contribution?
- What other opportunities to expand VolunteerMatch's earned-income efforts existed, and how should they be prioritized?
- What would it take to implement the new ventures, and how could VolunteerMatch guard against undertaking initiatives that would subtract more from the organization—in dollars and staff time—than they could possibly add?

Understanding the Current State of Play: Analyzing the Existing Business Units

While VolunteerMatch had a good handle on the existing business units' aggregate revenues and costs, it (like many nonprofits) lacked the level of detail that would illuminate each one's specific cost structure. From current financial reports, for instance, VolunteerMatch staff could not discern whether or not they were inadvertently subsidizing certain groups of customers. Developing a more rigorous understanding of each unit's costs, the majority of which were staff time, was thus the essential first step in improving the existing businesses' ability to contribute financially to the core for-free VolunteerMatch services.* Because VolunteerMatch Corporate (VMC) was the larger of the two businesses, the team focused most of its time and effort there. But the organization subsequently completed a similar analysis—with similar results—for its licensing business.

One major contributor to VMC's costs was the process of acquiring new customers. This process was long and labor intensive, due in part to the fact that the actual customer varied from company to company. Sometimes the sales team dealt with corporate human resources departments, sometimes with community affairs, and sometimes with corporate foundations, creating the need for different types of procedures and pitches. In addition, closing a sale could take anywhere from six to ten months because of the corporations' long decision cycles, strict legal requirements, and complicated purchasing procedures. Nevertheless, the VMC staff was tenacious in following leads, regardless of the size of the contract, because they saw each client acquisition as a victory. Beyond building the business's credibility, every new corporate customer advanced VolunteerMatch's mission by expanding the pool of volunteers.

* For additional information on developing a clear view of your full costs, please see the paper "Costs Are Cool" by Susan Colby and Abigail Rubin, which is available online at www.bridgespangroup.org

To determine the average cost to enroll a corporate client, the team deconstructed this intricate process. (Please see *Exhibit A*.) The cost figure that emerged proved to be significantly higher than VolunteerMatch had thought, in large part because the team rightly factored in the time spent on both unsuccessful and successful sales. (For example, if a sales team spent 20 hours on each prospect, and only one in 10 corporations actually purchased the service, the average number of hours for each client enrollment would be 200.) In fact, because VMC's pricing was based on the number of people the corporation employed, the price charged to some of the smaller clients barely covered the acquisition cost—even before other costs had been considered.

Exhibit A: Calculating an Average Cost to Enroll a Corporate Client (Illustrative Example)

	Average number of sales hours per client enrollment	X	Cost of each sales hour	=	Average enrollment cost per client
Description	<ul style="list-style-type: none"> • Step 1: Estimate the average number of hours VMC spent on a client enrollment, factoring in time for both unsuccessful and successful attempts 		<ul style="list-style-type: none"> • Step 2: Determine the cost of each sales hour, reflecting the full cost of a salesperson (i.e., salary, benefits, and overhead) 		<ul style="list-style-type: none"> • Step 3: Calculate the average cost for the enrollment process
Equation	<ul style="list-style-type: none"> • Time spent on each prospect multiplied by leads per completed enrollment 		<ul style="list-style-type: none"> • Annual cost of a salesperson divided by the number of working hours in the year 		<ul style="list-style-type: none"> • Average number of hours per client enrollment multiplied by the cost of each sales hour
Illustrative example	<ul style="list-style-type: none"> • If a team spent 20 hours on each prospect, and only one in 10 prospects purchased the service, the average number of hours for per client enrollment would be 200 		<ul style="list-style-type: none"> • If the average full annual cost of a salesperson were \$50,000 and each salesperson worked 2,000 hours per year, each sales hour would cost \$25 		<ul style="list-style-type: none"> • 200 sales hours per client enrollment multiplied by \$25 per sales hour yields \$5,000 per enrollment

Next the team turned to VMC's other major cost area, client services.

VolunteerMatch client-relations staff not only helped their customers with technical questions and specialized procedures, but also assisted them with overall strategy and event planning for their corporate volunteer programs. The staff believed that a high level of service was essential to helping clients understand the best way to use the VMC product to increase employee volunteerism, and that without such help corporations would be much less likely to renew their contracts with VolunteerMatch.

At the same time, the staff realized that the current level of service would be difficult to maintain as the program grew larger, and they suspected that service costs were compromising the unit's ability to contribute financially. To build an accurate picture of these costs, the staff developed estimates of how many hours they spent on each client service task. Then, through calculating their staff costs per hour (using the same process as for the sales staff), they were able to estimate the average cost of servicing each client. These costs, like those associated with sales, were at times barely covered by the client's fees.

While enrollment and service activities accounted for the bulk of VMC's costs, the program incurred a number of other costs as well. To calculate these costs, the team looked at the time people in other parts of the organization, such as the President, engineers, marketing and accounting staff, spent on the VMC program. They also added in non-personnel costs such as marketing materials and travel. Last but not least, VolunteerMatch thought it appropriate that the VMC unit share some of the overall costs of running the free public site, and therefore allocated a portion of the organization's capital costs, such as engineering hardware, and general marketing costs to VMC. The bottom line of this analysis: both VMC's pricing structure and the way in which the VMC team chose to expend their limited sales and service resources would have to change if the product were to generate a positive contribution on a client-by-client basis.

Evaluating Opportunities: Which New Ideas Should We Pursue?

Concurrently with these cost analyses, the Bridgespan-VolunteerMatch team also was exploring new earned-income possibilities. Over the years, members of the VolunteerMatch staff had frequently floated ideas for new ventures, but they had no systematic way to vet them or to decide which ones to pursue. To put these ideas – and more – on the table, the team developed a four-stage process beginning with an all-staff brainstorming session.

The session yielded a total of 53 earned-income possibilities. Some were similar to those used by commercial Internet sites, such as banner advertisements, online sales of VolunteerMatch logo gear (hats, for example), and nonprofit job or classified listings. Others included new off-line services, such as consulting to nonprofits on their volunteer programs and planning conferences on volunteerism. A third set of ideas, such as a fundraising gala and corporate sponsorship of the web site, revolved around expanded philanthropic efforts and reflected the group's recognition that donated income was itself a form of earned income. Finally, some ideas centered on membership packages that would introduce new tools, such as an on-screen calendar that could show volunteers all their up-coming commitments and an on-line resume that would allow volunteers to list their relevance experience and qualifications.

SCREENING AND PRIORITIZING NEW IDEAS

Once all these ideas had been surfaced, the challenge was prioritizing them and identifying the handful that would be most worth pursuing. As the VolunteerMatch team discussed how best to do this, many staff members voiced concern that the organization risked becoming too commercial or profit-driven, distracting from its mission. The banner ads were a prime example. Unlike commercial web sites, the VolunteerMatch site was uncluttered and easy to use. Staff worried that if they started running ads, both volunteers and nonprofits would be put off and discouraged from using the service. To address this concern, the group agreed

that the evaluation process had to consider impact on the organization's social mission, not just financial potential. To this end, they devised three successive screens for evaluating the ideas.

The first screen was a "deal breaker" screen, which applied criteria that absolutely had to be met before an idea could be considered – no matter how high its financial potential. Broadly speaking, the criteria fell into two groups. One included values that many organizations share; for example, ideas had to be legal, and they had to pass a "sunshine" test, meaning that VolunteerMatch had to be comfortable explaining the ideas if a major news source like the New York Times ever asked them to do so. The second group of criteria included values that were specific to VolunteerMatch's mission and culture, such as reciprocity and involvement of customers on a democratic basis. Because the staff had not only been thinking about earned-income options for some time, but had also internalized VolunteerMatch's values, all 53 ideas had essentially been pre-screened, and none was derailed by this simple go/no go filter. Often, however, a subjective filter like this can be an invaluable way to winnow out ideas that will ultimately be revealed as implausible, before the organization invests much time or energy in them.

Next, the ideas were ranked in terms of their potential to generate earned income and their fit with VolunteerMatch's mission. To assess potential financial contribution, the team performed a high-level economic assessment of each idea over a three-year time span. These assessments drew on benchmarks and trends where possible, but where data was not available the team relied (appropriately) on best estimates. At this stage, conducting the kind of detailed cost analysis underway in the existing VMC business for each of the 53 ideas would have been impossible as well as unwarranted.

A proposed membership package for nonprofit users provides a representative example of these back-of-the-envelope assessments. To estimate the potential revenue, the team looked at market size, penetration rates, and price points.

- Market size: Based on past growth rates, how many new nonprofit organizations would be likely to post opportunities on the site?

- Penetration rates: Based on the team's best assumptions, how many of these nonprofits would be likely to purchase a membership package?
- Price points: Based on the costs of similar products in the nonprofit market, what would be a reasonable price to charge for the package?

To estimate the potential cost of creating and maintaining the package, the team looked at staff costs and marketing costs.

- Staff costs: How many staff members would be required to develop, service, market, and manage the product? What would be their total salary and overhead costs?
- Marketing costs: How much would they have to spend to publicize the product through advertisements in nonprofit publications?

Finally, the team evaluated both revenues and costs over a three-year period and calculated the package's net present value (NPV) to assess its potential financial contribution. While the resulting profitability numbers were rough, they provided a useful approximation for the idea's potential. *(Please see Exhibit B for an illustration of the results. For a brief description of NPV please see the appendix, "Financial Evaluation Methods.")*

To derive a ranking for how each idea would contribute to VolunteerMatch's social impact, the team began with the mission statement, "to help everyone find a great place to volunteer." The divided it into two components that could be tracked objectively: (1) the number of volunteers using the service, as measured by both new and repeat visitors; and (2) the quantity of good nonprofit opportunities, as measured by the number of organizations participating and the number of postings per nonprofit. Then they assessed the likely impact of each of the ideas on these mission-critical variables.

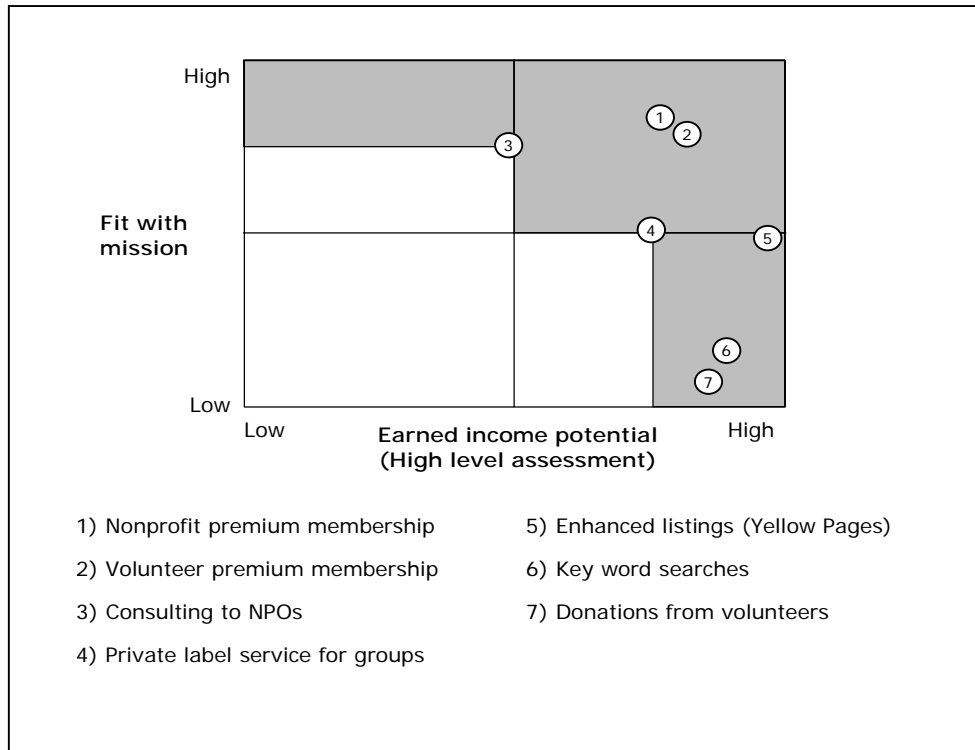
Exhibit B: Net Present Value Calculation of the Membership Package

	Year 1	Year 2	Year 3
Revenues			
Nonprofit users	10,000	15,000	18,000
Penetration rate	5%	10%	15%
Price / package	<u>\$35</u>	<u>\$35</u>	<u>\$40</u>
Total revenue	\$17,500	\$52,500	\$108,000
Costs			
<i>Personnel</i>			
Technology staff	\$10,000	\$1,500	\$1,500
Client service staff	\$5,000	\$5,500	\$6,000
Marketing staff	\$2,000	\$1,500	\$1,000
Benefits (15%)	\$2,550	\$1,275	\$1,275
Overhead (12%)	\$2,040	\$1,020	\$1,020
<i>Non-personnel</i>			
Marketing	<u>\$5,000</u>	<u>\$5,000</u>	<u>\$5,000</u>
Total costs	\$26,590	\$15,795	\$15,795
Total net	(\$9,090)	\$36,705	\$92,205
3 Year NPV	\$96,247		

The nonprofit membership package, for example, received a medium mission ranking for its potential to increase the quantity of committed volunteers (because the new tools would help the organizations attract more people). And it ranked high in terms of its potential to increase the number of good opportunities (because the tools would help the nonprofits develop and market their openings for volunteers). These scores were then combined to create a single numeric rank for the idea's mission contribution.

Once the team had ranked all the ideas, they plotted them on a matrix, with mission fit along the y-axis and earned-income potential along the x-axis. Ideas that ranked high on mission contribution, income contribution, or both would be considered further. Ideas that fell outside this zone, like the banner advertisements, which offered a medium potential for financial return but ranked very low on the mission axis, dropped out of consideration. Seven possibilities survived this second screen. (Please see Exhibit C.)

Exhibit C: Ideas Surviving the Screen for Mission Fit and Earned Income Potential



Now the team was ready to apply one last screen to the seven remaining ideas: how well would it build on and enhance VolunteerMatch's strengths? For example, would the new idea draw on demonstrated VolunteerMatch capabilities? How much of a strain would it place on the organization (in other words, what was the venture's operational intensity)? Would it promote VolunteerMatch as a leader in the volunteer matching field? Only one idea, consulting to nonprofits on volunteer programs, fell out of this screen. The rest became candidates for implementation – and closer scrutiny in terms of their fit with customer needs.

UNDERSTANDING CUSTOMER NEEDS

Thus far, the VolunteerMatch and Bridgespan team had relied on past experiences and public data in making assumptions and defining potential products. Now, they were ready to refine those assumptions by taking the product ideas to the people whose opinions would matter most – customers.

As a first step, the team conducted a small number of telephone interviews with each of its three major customer groups: the nonprofit organizations that posted or might post opportunities; current and potential volunteers; and corporate customers for VMC. Since the sample size was small, from 12 to 25 interviews in each customer group, the tests were not particularly useful for estimating potential penetration rates (that is, how many people might buy the new product or service). Rather, they were a good way to measure whether customers were generally comfortable with the ideas and to solicit feedback on product features and pricing. The interviewers asked customers about themselves, their experience with VolunteerMatch, if any, and their reaction to various products and price points. Each interview lasted about 20 minutes.

Response to these initial conversations was basically positive. But whereas the team felt ready to adjust the VMC product mix, thanks to their existing experience with corporate customers, they were less confident about their insight into the needs of the other two customer groups. Both nonprofits and volunteers were diverse groups, likely to be comprised of sub-segments that would need different kinds of products and services and that would vary in their willingness to pay. Rather than devote precious dollars to a full-scale marketing study to identify these segments, however, the VolunteerMatch staff decided to use a simple process, which leveraged what they already knew about their existing customers.

The entire VolunteerMatch staff split up into two teams, each of which took one kind of customer group (nonprofits or volunteers) and divided it into smaller segments based on behavior and needs. For example, the team working with volunteers knew that some of them would want to make a major commitment to a specific cause. They named this segment the “passionate volunteers.” Others,

however, were likely to look for one-time events they could participate in as their schedules allowed. They became known as the “busy one-timers.”

Next, the teams divided into smaller groups to flesh out each of the sub-segments they had identified. To spark their thinking, each group created a fictional, but specific, representative customer with a full set of personal and professional characteristics, such as age, occupation, and hobbies, in addition to their volunteer needs. What emerged were realistic profiles and robust statements of customer need. For example, the needs statement for a busy one-timer read: “Because my schedule is full and unpredictable, I value convenience and am open to a variety of causes and organizations.” The needs statement, in turn, led the team to think more deeply about their segment’s product offerings: busy one-timers might value a customized e-mail alerting them to upcoming volunteer events that fit their schedules.

Now it was time to take the final step: validating the ideas for each segment in the marketplace. VolunteerMatch contracted with a small online market research firm to help design and execute two types of Internet tests for the nonprofit and volunteer audiences.* The first test was a traditional survey submitted to a random sample of users that either visited the web site or subscribed to the VolunteerMatch newsletter. The survey asked questions that sought to refine the segmentation for each customer group and to rate their likelihood of purchasing various products. The second test was what is called a “dry” test, designed to provide a more accurate prediction of positive responses. This test sought to simulate a true sale by presenting potential customers with a realistic sales pitch and asking whether they would be interested in the product. Those who answered “yes” were told that the products were in development and invited to answer additional survey questions.

* Online testing is best conducted by professionals experienced in market research, since the results of a test can be meaningless if it is not correctly structured or worded. Organizations that do not have the resources to hire outside researchers could solicit help from experienced volunteers and from various publications on the topic.

The results underscored the value of the market tests. A number of ideas that had looked as though they would be high-potential financial contributors received extremely low interest ratings from prospective customers. In particular, very few volunteers said they would be interested either in joining VolunteerMatch as a member and receiving special account features like the customized e-mail alerts, or in making philanthropic donations. Responses from nonprofit organizations were more favorable; while many organizations indicated that they were unable to pay for any sort of product or service, some did express interest in tools that would help them stand out in the volunteer listings or manage their VolunteerMatch accounts.

Making Change and Moving Forward

After seven months of work, the VolunteerMatch staff was confident that they had a better understanding of their costs, customers, and product ideas. They were ready to move forward with plans for enhancing the financial contribution of their existing corporate businesses and introducing some new products and services.

The first set of changes was designed to boost the profitability of the VMC business unit.

These included:

- Determining the minimum price VMC could charge to small companies:^{*} Equipped with cost analyses that demonstrated that VolunteerMatch had been losing money on its smaller clients, the team was able to identify the minimum price that would cover their costs.
- Compensating the sales staff on commission: Commissions helped encourage the staff to focus on the corporate clients that would generate a positive financial contribution.
- Providing clients with product options: By developing versions of VMC with different sets of features, the staff was able to develop options to better meet individual client needs and budgets.
- Charging clients for different levels of client service. Since service accounted for a major portion of VMC's variable costs, the staff decided to separate after-sales service from the overall price and give clients a choice about the level of service they wished to receive. Clients could choose from a number

^{*} While VolunteerMatch also improved the pricing of its licensing business, management decided to explore such agreements in an opportunistic manner when demand arose. Since the organization had no existing channel for making these deals, the start-up sales and marketing costs would be prohibitive. In addition, the demand for such a product was as yet unproven.

of options that ranged from basic training and troubleshooting to full volunteer program administration.

- Developing new financial tools and accounting procedures: New tools and procedures were created to enable the team to accurately match costs and revenue for individual clients. These were developed as part of a comprehensive financial model, which allowed VolunteerMatch to prepare annual budgets and project earned income.

With respect to adding initiatives, the staff wisely focused most of its effort on the customers that had responded most positively in the online testing, the nonprofits. While they would continue to provide the basic posting service for free, they offered two new products for organizations that were willing to pay for additional benefits. One was a membership package. For a modest annual fee, nonprofits could join the “Community Leaders” program, which provided a bundle of features, including enhanced listings and special tools that made it easier to track activity, duplicate listings, and refresh volunteer opportunities. In addition, VolunteerMatch developed an “Extended Coverage” product that allowed an organization to post its opportunities in multiple zip codes without having to enter each one manually.

Finally, the organization decided to develop some of the special account features (like email alerts), which volunteers had appreciated but were unwilling to pay for. Although VolunteerMatch’s management knew that these features would not generate any revenue for the organization, they would make volunteering even easier and contribute to helping everyone find a great place to volunteer. From this perspective, VolunteerMatch’s work on earned income promised not only to help it move forward with its financial goals, but also to strengthen its social mission.

Appendix: Financial Evaluation Methods

Several methods exist for assessing the financial value of a venture. One approach is to look at what that venture might generate in revenue and costs at a future date (let's say 3-5 years after the initial ramp up). This method for assessing financial contribution helps an organization understand how significant the venture could become at some time in the future, but doesn't take any account of the cost of setting up the venture.

Two alternative ways to think about the venture's value can be more informative and are only slightly more involved: Net Present Value and Payback. Both of these approaches look at the future ability of the venture to contribute in relation to the initial costs to start it. Both calculations also require estimates of the start-up costs as well as the ongoing costs and revenues.

The more common is Net Present Value (NPV). An NPV calculation estimates the value of a venture over its lifetime, taking into account (1) investments required to launch and maintain the venture; (2) cash flows that the venture generates; and (3) the cost of financing the venture as reflected in a discount rate. This method calculates a "present value" by applying a discount rate to the venture's future cash flows. The discount rate represents the amount that one dollar invested could earn if it were invested in another opportunity with a similar level of risk. For example, a discount rate of 5% would suggest that an organization might earn five cents per year for every dollar invested. This present value is then "netted" against venture-related investments to yield the NPV. Spreadsheet programs such as Microsoft Excel usually provide tools to help calculate NPV.

The second alternative calculation that is often used to test an idea's worthiness is called "payback." A payback analysis computes the number of months or years that it will take for the cumulative net margin of the venture to equal the initial investment. So, if an idea takes \$500,000 to launch, generates \$300,000 of revenue per year and costs \$200,000 to run, the net margin from the new idea would be estimated at \$100,000 per year and it would take five years to recover

the start-up costs. The shorter the payback, the less risk that an expensive new idea could become a longer term financial drain to the organization.