ANDREW YOUNG SCHOOL
OF POLICY STUDIES

Mission-Market Tensions and Nonprofit Pricing

Dennis R. Young
Bernard B. and Eugenia A. Ramsey
Professor of Private Enterprise
Andrew Young School of Policy Studies
Georgia State University

Taehyun Jung, Doctoral Candidate
Andrew Young School of Policy Studies
Georgia State University

January 2008

Abstract

Private not-for-profit organizations combine characteristics of a public sector agency with those of a private, proprietary firm. In particular, nonprofits are required to address designated social missions while breaking even financially. This structure underlies the difficulty that nonprofit organizations face in making decisions with important resource implications. Specifically, choices that would achieve maximal mission impact may differ from choices that reward the organization in purely financial terms. As a result, nonprofit managers face a variety of trade-offs between mission responsive and financially rewarding actions. This paper considers some of these tradeoffs in the context of pricing decisions by nonprofit organizations. In particular, the paper draws on alternative theories of nonprofit pricing from the literature. In one theory, nonprofits are viewed as revenue maximizers, pricing their services to garner as much net revenue as possible to support their organizations. In an alternative theory, nonprofits are conceived as mission maximizers, pricing their services to achieve maximum mission impact within the constraint of financial solvency. The efficacy of these theories is explored through five case studies of organizations offering a variety of services within the context of a local social services federation. Evidence from these cases suggests that the forgoing theories apply in some combination for any given nonprofit organization. Several different behavioral patterns are found, including nonprofits seeking to balance financial and mission impacts in the pricing policies for each of their service offerings and others pursuing a strategic mix of pricing policies for profitable and mission-impacting services. It is clear from all cases observed that nonprofit managers struggle with mission-market tensions as they relate to pricing and that they can benefit from metrics to help them sort through these decisions in ways that resolve these tensions.

Introduction

Structurally, private not-for-profit organizations combine characteristics of a public sector agency with those of a private, proprietary firm. In particular, nonprofits are required to address designated social missions while breaking even financially. As a result, nonprofits are often described as having a "double bottom-line", that is both a financial and programmatic standard by which their performance is to be assessed (Bell- Rose, 2004; Clark et al, 2004). In fact, from a normative point of view, the notion of a double-bottom line is misleading. Achievement of the mission *is* the bottom line, while financial success may be prerequisite to such achievement. While devices such as double-bottom lines or balanced scorecards (Kaplan and Norton, 1996; Clark et al, 2004) may be helpful management tools, they can be counterproductive if allowed to obfuscate the ultimate criterion of success.

In terms of a positive theory, however, it is less clear how nonprofits actually behave. As organizations have a natural inclination to survive and grow, their managers and leaders are as likely to be judged by standards of organizational sustainability and growth as by any objective measure of mission achievement. This behavioral reality underlies the difficulty that nonprofit organizations face in making decisions with important resource implications (James, 1998). Specifically, choices that would achieve maximal mission impact may differ from choices that reward the organization in purely financial terms. As a result, nonprofit managers require clear focus, strong discipline and appropriate measurements in order to keep to the normatively prescribed path, and they face a variety of trade-offs between mission-responsive and financially rewarding actions.

Certainly nonprofits are not entirely unique in facing mission/market tensions and requiring a clear focus and direction. For-profit businesses and governmental organizations also have missions and must sustain themselves economically. And sometimes business or government executives will, for personal or other reasons, be dedicated to mission in ways that fail to align completely with maximum financial gain or to the prevailing political mandate that drives the allocation of public resources. However, mission/market tension is

generally more wrenching for nonprofits because financial sustenance and mission achievement are less likely to be as congruent as they are in business or government. In business, mission is generally instrumental to the ultimate goals of profit-making and wealth enhancement of owners and stockholders. Thus, missions are often adjusted or reframed with this in mind, usually without extraordinary conflict. In government, agencies are charged with a mission through the same political process that allocates their resources, so tensions between mission and market may be restricted to bureaucratic enclaves that challenge the majority view. For nonprofits, however, financial success is instrumental to the achievement of social mission, while the acquisition of financial resources often requires choices that can limit mission effectiveness. For example, financial success can be enhanced by selling services to those who can better afford to pay, or by promoting causes that are popular with certain donors, although such actions may short change the social mission for which the organization was established. Thus, special tensions are created that can pit organizational prosperity against mission achievement.

The purpose of this paper is to consider how tensions between mission and market manifest themselves in the context of nonprofit pricing decisions. Using case studies and some simple metrics, we explore the efficacy of two alternative theories. One theory posits that nonprofits simply price their services in a manner that maximizes their net revenue. This is a bureaucratic model premised on organizational sustenance and growth within the constraints of addressing demand in a particular field of service. A second theory posits that nonprofits price their services to maximize mission impact, often forgoing revenue potential in the process of targeting their services. This is a classical view of nonprofits as organizations seeking to achieve maximum social good within financial constraints. We investigate these theories at two levels: nonprofits make pricing decisions for each of the individual services they offer but they also commonly offer multiple services. One possibility is that nonprofits follow the same pricing logic for each service they offer. Another possibility is that they mix their logics in order to achieve some combination of mission impact and financial success.

Literature Review

Mission-market tension is not a new issue for nonprofits. Indeed, it has been examined in various forms over the past two decades, though with much greater attention since the 1990s. The literature on mission-market tensions can be traced to studies of nonprofit-government relations and concerns about "vendorism" in the delivery of social services. Kramer (1981) worried that heavy reliance on government funding in the form of purchase of service contracts would lead nonprofit social service agencies to become service delivery appendages to government and lose their independent perspectives as advocates for improvements in social welfare policy. More specifically, Young and Finch (1977), studying nonprofit foster care agencies, recognized the constraining factors on their mission-related behavior deriving from government per diem funding. However, a general review of research on this subject by Kramer (1987) found "the dysfunctional consequences of agencies receiving public funds [namely] dependency, cooptation and a dilution of advocacy and autonomy, goal deflection and loss of an agency's voluntaristic character through increased bureaucratization and professionalization" to be "considerably exaggerated" (p.247). Nonetheless, these concerns continued to build and a key study by Smith and Lipsky (1993) expressed considerable alarm over the loss of autonomy by nonprofit social service organizations stemming from contracting with government.

Paradoxically, recent research studies have been more concerned with changes in the public funding environment that have driven nonprofit social service organizations towards greater involvement in the *private* marketplace, with other mission vs. market consequences. In particular, Alexander (1999) noted that, especially for smaller and medium sized community and faith-based nonprofit organizations, changes in government policies, including funding cutbacks, cost pressures deriving from new reporting and staffing requirements, opening of competition with for-profit suppliers, and a more distressed clientele population, have created financial pressures that force nonprofits to make mission-related compromises, including raising prices, retrenching certain services, redirecting services away from the neediest clients, and reducing emphasis on research, education and

advocacy for client needs. Indeed, similar coping strategies were documented by Liebschutz (1992) when funding cutbacks occurred during the Reagan administration.

The *State of Nonprofit America* project led by Lester Salamon (2002) made a special point of highlighting mission/market tensions, citing growing reliance and pervasiveness of fee revenues, an increasingly entrepreneurial culture within the nonprofit sector, growing involvement of nonprofits with corporate partners, and intensifying competition with for-profit service providers. With these forces in play, Salamon observed: "The move to the market may thus be posing a far greater threat to the nonprofit sector's historic social justice and civic mission than the growth of government support before it." (p.47).

Mission/market tensions appear to take different forms in different fields of service. For example, in social services Smith (2002) highlights increasing for-profit competition, the advent of managed care arrangements, and a new emphasis on performance measurement that requires nonprofits to focus on service output measures to the possible neglect of less quantifiable accomplishments in advocacy or work with more difficult clients for whom it is harder to show results. In health care, Gray and Schlesinger (2002) note that increased competition with for-profit providers, and pressures from third party payers to control costs, have reduced the ability of nonprofits to devote resources to their traditional public service missions such as education and charity care. These researchers cite a convergence in the behaviors of for-profit and nonprofit providers, noting that "Even where nonprofits have maintained their role, they have often found it necessary to respond to the challenges confronting them in the health care field by becoming more like commercial enterprises." (p.92). Indeed, in the hospital field, the U.S. Senate Finance Committee recently asked pointed questions of major institutions about the nature of their charitable work and the degree to which it may be compromised by market-oriented practices (Trefinger, 2005).

In higher education, Stewart, Kane and Scruggs (2002) find institutions struggling, in the context of escalating costs, to set tuitions that will allow good students of modest means to

attend, and to cope with new for-profit competitors and pressures from corporate funders to commercialize research. Kirp's (2003) in-depth study of the practices of a selected sample of U.S. universities expresses particular concern about the infusion of business values into American higher education.

In the arts, Wyszomiriski (2002) cites the uncertainty and instability of government funding, escalating costs, changes in technology and competition with the profit-making sector. Pressures to increase earned income have resulted in "..changes in marketing, more emphasis on entrepreneurial activities, and a sharper concern for cultivating new audiences and new donors" (p.191). These developments are forcing nonprofit arts organizations to continually reconcile their mission foci with market incentives and pressures, and reappraise their relationships with the business sector and with for-profit arts organizations.

Studies of mission/market tensions in nonprofits generally recognize the complexity of the issues and the challenges nonprofit managers face in dealing with them. Dees (1998), for example, argues that nonprofits span a wide spectrum of motivations and interests, ranging from philanthropic to commercial, and that this richness can be a source of innovation and increased capacity so long as social mission is kept firmly in mind. Other authors such as Weisbrod (2004) and Foster and Bradach (2005) complain that nonprofits' pursuit of commercial ventures is diverting these organizations from fulfilling their social missions. A common theme is the need for nonprofits to maintain a clear identity and focus tied to social mission. To do that, various authors cite the need for better means of measuring nonprofit performance in order to reconcile financial and mission-related performance. For example, Bell-Rose (2004) suggests a social return on investment approach and the use of logic models to identify intermediary indicators that lead to desired social outcomes. Anheier (2005) reviews several other generic approaches to nonprofit performance measurement, including Kendall's and Knapp's production of welfare framework, the balanced scorecard, corporate dashboards, benchmarking, and other sets of performance measures developed by umbrella organizations such as Independent Sector, the National

Council of Voluntary Organizations, and United Way of America. And Paton (2003) offers a comprehensive study of performance measurement in "social enterprises". An interesting dimension of Paton's analysis is his inquiry into whether performance measurement itself, often encouraged or imposed by outside (market) agents, can compromise mission in the quest of better performance.

Conceptual Framework

While tensions between financial return and mission-achievement in the nonprofit context are problematic, these goals are not necessarily in diametric opposition. Given that nonprofits are intended to address a social mission, financial performance may be viewed as an instrumental variable contributing to that mission. The degree to which financial success is required to achieve mission may indeed depend on the nature of the mission. In some cases, nonprofits may legitimately decide to use their resources in a time-limited manner to achieve some goal, and then disband when resources are depleted. The Markey Trust provides one such illustration where a foundation (Dickason and Neuhauser, 2000) decided to concentrate its grant making for biomedical research over a limited period of time. Similarly, the John M. Olin Foundation is intentionally closing up shop after having financed a generation of conservative intellectual programming (DeParle, 2005). In these and other cases, part of the rationale for the time limitation was to concentrate resources on the mission, to avoid having that mission become obsolete, and to limit spending funds on maintaining the organization.

However, time-limited nonprofits are the exception rather than the rule. The classic case of a nonprofit deciding to continue operations once the mission was achieved is the March of Dimes, which adopted a new mission to address birth defects once polio was cured (Bowen et al, 1994). Here the rationale was that the existing organizational infrastructure represented valuable capital that could be effectively redeployed for a new, related mission. Unfortunately, many nonprofits fail to address the desirability of sustainability and growth explicitly. Many organizations die a slow death or slide into dormancy without ever

determining if this was the best way to allocate charitable resources. Indeed, it is even hard to find official records of what happened to many nonprofit organizations that stopped reporting their operations or filing tax returns (Bowen et al, 1994).

Given that most nonprofits decide, implicitly or otherwise, that ongoing economic viability is a prerequisite to mission achievement, further understanding of their behavior can be developed through the theory of nonprofit organizations as multi-product firms – first proposed by James (1983) and later expanded by Weisbrod et al (1998). In this framework, nonprofit organizations are viewed as producing two kinds of services – those which are profitable and help sustain the organization, and those which directly impact its mission and may require subsidy. If managers of the organization intend to maximize its mission impact while maintaining financial integrity, their challenge is to find just the right combination of these two types of activities. Hence, in each instance they must determine what the objective of the activity is – profit or mission impact – and then design effective policies for its execution.

In reality, nonprofit activities are not necessarily cleanly separable into profit making and mission-focused activity. Rather, many nonprofit activities combine both objectives. For example, a fund raising event may have a community-building objective as well as a financial one. And a mainstream mission focused activity such as providing day care for young children may be counted on to produce a certain level of revenues as well as to achieve a social goal. In all cases, however, the nonprofit manager must deal explicitly with the balance of financial and mission goals and the tensions between them. Thus, while a double bottom line rationale is dubious for the organization as a whole, it commonly applies in some way to the components of activity that make up the nonprofit's overall portfolio of activity.

Pricing. Nonprofit organizations produce many services for which charging a fee is feasible, i.e., where it is possible, at reasonable cost, to exclude people from consuming the service

unless they pay for it. Such nonprofit services include arts performances, museum visits, social service counseling, day care, educational programs, health and mental health treatment services, memberships in YMCAs and JCCs, gift shop sales and many others. While certain nonprofit products, such as policy advocacy or public art cannot be priced, a host of nonprofit services certainly can. The real questions are whether prices should be charged, and if so, how price schedules should be designed.

From a market incentive viewpoint, any excludable nonprofit service can be priced in such a way as to maximize net revenues, although in some cases (e.g. high fixed costs and modest demand) even a profit maximizing price may result in losses (negative profits; see Young and Steinberg, 1995). Given the decision to produce such a service, a nonprofit manager responding solely to market incentives will likely decide (a) to charge a price, and (b) to set prices in a manner that yields maximum net revenues. From a mission viewpoint, however, the price decision could be quite different. If charging a price substantially contravenes the mission or values of the organization, the mission-driven manager may decide not to charge a price at all. A Free Clinic that provides basic health care services to indigent or uninsured community residents is based on the very notion of free care. An endowed museum established as a community resource may have a long standing tradition of free access to galleries that is considered intrinsic to its institutional identity.

In many other cases, however, the imposition of a fee is accepted. Here, the mission-market tension is manifested in the nature of the pricing policy or fee schedule. For example, maximizing mission impact may require servicing as many clients as possible. Such services may be associated with "external benefits" that accrue to society at large as well as to the individuals who actually consume the service. Examples include children in pre-school programs, recipients of inoculations for various diseases, clients in therapeutic mental health or substance abuse programs, or visitors to museums. In such cases, mission focus favors a price lower than that which would maximize net revenues (Young and Steinberg, 1995).

Furthermore, a mission-driven pricing policy may wish to differentiate among alternative groups of consumers. Fine arts organizations or institutions of higher education may wish to encourage younger consumers or accommodate lower income community residents. Accordingly, they may wish to tailor price schedules, e.g. through sliding scales or other differential measures. A net-revenue maximizing price policy might also employ price discrimination so as to better capture the willingness to pay of high demanders. But in general, such a market responsive pricing policy would not reflect a prejudice to serve any particular societal group aside from those who can pay.

In order to resolve the mission-market tension in pricing decisions, the nonprofit organization must first decide the particular purpose of any given service or activity. If the gift shop or facility rental program is designed solely for fund raising purposes, then the tension is resolved by recognizing that the rules for profit-maximizing pricing apply. If, on the other hand, the children's concert series or the vaccination program is intended to maximize mission impact then pricing must be designed to serve the target groups and to maximize the net social benefits associated with consumption by those groups.

Often, nonprofits find it difficult to make such a clear differentiation between mission-serving and revenue generating programs. In particular, some programs may serve both purposes. A nonprofit might decide as a matter of policy or fiscal discipline, for example, to run a day care service on a break even basis. This may be an appropriate value judgment in the context of the larger picture of how the organization intends to maximize its overall social impact. In essence, it says that the day care program should maximize its mission benefits within an imposed fiscal constraint. Setting that constraint at zero profits is only one of many possible choices, depending on the availability of financial support from other sources.

Finally, it is worth observing that over time there may be homogenizing forces at work in

nonprofit pricing practices. Under intense competition a nonprofit must price its services to permit economic survival, no different from its for-profit or nonprofit competitors. In particular, as traditionally nonprofit service areas open up to for-profit provision, or where government changes the form of its support from supply-side grants and contracts to demand side vouchers and reimbursements, nonprofits often lose the flexibility to differentiate their pricing practices from competitors in order to address mission-related objectives. Nonetheless, the tension between mission and market remains, even if the ability to adjust to mission imperatives is highly constrained.

Recent experiences of the Salvation Army and the American Red Cross illustrate several of the tensions and issues associated with nonprofit pricing. In September 2003, the Salvation Army chapter in Louisville, Kentucky began to charge homeless families $5 per night after the first week, for staying the night at its downtown shelter. The shelter policy had a dual purpose: to help alleviate a budget crisis and as "an incentive to pull people out of homelessness"(AP, 2003b). In the Louisville chapter, 12 workers were laid off in that year due to budget pressures which originated in part from accommodating some homeless people at the shelters for several months. Although the $5 fee was far below the (marginal) cost to house and feed a person for one night, and the shelter makes exceptions for those who cannot pay, the policy faced harsh criticism from the National Coalition for the Homeless. After the story was published in a national newspaper, the local Salvation Army director rescinded the fee (AP, 2003a).

It is clear in this case that the Salvation Army was aware of the tensions associated with charging a fee for staying in the shelter; its designation of a $5 price was designed to produce some revenue while not impacting seriously on the emergency use of the shelter. However, the organization may have misgauged the level of mission-market tension here, and needed to recognize that any fee at all was going to adversely affect the people it was charged to help. Hence, some other means of raising revenue to alleviate budget pressures was probably preferable – perhaps donations from some of the individuals who objected to

the fee policy or from government agencies charged with keeping homeless people off the streets. Without such an alternative, however, imposing the fee might still have been better than having to close down or reduce capacity.

The American Red Cross (ARC) provides two key fee-based products/services: blood products and health and safety education. Blood products are managed centrally by the Biomedical Services department and depend almost entirely on fees. Health and safety education is managed by local chapters and supported by fees and local donations. Both services have lost market share due to competition, leading managers to search for better pricing strategies. Through a series of focus group interviews and a survey of senior managers, Chetkovich and Frumkin (2003) found that mission-market tensions were indeed felt by managers across the chapters and departments, and that the strength and resolution of such tensions varied according to the nature of services, competition in the market, and the impact on the mission.

One strategy used to regain market share was to reduce prices. However, this strategy came at a cost. In exchange for price leadership and a larger share of markets, product quality was sacrificed. Moreover, a serious problem arose from elimination of cross-subsidies between more profitable products and less profitable ones – raised access barriers or reduced quality for people in less profitable regions. In essence, decisions based on profit-maximizing pricing generated tensions among managers trying to address ARC's mission locally.

Chetkovich and Frumkin, (2003) found that the ARC could cope with these tensions in three ways. The first was to adjust product, quality, or provider reliability in order to attract more customers at competitive prices. The second was to depend more on donations. The third was to pursue product and organizational innovations. The ARC case illustrates that tensions in pricing arise from market competition and the strength of these tensions varies with market conditions. However, tensions may sometimes be relaxed without too much compromise in a variety of indirect ways that circumvent the pricing decision and reduce

the pressure for additional fee revenue.

Using Metrics to Manage Mission-Market Tensions

As the forgoing experiences with pricing illustrate, a critical aspect of making resource-related decisions in the nonprofit context is to recognize the purpose of each activity as it relates to sustaining the organization financially versus contributing directly to its mission impact. To develop this recognition, a set of simple metrics which translate into specific decision choices can be helpful. Here we offer a prototype metric using simple Likert-type scales. Such a metric can be useful in two ways: as a tool that managers can use to think about each resource-related (pricing) decision they make, and as research tools to enable scholars to detect the levels of tension present in the operations of nonprofit organizations in different fields and decision contexts, so as to illuminate how mission-market tensions percolate through the myriad of resource-related (pricing) choices that nonprofit managers make.

As a context, consider a youth-serving organization that offers recreational services to teenagers in a low income neighborhood. One pricing decision is to determine how much to charge families to be members of the organization. Choices associated with this decision can be listed on a scale from 1 to 5, according to the degree to which they favor (positive) mission impacts vs. financial impacts. Thus, a manager who is clear about the purpose of the decision will also be clear about what kind of choice needs to be made. For purposes of simplicity, Table 1 articulates only the end-points and mid-points on (5 point) scales that could be useful in the decision on pricing.

Table 1 Mission/Market Scale for Pricing

Scale Value	**1**	**3**	**5**
Mission/Market Emphasis	*Mission emphasis*	*Mixed emphasis*	*Market emphasis*
Decision Protocol	Sliding scale with some prices below marginal cost to accommodate ability to pay	Sliding scale designed to break-even and accommodate differences in ability to pay	Single or multipart pricing at/above marginal cost to produce maximum net revenue
Impacts	Maximum participation by target group; possible financial losses	Wide participation limited by financial constraint	Maximum profit/exclusion of low income families

It is interesting that these scales suggest fairly straightforward ways to pursue either purely market-focused goals or purely mission-focused goals. It is the middles of the scales that require more imagination and creativity. As the table suggests, these intervening points may be characterized by setting limits on acceptable mission and economic impacts and then searching within these limits for desirable options. Of course, such scales do not in themselves indicate what decisions should be made. But they help accomplish two things: They force decision-makers to specify their goals for any particular decision and, given these goals, they suggest what kinds of choices to make and what their impacts will be. It still remains for managers to put all the pieces together so that the sum total of their decisions puts the organization in its desired position of mission impact vs. financial success within its constraints of economic feasibility.

Table 2 illustrates various possible patterns for nonprofits with a range of services for which pricing decisions are made, ranging from revenue maximizers to mission maximizers. In this tableau, mission-focused managers select mission maximizing pricing strategies for each priced service they offer, revenue-focused managers select pricing strategies that maximize revenue for each service they offer, while mixed-focus managers choose a

combination of these strategies, pricing for mission where mission impact potential is high and pricing for revenue where income potential is high. Note that these are possible behavioral models, useful for describing observed nonprofit managerial decision making, not necessarily optimal strategies for mission maximizers or revenue maximizers. For example, a mission maximizing organization could very well employ a mixed pricing strategy to achieve an overall maximum mission impact for the organization if it is able to find profitable offerings, or alternative revenue sources, which can subsidize mission-relevant ones. Similarly, a revenue maximizing organization might mix in some loss making activities if it increased its appeal to donors or to customers of its profitable services. However, the foregoing patterns are useful referents for understanding the case studies described below, and the manner in which nonprofit managers address the tensions they see inherent in their pricing choices.

Table 2: Alternative Nonprofit Pricing Strategies

Mission potential/ Pricing Intent	1	2	3	4	5
1	$$ MM MX	$$	$$	$$	$$
2	MM	MX			
3	MM		MX		
4	MM			MX	
5	MM				MX

MM = Across the board mission maximizing pricing

$$ = Across the board revenue maximizing pricing

Mx = Mixed pricing strategy, pricing for mission where potential mission impact is high and pricing for revenue where mission potential is low

Note: 1 indicates high mission potential or pricing intent; 5 indicates low mission potential

or pricing intent (i.e., 5 represents maximum revenue intent for pricing)

Case Studies

The chief executives and the chief financial , chief operating or development officers, of five different types of social service agencies, all belonging to the same local religiously-affiliated federation, were interviewed. Since the interviews were held under conditions of anonymity, these are described generically as follows:

- An agency (EC) that provides residential services for the elderly including a nursing home, assisted living facility and a hospice.
- An assisted living facility (AL) that provides several different levels of care for residents with varying levels of disability.
- A religious day school (DS) for children of elementary school and middle school age, which includes a summer camp program.
- A community center (CC) that offers physical fitness, camping, early childhood and other programs, and whose mission is to strengthen the quality of life of its local religious community.
- A family and career services agency (FCS) that offers multiple counseling, disabilities, career and employment, and other programs related to its mission of maintaining people in their communities and minimizing need for institutional care.

Some of these organizations, including AL and DS, are fairly simple and straightforward, offering just a few different services, while others, such as CC and FCS, are much more complex, offering many different lines of service. As such they provide interesting contrasts in their approaches to pricing.

<u>Elderly Care.</u> The mission of EC is to provide facilities and services for those elderly and disabled who need long term and short term physical, psychological and/or social care, in a manner consistent with the religious values of its community; to serve as one of the

professional resources to the community regarding aging, disabilities and health, and the development of effective approaches to care and services to the aging and disabled; and to provide support services for family members of elderly and disabled either on its waiting list and/or utilizing any service provided by EC.

EC operates several programs for which pricing decisions are made, including a 96 bed nursing home, a 60 unit residential tower which provides assisted and independent living, a hospice, a community based program for seniors, and a gift shop. The nursing home is fixed in its number of beds, determined by the state's certificate of need process. The home is central to EC's mission, serving long term patients in three categories: Medicaid, Medicare and Private Pay. The financial goal of the home is to break even. A profit is made on private pay patients to subsidize losses on other patients whose rates are set by the federal government. EC tries to balance the number of private pay and government financed patients in order not to veer too far from its mission of serving those in need and providing a high quality of services. Although the home contains both private and semi-private rooms, EC is constrained by the government to charge the same uniform price for each, sometimes making it difficult to fill the latter.

The residential tower was built with a U.S. H.U.D. grant to serve low income people. HUD sets the uniform rental rate and the rent charges for each resident, and compensates EC for the difference between the rental rate (currently $850 per month) and the resident payments. Residents are charged on a sliding scale according to income/ability to pay. EC has no discretion in setting the prices for this facility. The residential tower is also central to WBJH's mission. A goal of the tower was initially to help EC financially by generating a profit, but HUD restrictions have made this impossible. EC is currently considering building another tower, without government financing, that would charge market rates and generate profits. EC's hospice is financed entirely by Medicare whose payments are government-determined and which increase at roughly 5% per year. The hospice also attracts private contributions. This service is considered central to EC's mission as well.

The Community Program is a health-focused program to aid seniors on EC's campus and the surrounding community to continue living independently. It is financed with private funds from the local religious federation as well as nominal fees to its users. This program is considered complementary but not central to EC's mission of residential care. Nominal charges help defray some costs and offer dignity to participating seniors.

The EC gift shop is operated by an auxiliary group and is entirely staffed by volunteers. Its purpose is to provide a convenience to residents and visitors and to generate profits that can be contributed to EC. The intent to emphasize financial profits does not account for its subsidy by volunteer labor. "Mark-up" of its merchandise is considered modest by commercial standards.

In summary, EC focuses strongly on its mission to provide high quality residential care for seniors in its local religious community. It has relatively little discretion in setting prices for the three programs that are central to its mission – the nursing home, the residential tower and the hospice. In the former instance, it charges market rates to private pay patients in order to compensate for losses associated with its Medicaid and Medicare financed residents. The tension in this instance is to limit private pay to a level that allows substantial continued service to low income residents within the government stipulated 96 bed capacity constraint. This is a balancing act to maintain fiscal integrity and remain focused on mission.

In the case of the residential tower, there appears to be no pricing discretion, with uniform rates determined by HUD. Residents of differing abilities to pay are accommodated by a sliding scale set by HUD but EC receives the flat rate in every case as a combination of rental payments and HUD reimbursement. Given HUD's proclivity to set rates insufficient to cover full costs, EC is contemplating a separate independent living facility financed entirely with market rentals. In the case of the hospice program, EC accepts Medicare payment rates set by the federal government and limits its fees to this source.

Finally, EC operates two services that are complementary but less essential to its mission – its community program and the gift shop. In both instances, prices are moderated to reflect service versus financial goals. The community program covers a fraction of its costs through modest fees while avoiding the stigmas of either charity or exclusiveness. The gift shop is essentially run as a service to residents and visitors, and as a fund raiser by an auxiliary that presents an annual gift to the EC.

In sum, EC appears to fit the model of a nonprofit organization seeking to address its mission of care to seniors by providing maximum service within pricing policies that are tightly constrained by government. The principal source of mission-market tension is the mix of private pay and government supported residents in its nursing home. Other pricing-related decisions (community program and gift shop), for services complementary to the mission, appear designed to accommodate service goals and modest fund raising objectives.

The CEO, COO and Development Director were asked to rate each of EC's key services in terms of centrality to mission and intention of its pricing policy. The results are depicted in Table 3. The mission scale runs from 1 (most central) to 5 (least central) while the pricing intent scale runs from 1 (priced solely to address mission) to 5 (priced to maximize net revenue):

Table 3: Pricing Strategy for Elderly Care's Programs

Mission Centrality/ Price Intention	1	2	3	4	5
1					
2					
3	Nursing Home				
4		Community Program		Gift Shop	
5					
No discretion	Hospice; Residential Tower				

Note that both the hospice and residential tower programs are considered essential to mission but that there is no pricing discretion, given government requirements. The gift shop serves as a modest cash cow while the community program tries to generate some funds, given that it is important but not critical to mission. The main arena for mission market tension for EC is the nursing home program where EC makes the best of its situation by engaging private pay clients to a degree necessary to maintain its service to less well to do residents. Relative to the stereotype patterns described in Table 2, EC's approach to pricing could be described as leaning towards "revenue maximization", modified to account for important mission impacts, especially in the case of its principal mission-related activity, the nursing home.

<u>Assisted Living.</u> The mission of AL is to provide residential and assisted living care to the frail elderly. Individuals 65 and older are eligible for residency, with rare exceptions made for younger residents. The state limits who can be admitted – especially individuals requiring certain levels of medical assistance such as inoculations, tube feedings, etc. AL is permitted to provide only a limited level of medical support. The nursing home lobby in the state is strong and protects itself from incursion from assisted living programs.

Residents may live out their lives at AL unless they become too ill or incapacitated. Anyone over 65 is eligible although it is unlikely that very healthy individuals would seek residence at AL unless they were particularly in need of the housekeeping and meal service, which is included in the rent.

The capacity of AL is constrained by a certificate of need. The current certificate allows for the building of six additional residential units over the present 41 units. The facility has land on its current site to build much more extensively, and zoning laws would permit such expansion. However, neighborhood opposition has led to the ceiling of 47 units imposed by the County Commission.

AL's basic (Level 1) program is the rental of studio, one or two bedroom units, which includes a service package encompassing 3 meals and tea and snacks each day, 24 hour staffing, weekly housekeeping and linen service. Additional levels of service are available for those with particular needs. Level 2 provides assistance with Activities of Daily Living including bathing, dressing, grooming, assistance with eating, transfers, toileting, medication, blood glucose testing and insulin injections. Level 3 includes incontinence management. Level 4 (Extra Care) provides help to residents with mild dementia.

AL also offers ancillary priced services including cable television, laundry service and pet care. It offers programs to outside groups as well, including a chef's program, at no charge. In addition, some case management services are provided at no charge. These are considered courtesy services not formally included in AL's budget.

The (level 1) residential program is the heart of the AL's mission. Rental prices are set with the objective of breaking even. The price schedule is uniform according to the size of the residential unit and whether the room has a special view. There is no sliding scale but needy individuals are considered for price accommodations on a case by case basis. Applications require residents and their immediate families to submit income tax returns.

Overall, the rental rates are considered slightly below market compared to local for-profit alternatives.

Levels 2 and 3 service enhancements – assistance with activities of daily living and incontinence care are also considered vital to the mission. Pricing of these services is said to be "competitive" without intent to make a profit. According to the current price list, level 2 care costs an additional $150 per month for help with one function such as grooming or eating, and $300 for 2 or more functions. The level 3 assistance package costs an additional $300 per month.

The level 4 Extra Care package for care of patients with mild dementia is priced at an additional $150 above Level 3. In addition, Extra Care patients can live in special units that are priced higher than normal residential units. Such Extra Care was not part of the original intent of AL but experience has shown that residents want it rather than have to move to a nursing home when their health declines. Pricing is set to recover costs of this labor intensive service.

AL offers ancillary services including cable television, laundry and pet care, which entail additional charges. Cable television is viewed as a competitive necessity for residents and supportive but not critical to mission. AL is charged by the cable company and in turn charges each resident a standard fee. It is priced to support itself. Residents have various options for their laundry needs. They can do laundry themselves using the AL's on-site machines, which is too arduous for most residents. Family members of residents can do the laundry either on-site or off-campus. Some residents do it this way. The third option is for the home to provide laundry service. This is considered supportive of the mission. Pricing is intended to have the service pay for itself. Only two residents of the home use pet care. It is considered necessary for some residents. Other homes do have "no pet" policies but AL does not. AL prefers not to lose money on this service.

AL has an operating budget of $1,250,000 and receives no government funds. It receives approximately $100,000 from the religious federation and another $80,000 in charitable contributions. The rest is rental income. Over the past 5 years AL has become increasingly dependent on rental income for its operating budget. The other components of income have been stable while rents have increased.

AL has an endowment of approximately $500,000 that was left from a larger endowment originally assembled to build the facility. AL is continuing to rebuild the endowment rather than use its returns for operating income. A possible future use of the endowment is to build an additional six units, although there are no immediate plans to do so. Overall, AL's pricing strategy appears to be that each of its services should stand on its own financially, without any cash cows or heavily subsidized programs. This is illustrated in Table 4 which records the executive director's ratings of each of AL's programs in terms of mission centrality and pricing intent. Its services range in terms of their centrality to mission, but pricing is approached uniformly in a manner that aims at financial solvency and accommodates financially or medically needy residents where necessary. In terms of the generic patterns identified in Table 2, AL is a variant of the "revenue maximizing" model, modified to accommodate mission impacts. That is, each program is expected to stand on its own, no matter the level of its centrality to mission, but the objective is to extract revenues adequate to support expenses, rather than maximum possible revenues.

Table 4: Pricing Strategy for Assisted Living's Programs

Mission Centrality/ Price Intention	1	2	3	4	5
1					
2					
3	Levels 1,2 and 3	Cable TV Laundry	Pet Care	Extra Care	
4					
5					

No discretion					

Day School. DS is a religious day school that stresses academic excellence, conservative religious values, bi-lingual education, and grounding in the global community and an international and multi-cultural context. The school operates at three levels: preschool, K through 5, and Middle School – grades 6 through 8. It also provides a variety of ancillary services for which prices are charged. These include Aftercare (after school supervision); After School Clubs; a Summer Camp; Athletic Activities in various sports; Overseas trips; Special programming for students with developmental disabilities; and extra fees for books and supplies, graduation, year book, and uniforms.

According to the director, budgets are determined for the school programs to reflect the school's values; then tuitions and other sources of funding are set to ensure the programs can be supported. The tuition schedules for these programs vary according to options offered on the frequency of attendance. For the Pre-school/Early childhood program, 18 month and two year olds may attend 2, 3 or 5 days per week, and for half or full days. Three year olds attend 5 days per week, for full or half days. Pre-kindergarten children attend 5 days per week, for half or full days. The tuitions are set uniformly for each option. Scholarships are awarded selectively based on application and recommendations of an external consulting service.

Ancillary services are approached differently. The summer camp is a money making proposition, although it helps with mission by creating awareness of the school, building community relations with neighborhood residents, and utilizing an otherwise empty physical plant during the summer. No scholarships are awarded for camp attendance. Aftercare is a service provided to 4th through 8th graders who want or need to stay after school hours, until 5pm. This yields good public relations for the school and helps supplement the regular school program, and is provided at no cost. Aftercare is also provided to 3 year olds up to 5th graders, on an optional custodial basis, between 3:30pm

and 6pm. The latter is not considered a profit center per se but a service that should at least pay for itself. After-school clubs are offered for enrichment purposes and include various sports, music, art and other activities. These programs are subcontracted to outside suppliers (individuals or companies). The school prices the clubs so that it makes $5 per student per club. Supplies, books, uniforms, yearbooks, and graduation ceremonies are items considered necessary for students' performance in school but are charged separately. They are considered essential to mission but the intent is to cover costs.

DS has a $9 million operating budget 85% of which is financed through tuition revenues. The remaining 15% is made up of direct fund raising and institutional support through the religious federation ($300,000), investment income ($60,000) and other fee revenue from facilities rentals, summer camps and ancillary programs. The school has a total endowment of approximately $4 million which includes restricted and unrestricted funds. Over the past 5 years, the school has become increasingly dependent on fees, although dependence on tuition per se has remained at approximately 80%.

DS's expansion plans include enhancement of current facilities such as their theatre and fine arts program. The school specifically needs more and improved space. Other priorities are professional development for teachers, hiring an on-site member of the clergy and upgrading of technology. Were additional funds available, the school would increase both the quality of its program and the number of students served. It would not reduce fees although it might use funds to accommodate needs of pressed middle class families by selectively helping with tuition payments. Currently the very rich and the very poor are accommodated, the latter through a scholarship assistance program. The executive director envisions a tuition voucher program to offset full tuition for pressed middle class families.

Currently the school provides some $536,000 per year in scholarships, helping 90 to 100 families whose income eligibility is processed through an external evaluation service. In

addition, the school offers a 50% tuition discount to school employees, accounting for another $500,000 in scholarship assistance. In terms of management philosophy, the school's intent is to end up in the black every year and to create reserve funds for contingencies and growth.

As Table 5 suggests, based on ratings provided by the Executive Director and CFO, the day school program is the driver, priced to accommodate mission as much as possible, with other programs either expected to pay for themselves or generate net income. The Summer Camp program is somewhat anomalous as it does generate some mission-related community benefit (although coldly classified as a "5") but would be abandoned if not for its financial contribution to the organization. In terms of the stereotype patterns of Table 2, DS can be described as following a "mixed" pricing strategy, providing scholarship and other accommodations in its most mission-impacting programs, running less critical mission-related programs on a breakeven basis, and requiring profit from its less mission-related activities.

Table 5: Pricing Strategy for Day School's Programs

Mission Centrality/ Price Intention	1	2	3	4	5
1			Aftercare- older children		
2	Day School				
3	Supplies, books, uniforms, graduation		Clubs Aftercare- younger children		
4					
5					Summer Camp
No discretion					

Community Center. The mission of CC is to enhance the quality of life for members of its local religious community. It does so through several core programs including Camping, Early Childhood Programs, Physical Fitness and General Program Services. Organizational membership in CC is required for several of its core programs including Camping, Early Childhood and Fitness, and members are offered discounts in those General Programming activities that are open to nonmembers as well.

CC is currently facing a serious financial challenge as a result of earlier program decisions that has left it with an accumulated debt of $12 million, approximately two-thirds of which resulted from operating deficits over the past several years while one-third is capital debt from building projects. The new administration of CC is now attempting to run an operating surplus of approximately $1 million per year, before debt and interest payments. This situation is influencing pricing decisions and decisions to keep or eliminate its various programs. The administration is in the process of using a formal mission/money matrix to evaluate each of its services.

In terms of pricing guidelines, CC's national umbrella association recommends a 20% profit margin on core services. Within this context, as noted below, CC utilizes sliding scale pricing in several areas to accommodate lower income clients. Overall, CC is now very focused on increasing revenue streams. This is challenging because its prices are already at the high end compared to other organizations offering similar services, and there is a desire not to sacrifice mission. Capacity issues also influence pricing. In programs where capacity is limited, CC leans towards charging higher prices to exploit the greater revenue potential in this situation.

CC's Camping programs are central to its mission. Yet, these programs are priced to make profit. Prices are set according to the particular camp program, reflecting different program durations and specializations. A sliding scale based on income accommodates lower income families. The Early Childhood programs are also considered central to mission. There are different price schedules in the three locations in which these

programs are offered. These variations reflect both quality and capacity limits – prices are higher where programs are fully subscribed and in higher quality facilities and lower where there is excess capacity or poorer facilities. The Early Childhood programs also offer sliding scale pricing to accommodate lower income families.

The Membership program is complex, multi-tiered and also central to mission. Membership fees account for 12% of total CC revenues, a relatively low percentage compared to similar organizations in other cities. A normal program income/membership income ratio is said to be 3:1; at CC it is 7:1. If one includes membership as part of fee revenue then CC depends 90% on fees vs. other sources. Membership is based on a 3 tiered system as follows:

a. Basic (Program Plus) membership is required for participation in Camping and Early Childhood programs
b. Second level (Recreation Plus) membership is required for leagues and sports in addition to Camping and Early Childhood
c. Top level (Total Health) membership is required to participate in the fitness center in addition to eligibility for 2nd level services

Rates are differentiated for individuals, couples, single parent families, families, seniors, teens and college students. Most people who belong pay with a single check, suggesting that members are fairly well off and more needs to be done to make membership affordable to lower income individuals.

The rates for Total Health membership are less than private sector alternatives but this partially reflects the fact that the facilities are not as upscale as those alternatives, though still considered good relative to other nonprofits like CC. Almost all members belong to CC's religious community and there has as yet been no effort to tap into the market outside of this community. In this respect, CC has one of the highest ratios of intra-religion to total membership (90%) among organizations of its type in the U.S. Outside members are welcome but marketing to them has not been pursued. Geography also delimits membership. CC does not substantially serve outlying areas of its metropolitan area and

finds it a challenge to bring in members beyond a 20 minute travel radius.

Under the heading of General Program services, CC offers a very large number of programs (estimated at 1000!). These divide into two general categories: those available only to members and those available to members and nonmembers (at differential prices). These programs span a full range from those that are minimally relevant to mission but make money to those which are highly mission-relevant and run losses. Such programs include House Mate Match; Theatre of the South (recently closed); programs for the Developmentally Disabled; Swimming Lessons; and Religious Education.

Finally, CC is currently working to overcome some reputation problems associated with recent financial difficulties and its history of withdrawing from in-town programming and focusing more heavily on its immediate suburban location. If funds were available, it would consider several initiatives including creating new facilities in underserved parts of the metro area, reinvesting in its residential camps and perhaps creating a new camp for teens, reinvesting in current facilities such as the fitness center and perhaps constructing a water park, and increasing membership and subscription in its core services.

Table 6 reports the pricing strategies for CC's programs as assessed by its CEO and CFO. Here it is clear that membership is the driving factor, priced substantially with financial support in mind despite its centrality to mission. Other highly mission-related programs, such as camping and early childhood programming, are even more driven by revenue generation in their pricing policies. Finally, with the exception of programs for the developmentally disabled, programs – such as swimming lessons and House Mate Match - less central to mission are generally priced to more heavily reflect financial concerns. Nonetheless, in all cases there is some sensitivity to mission in setting prices and no pure cash cows. Overall, perhaps because of the financial problems experienced in the past, CC's pricing strategy leans towards a subdued version of the "revenue maximizer" as modeled in Table 2. None of its services are priced purely with mission in mind, some are priced carefully so as not to cause problems in strongly mission-related activity, and with

one area of exception each is priced with a strong revenue intent, regardless of mission centrality.

Table 6: Strategies for Pricing CC's Program

Mission Centrality/ Price Intention	1	2	3	4	5
1					
2		Developmentally disabled			
3	Membership; Religious education			Theatre	
4	Camping; Early Childhood		Swimming lessons		Housemate Match
5					
No discretion					

Family and Career Services. FCS provides comprehensive services to strengthen families in its religious constitutency and in the general community in which it is located. It offers services on a nonsectarian basis but its priorities focus primarily on families in its own religious community. While entrepreneurial in style, FCS is also becoming more systematic in evaluating and repositioning its roughly 45 programs, with a view towards developing areas of excellence, "going deeper" into these areas and moving away from less essential programs. Indeed, the organization has developed a special software program to facilitate this strategy. The software itself is also being sold to other nonprofit organizations for use in their strategic decision making.

FCS has grown rapidly over the past 16 years, from an operating budget of approximately $1 million in 1991 which was supported by a combination of United Way and religious

federation funding for approximately 75% of its income, to a budget in 2007 of $12.5 million that is supported by a diversified income portfolio: 25% from United Way and federation; 25% from charitable contributions from individuals, foundations and corporations; 25% from (program) grants from government and some foundations; and 25% from fees for services including Medicaid reimbursements.

The philosophy and strategy of the organization has also changed over this period of time, from a policy of providing all services at a subsidy to one where reasonable fees are charged to ensure financial and organizational health within the context of addressing mission. For example, Meals on Wheels has moved from a service provided free or at nominal charge to one that charges modest prices as a matter of course – up to $8 per meal in cases where there is a government reimbursement program. The organization is also now much more aggressive in its own charitable fundraising.

FCS's services can be divided into five broad categories: Counseling; Disabilities; Career and Employment; Older Adults; and Specialty Services (Miscellaneous). The first four categories are the "pillars" of FCS's overall programming. These four pillars embrace 18 to 20 programs with separate budgets. Strategically and philosophically, programs are driven by the desire to keep people in the community for as long as possible, minimizing institutional care. This principle drives all services. Within these broad categories, JF&CS runs, in the words of its COO, "45 micro-businesses".

In the category of Older Adult Services, FCS includes Home Care, Meals on Wheels, a Senior Transportation service, and Geriatric Counseling. The Home Care program is market competitive and generates a profit, and is considered central to mission. Fees are waived or reduced on a case by case basis for individuals unable to pay. The program is professionally based and does not use volunteers. Meals on Wheels, in contrast, uses "an army of volunteer drivers". The marginal cost of a meal is approximately $6 and, given the current volume, each meal entails a $2 indirect overhead cost. The top fee charged for

a meal is $8 (covered largely by a government funding program for a particular group) and the average price charged is $4.50. This program is also considered central to mission and is designed to ensure that everyone needing the service gets it. The Senior Transportation Service helps seniors get to their medical, social service, recreational and other appointments. It uses fewer volunteer drivers than Meals on Wheels because of the need for reliability. It is a high cost program, averaging $28 per ride (more than a taxi), and a high quality service that assists seniors in getting in and out of vehicles, etc. – something that would be hard to duplicate with ordinary taxis although there is the possibility of contracting it with a transportation company. The Senior Transportation Service is also considered central to mission though somewhat less so than Home Care or Meals on Wheels. One reason that this is rated high on mission is that it is prerequisite to the effective use of other services by ensuring the necessary mobility of clients.

Geriatric Counseling is a professional service, competitively priced with a minimum fee of $25 per hour and use of a sliding scale to accommodate seniors of modest means. The cost is $55 per hour. Insurance helps to pay some of the charges. This service is also considered essential to mission and is priced to make some money while accommodating mission.

Under Disability Services, FCS administers its Independent Living program, intended to support challenged individuals living in their homes (or those of relatives). It includes three components – basic care in the home setting; vocational services that provide employment and training opportunities; and transportation services under the same structure as the Senior Transportation Program. The home care component includes a mix of private pay and Medicaid supported clients. Medicaid pays $4500 per month for this program while private clients pay approximately $3000 per month (under a uniform price schedule). The average cost per day is $6000 so it requires subsidy from sources other than fees. FCS does targeted fund raising to support this program. There is no strict capacity limitation, and Medicaid supported clients are clearly more remunerative than

private pay patients. Moreover, the program is open-ended and is expanded as necessary to meet demand. The vocational component pays an additional $30 per day, financed with a combination of United Way, federation, private pay, and Medicaid funding. The transportation component has the same structure as the Senior Transportation Program. Approximately 60 individuals participate in the home care program, 40 of which also participate in the vocational program, while another 20 participate in the vocational program only. Overall, the Independent Living program is able to break even, and is considered central to mission. FCS is slowly becoming more aggressive in its pricing of this program, trying to overcome a "sense of entitlement" characterizing some clients who are able to pay.

FCS includes several programs under in its category of Traditional Counseling Services. These include Psychological and Educational Testing, Domestic Violence Against Women, an Adoption Program, and a Big Brothers/Big Sisters program. The Psychological and Educational Testing service is viewed candidly as a cash cow, offering 3 days of private testing at a rate of $2100 per client, which is considered slightly below general market rates. The CEO and COO observe that there is nothing about this program that is especially unique to the religious community that FCS serves, but it is a high quality, very professional service well within FCS's competence. Domestic Violence Against Women is a government funded program which by statute cannot charge fees. It does not fully cover costs but some private grant funds are raised to support it. It is nonetheless considered central to FCS's mission. The Adoption Program counsels adoptive and birth parents. It helps families in FCS's religious community to adopt, supports birth mothers through health care and income assistance, and carries out the necessary home studies required for adoption. Program finances are assisted by two endowments but overall it is a competitive business costing adoptive parents up to $30,000 per child. It is profitable but uncertain from year to year - highly dependent on the number of infants available for adoption in any given year. The adoption program is rated only moderately important to FCS's mission. While it contributes to families in its religious community, clients are well

able to pay and the service is competitive in quality with alternative providers. Finally, the Big Brothers/Big Sisters program pairs volunteers with children from homes where a parent is missing or has been lost through death or divorce. The program is offered without charge, in part because it comes into play in difficult family circumstances where it is hard to ask for payment. The religious federation, corporate sponsors, and fund raising events help pay for the program, but it loses money. However, the program is central to the culture, values and mission of FCS, with some 20% of its board members having been volunteers in it.

FCS's Specialty Programs are generally aimed at the community at large, receive public funding, are nonsectarian in nature and do not align strongly with the religious-community aspect of FCS's mission. These programs include a Dental Clinic which provides care to the local community free or at nominal charge and is supported by governmental and private grants and contributions on which it roughly breaks even. It depends strongly on approximately 90 volunteer dentists who contribute a half day per month. It is considered strongly related to mission but not central. Finally, Project Connect serves the homeless in the local community and runs at a loss of approximately $50,000 per year. It is also considered strongly related but not central to mission and is offered free.

Overall, while FCS does not consider itself a business, it tries to run in a business-like fashion. Within this frame of reference, pricing decisions play out differently in different programs. The organization is becoming quite sophisticated with its software programs and mission/money analyses to evaluate (and alter, terminate or retain) each of its programs and make decisions about their pricing. The CEO and COO observe that it is difficult to close programs but that the discipline of a systematic review and evaluation system helps to make these kinds of decisions. They cite the Senior Adult Sheltered Workshop program in the Disabilities portfolio as an example of a recently terminated program. This program was inherited from a merger and was never a perfect fit. Its client base was diminishing and there were better options outside of FCS for the clients. The agency would have had

to upgrade the program in order to successfully compete but it was not sufficiently essential to the mission or economical to do so.

Table 7 reports the characterization of program pricing policies by FCS's CEO and COO. The pattern most closely resembles the stereotypical "mixed" pattern suggest in Table 2, with some leaning toward revenue maximizing. The most highly mission-relevant programs tend to be priced to reflect that status, while there are cash cows as well. It is interesting that FCS's pricing strategies vary widely by program, depending largely on centrality to mission, and that no offerings are considered highly peripheral to mission. This seems to reflect FCS's explicit strategy of reviewing each of its programs and phasing out those that connect poorly with its mission focus.

Table 7: Strategies for Pricing FCS's Programs

Mission Centrality/ Price Intention	1	2	3	4	5
1	Meals on Wheels; Big Brothers/Sisters	Senior Transportation; Dental Clinic; Project Connect			
2	Independent Living				
3	Home Care Geriatric Counseling				
4					
5			Psych and Educational Testing; Adoption		
No discretion					

It is interesting that FCS offers few services remotely connected to mission, yet it employs

a variety of approaches to pricing, with some nuances that reflect mixed objectives. For example, in the cases of Home Care and Geriatric Counseling, policies reflect the opportunity to raise revenues despite their centrality to mission, while in the cases of Senior Transportation and the Dental Clinic, pricing for revenue is de-emphasized despite their somewhat weaker connection to mission.

Conclusion

This paper argues that in principle nonprofit organizations should ultimately judge their performance in terms of impact on social mission. Nonetheless, because nonprofits operate in a market environment, tensions between responding to the incentives of the marketplace and addressing the mission pervade virtually all dimensions of their economic decision making, certainly pricing. In order to deal effectively with these tensions, nonprofits must analyze both the direct and indirect mission impacts of any program as well as its financial implications, and then consider the combination of its programs in order to determine its solvency and level of mission achievement.

The richness and complexity of this subject matter suggests this it is fertile for future research. Here, we have taken a first step to describing how metrics can be helpful in understanding nonprofit pricing decisions. The matrix-based models described here to gauge pricing policy intent in terms of mission and financial contribution, reflect various patterns discussed in the nonprofit management literature. These include revenue maximizing, mission-maximizing and mixed pricing strategies. The five case studies presented here lend some credence to these stereotypes while also suggesting that the real world is somewhat more complex. In some of the simpler cases, where nonprofits offer relatively few services and face strong constraints (e.g., from government) that reduce or eliminate discretion in pricing for some of their services, we found somewhat naïve pricing behavior, namely pricing on a service by service basis, without much attempt to differentiate pricing policies according to mission impact and market potential. In most of

our cases, this pattern resembled a kind of "soft" revenue maximizing behavior, where a revenue cushion for the organization was sought through pricing policies that generated surpluses where possible, with steps taken to minimize sacrifices to mission. In other cases, a more sophisticated approach to pricing was evolving, entailing explicit assessment of the mission relevance and financial contribution of each service so that as a whole, the organization could design a combinations of programs that would be both financially healthy for the organization and maximally effective in addressing its overall mission.

It is clear overall that nonprofits struggle with the tensions of mission and market, with pricing an explicit arena in which decisions to resolve such tension take place. It is reassuring that we did not find evidence of aggressive, revenue maximizing intent, nor did we find irresponsible mission impact seeking at the expense of financial health. Even in the cases where pricing policy was preoccupied with generating sufficient revenue, there was strong consciousness of mission and a clear preference to patch up the policies where mission-related impacts could be damaging, such as in service to individuals unable to pay. Nonetheless, it is also clear that nonprofits need to become more sophisticated in deciding how to price their services. The use of simple metrics to gauge mission relevance and pricing intent will be helpful in this connection, both for the appropriate choice of pricing schedules for particular service offerings and also in balancing the mix of services so that overall financial viability is maintained and mission maximally achieved.

References

Alexander, J. "The Impact of Devolution on Nonprofits." *Nonprofit Management and Leadership,* 1999, *10*(1), 57-70.

Andreasen, A. R. "Profits for Nonprofits: Find a Corporate Partner." *Harvard Business Review,* 1996, *Nov-Dec*, 47-59.

Andreasen, A. R., Goodstein, R. C., & Wilson, J. "Transferring "Marketing Knowledge" to the Nonprofit Sector." *California Management Review,* 2005, *47*(4), 46-67.

Anheier, H. K. *Nonprofit Organizations: Theory, Management, Policy*. London and New York: Routledge, 2005.

Associated Press. "National Briefing South: Kentucky: Shelter Ends Fee For Families". *New York Times,* Oct. 1, 2003a, p. 17.

Associated Press. "Salvation Army Shelter Charges Families to Stay". *New York Times,* Sept. 28, 2003b, p. 17.

Bell-Rose, S. "Using Performance Metrics to Assess Impact". In S. M. Oster, C. W. Massarsky & S. Beinhacker (eds.), *Generating and Sustaining Nonprofit Earned Income*. San Francisco: Jossey-Bass. 2004, pp. 269-280

Bisson, K. "NETTING VENTURE CAPITAL FROM A FISHING VILLAGE." *Federal Reserve Bank of Boston, Communities & Banking,* 2002, *Summer*.

Bowen, W. G., Nygren, T. I., Turner, S. E., & Duffy, E. A. *The Charitable Nonprofits*. San Francisco: Jossey-Bass, 1994.

Bryson, J. M., Gibbons, M. J., & Shaye, G. "Enterprise Schemes for Nonprofit Survival, Growth, and Effectiveness." *Nonprofit Management & Leadership,* 2001, *11*(3), 271-288.

Chetkovich, C., & Frumkin, P. "Balancing Margin and Mission: Nonprofit Competition in Charitable Versus Fee-Based Programs." *Administration & Society,* 2003, *35*(5), 564-596.

Clark, C., Rosensweig, W., Long, D., & Olsen, S. "Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures." 2004. Retrieved December 17, 2004 from http://www.riseproject.org/DBL_Method_Catalog.pdf.

Daigle, J., Hall, C., Jamal, R., Silva-Leander, K., & Tagar, E. *Poverty Alleviation through Socially Responsible Investment*: World Bank Institute. 2004.

Dees, J. G. "Enterprising Nonprofits." *Harvard Business Review,* 1998, *January-February*, 55-67.

DeParle, J. "Goals Reached, Donor on Right Closes Up Shop". *The New York Times,* May 29, 2005, pp. 1, 21.

Dickason, J. H., & Neuhauser, D. *Closing a Foundation: The Lucile P. Markey Charitable Trust*. Washington, DC: Council on Foundations, 2000.

Drucker, P. F. "What Business Can Learn from Nonprofits." *Harvard Business Review,* 1989, *July-August*, 88-93.

Foster, W., & Bradach, J. "Should Nonprofits Seek Profits?" *Harvard Business Review,* 2005, *February*, 92-100.

Gray, B. H., & Schlesinger, M. "Health". In L. M. Salamon (ed.), *The State of Nonprofit America*. Washington D.C.: Brooking Institution Press. 2002, pp. 65-106

James, E. "How Nonprofits Grow: A Model." *Journal of Public Policy Analysis and Management,* 1983, *2*(Spring), 350-365.

James, E. "Commercialism among nonprofits: Objectives, opportunities, and constraints". In B. A. Weisbrod (ed.), *To Profit or Not to Profit*. New York: Cambridge University Press. 1998, pp. 271-285

Kaplan, R. S., & Norton, D. P. *The Balanced Scorecard: Translating Strategy into Action*. Cambridge MA: Harvard Business School Press, 1996.

Kirp, D. L. *Shakespeare, Einstein, and the Bottom Line*. Cambridge: Harvard University Press, 2003.

Kramer, R. M. *Voluntary Agencies in the Welfare State*. Berkeley: University of California Press, 1981.

Kramer, R. M. "Voluntary Agencies and the Personal Social Services". In W. W. Powell (ed.), *The Nonprofit Sector: A Research Handbook*. New Haven: Yale University Press. 1987, pp. 240-257

Liebschutz, S. F. "Coping by Nonprofit Organizations during the Reagan Years." *Nonprofit Management and Leadership,* 1992, *2*(4), 363-380.

McKinsey & Company. *Effective Capacity Building in Nonprofit Organizations*, 2001. from

http://www.vppartners.org/learning/reports/capacity/full_rpt.pdf

Paton, R. *Managing and Measuring Social Enterprises*. London: Sage Publications, 2003.

Porter, M. E., & Kramer, M. R. "Philanthropy's New Agenda: Creating Value." *Harvard Business Review,* 1999, *Nov-Dec*, 121-130.

Porter, M. E., & Kramer, M. R. "The Competitive Advantage of Corporate Philanthropy." *Harvard Business Review,* 2002, *December*, 57-68.

Ryan, W. P. "The New Landscape for Nonprofits." *Harvard Business Review,* 1999, *January-February*, 127-136.

Salamon, L. M. (ed.). *The State of Nonprofit America*. Washington D.C.: Brooking Institution Press. 2002.

Smith, S. R. "Social Services". In L. M. Salamon (ed.), *The State of Nonprofit America*. Washington D.C.: Brooking Institution Press. 2002, pp. 149- 186

Smith, S. R., & Lipsky, M. *Nonprofits for Hire*. Cambridge: Harvard University Press, 1993.

Stewart, D. M., Kane, P. R., & Scruggs, L. "Education and Training". In L. M. Salamon (ed.), *The State of Nonprofit America*. Washington D.C.: Brooking Institution Press. 2002, pp. 107-148

Stuart, G. "Coastal Ventures Limited Partnership: Balancing a Sustainable Investment Strategy with a Social Mission." Case Studies in Public Policy & Management, no. 1669.0. Boston, MA: Kennedy School of Government, Harvard University, 2002. from http://www.ksgcase.harvard.edu/casetitle.asp?caseNo=1669.0.

Treffinger, S. "Clinic grilled over charity status". *The Plain Dealer,* May 26, 2005, pp. A1-A6.

Weisbrod, B. A. "The Pitfalls of Profits." *Stanford Social Innovation Review,* 2004, *Winter*, 40-47.

Weisbrod, B. A. (ed.). *To Profit or Not to Profit*. New York: Cambridge University Press. 1998.

Wyszomirski, M. J. "Arts and Culture". In L. M. Salamon (ed.), *The State of Nonprofit America*. Washington D.C.: Brooking Institution Press. 2002, pp. 187-218

Young, D. R. (ed.). *Effective Economic Decision-Making by Nonprofit Organization*. New York: The Foundation Center. 2004.

Young, D. R., & Finch, S. J. *Foster Care and Nonprofit Agencies*. Lexington, Massachusetts: D.C. Heath and Company, 1977.

Young, D. R., & Steinberg, R. *Economics for Nonprofit Managers*. New York: The Foundation Center, 1995.