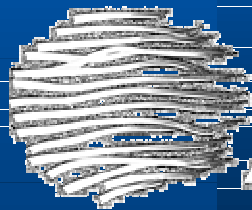
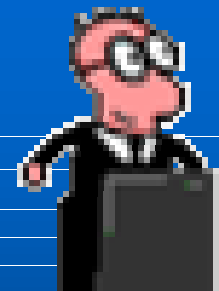


How to Develop an Effective & Appropriate Fee Structure for Your Organization

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A Delicate Balance

- Setting prices for services can involve an intricate balance of economics, ideology and common sense.
- When is it appropriate for nonprofits to collect fees for services rendered?
- How should fees be set?
- In setting fees, to what extent should nonprofits discriminate among clients, charging higher rates to some than to others?
- What rules can nonprofits use in structuring fees among a variety of different programs?

What do our Colleagues Do?

- Many organizations charge fees for their core training program and then offer a mix of free services and subsidized fees for workshops, FTA, Graduate Services.
- EDs interviewed stated a woman that cannot pay something for the services does not see the value of these highly subsidized services and should not be starting a business.

Comments from EDs on Fee-for-Services

- How do our customers value our services if we don't charge something?
- We teach our children the value of the dollar! What about our clients?
- How does someone place value on something that is free?
- What is their investment in the success of my organization?
- Relationships carry "costs."

Key Questions

- *How will the price affect an organization's competitive position?*
- *How will the price affect the bottom line?*
- *How will the price affect the organization's mission?*
- *How will the price affect other funding alternatives?*
- *What information will the price convey about the organization and its services?*
- *Under what conditions can a nonprofit organization price discriminate?*

Demand Side Implications of Charging Fees

- Increasing prices typically reduces the number of clients interested in a service.
- Revenue raised by imposing fees may well be quite a bit less than the nonprofit originally forecasts, as the client base shrinks.
- With the shrinkage of the client base, typically comes a change in the composition of the client base.
- The client base shrinkage may affect the nonprofit's ability to raise philanthropic and/or public revenues.

Price Goes Up – Demand Drops?

- As a general rule, more clients desert as prices go up—when there are lots of substitutes or alternatives available to those clients. So when your clients really desperately need your service that's the time you can charge them a high price without losing their patronage!
- For a socially sensitive nonprofit, price setting is a tricky matter.
- Prices could actually improve your competitive position.

What about the supply side (costs)?

- For a number of nonprofits, serving an additional customer has very low incremental costs, at least within some range.
- Adding 5 more people to your training class doesn't add much cost.
- But 5 more clients for FTA is expensive.

Fees May Affect Composition of the Client Base

- When a nonprofit decides to charge prices for its services, it also can potentially affect which clients it serves.
- This can be a positive thing. When we make a client pay something for a service, people who don't value the service very much often drop out
- As an added bonus, in making people pay at least some of the service costs, we may be giving them more of a stake in the enterprise and encouraging them to take it more seriously.
- A very reasonable price compared to the perceived benefit can work to your advantage.

Fees May Affect Composition of the Client Base

- But for MDOs, we don't want to have certain clients "sorted out" by a price system and so we have sliding fees based on income levels or other characteristics.
- Called "price discrimination." Examples?
- Some nonprofits use prices for some programs and not others largely because of the characteristics of the clients who use the particular programs.

Affects on Fundraising

- When raising prices reduces the client base or changes its composition, there may be an adverse effect on the organization's ability to raise either public funds or charitable contributions.
- In some areas, charging for a service would be unacceptable to either donors or staff, regardless of how much such charge would contribute to the efficiency of the operation.
- As a society, our sense of what is best kept out of the market system has changed over time, but clearly there are such categories of goods & services, & nonprofits must be especially careful not to violate these social & organizational norms.

Common Sense

- For services in which access is easy and capacity adequate, charging prices is often neither practical nor wise.
- Example: The swing set in a public park.

What can you charge fees for?

- Workbook/Curriculum: \$25-\$50
- Multi-week training: \$75-\$350 based on income.
- Post-loan technical assistance: blocks of hours focused on goal/action plans.
- Seminars, workshops.
- Loan application fee.
- Fee for credit report and TA to review it, develop a credit repair plan.

Case Study: Neighborhood Development Center

- NDC in Minneapolis, MN developed the Business Opening Phase (BOP) training. BOP is a trainer driven initiative that provides alumni with up to six hours of guidance & direction to achieve business outcomes. Students are charged \$50 for the service.
- The focus is on operational issues to bridge the gap between end of training & actual opening of the business. BOP is a checklist/work plan provided to clients – more than 70 items organized by category like business structure, site selection & layout, financing, etc.
- Trainers (contractors) are paid \$40/hr for services

NDC Business Opening Phase (BOP) Training

- Eligibility: students must have completed 12 hours of 1:1 training (8 regular hours plus four additional), have a completed business plan including monthly income, expense and cash flow projections and a preliminary uses and sources of funds statement.
- Reporting: each month during BOP and upon completion of BOP hours, trainer will submit an invoice for BOP hours along with a written summary report to the entrepreneurs and NDC which will include a progress report & next steps.

Group Discussion

- Do you charge fees?
- If so, why?
- For what?
- What factors led to this decision and the fee structure?
- Have you ever raised or lowered your prices?