



# IS EARNED INCOME WORTH IT?

## AMBASSADOR INSIGHTS

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*Developed collaboratively by the*  
**LEAP OF REASON  
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# IS EARNED INCOME WORTH IT?

Is now the right time to try an earned-income venture at your nonprofit? It depends on who you're asking.

You already know the importance of diversifying nonprofit revenue resources—perhaps now more than ever. And you also know it's challenging. Most nonprofits raise funds through grants, donors, federal funding, and events. Some nonprofits also count on earned income from fees for service, trainings, and workshops. And a smaller subset of nonprofits has launched businesses, which generally require more time, extra labor, and some risk. Here are some hard-won lessons from leaders who have used earned income as a strategic opportunity.

## Five Real-Life Examples and Lessons Learned

- **Lori Kaplan**, Special Projects Advisor at [Latin American Youth Center](#) (LAYC), knows the promise and pitfalls of earned income. In 2008, LAYC bought two Ben & Jerry's franchises because the recession had hit, and city government could no longer pay for their youth jobs program. Kaplan said, "It was a great experience and very successful. We got more out of this endeavor than we thought."

They operated the shops for more than six years but eventually closed them due to income decline. Still, Kaplan says there's more than one way to measure success:

"If we measure success only by the bottom line, you'd think this venture wasn't successful. But if we measure success by the social mission and other intangibles, then, yes, it was successful. We gained great external energy and excitement, increased awareness of our program, more publicity, new funding, new donors who stayed loyal, and 150 youth who received job training, income, and future jobs."

- [Playworks](#), built on an earned-income model, works to improve the health and well-being of children by increasing opportunities for physical activity and safe, meaningful play. Prior to the COVID-19 pandemic, 60% of its revenue was earned through three strategies: 1) school and government payments for services, 2) trainings for school personnel, and 3) facility rentals.

**Jill Violet**, founder of Playworks, stresses the importance of demonstrating the effectiveness of their programs. In the early years, Playworks spread as a result of word-of-mouth from principals who had experienced the program impact first-hand. As the organization started to scale across the country, the addition of external evidence accelerated the pace of growth. Funding from the Robert Wood Johnson Foundation helped scale their programs and services. With schools moving to remote or hybrid models and the decrease in facility rental, Playworks, like many nonprofits, has been affected by the pandemic. Lesson learned? Earned income can ebb and flow, just like other funding streams.

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- [Juma](#), a nonprofit social enterprise, operates businesses that employ young people. Juma owns and manages concessions within sports and entertainment venues across the country. They operate in NFL stadiums, MLB ballparks, NBA arenas, MLS stadiums, convention centers, concert amphitheaters, music festivals, and other venues. Their YouthConnect program focuses on low-income transition-aged youth (ages 16-24), who are at risk of disconnection from school and work and, as a result, face a multitude of barriers to employment. CEO **Adriane Armstrong** says that 40% of their revenue is from earned income and it's a triple win. The organization achieves its mission, youth gain skills and earn money on the job, and their partners benefit from reliable employees. Now in six cities and 22 sports venues, they employ 800 to 1,000 youth annually.

Armstrong said they learned their lesson when they realized that sports stadiums were more cost-effective venues than ice cream shops. They avoided start-up costs, have limited capital risks, and don't pay for the facilities or utilities. It's something to think about when considering a nonprofit social enterprise.

- A study comparing the major health disparities between Cleveland and Lyndhurst (less than ten miles apart in Ohio) grabbed the attention of a group of friends who saw an opportunity to make change. That change resulted in [Rid-All Green Partnership](#) which is committed to growing food, creating jobs, educating youth and adults, and building healthy green neighborhoods.

The Rid-All team said one of their challenges was the learning curve for how to farm in an urban location, but they took a training course, tapped experts, and learned all they could before embarking on their initiative and it paid off. Their impressive campus grew from one to 15 acres and includes two green houses, six hoop houses, a teepee, and a fish farm, offering an alternative to the 18 fast food restaurants nearby. Today, 40% of their revenue comes from earned income from educational programs and training fees, facility rentals, fruits and vegetables sales, tilapia fish farm revenue, compost soil sales, and other products and services.

Co-Founder **G. Keymah Durden III** said, "What we've been able to do at Rid-All is more than just creating an urban farm. We've created an environment that promotes change. When you change environment, you change behavior."

- Sometimes, personal reasons spark a social enterprise. **Brandon Chrostowski**, founder of [EDWINS Leadership & Restaurant Institute](#), said, "Years ago, I got a break and was put on probation after being arrested. I understand how difficult it is for formerly incarcerated men and women to gain employment and the skills necessary for re-entry." Each year, up to \$100,000 of Chrostowski's speaking and

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consultant fees are reinvested to help further the nonprofit's mission of teaching a skilled trade, empowering willing minds through passion for hospitality management, and preparing students for a successful transition home. EDWINS also operates a French restaurant, edwins too, a new fine dining concept, as well as its bakery and butcher shop. These businesses serve as education and employment training grounds for the Institute's students, graduates, and management fellows.

Chrostowski said, "I've learned that where there's a will, there's a way. Change doesn't happen overnight on its own or because we will it to happen." A social enterprise takes a great deal of research, preparation, education, and a model that increases program sustainability, while keeping the focus on the organization's mission. Edwins has found the winning recipe with more than 400 graduates, a 95% employment rate, and less than 1% recidivism for those who complete the program. Learn more about the organization in the Oscar-nominated documentary, Knife Skills.

## Definitions

Let's take a look at some specific definitions.

**Earned income/social enterprise** – Earned income is "revenue that is generated from the sale of goods, services rendered, or work performed." The [Girl Scout cookie campaign](#), which began in 1917, is perhaps the most recognizable example. Today, more than one million girls sell hundreds of millions of boxes of cookies to make about \$800 million dollars a year. Social enterprise, another term often used interchangeably, can be defined as "organizations that address a basic unmet need or solve a social or environmental problem through a market-driven approach."

**Tax-free vs. taxable income** – If your income is closely tied to your mission, then the organization's tax-exempt status isn't jeopardized, and the revenue is tax free. If it's unrelated, the tax-exempt status may be in question and the revenue is taxed. For example, the Girl Scouts cookie campaign income isn't taxable because it's tied to their mission of goal setting, decision making, money management, people skills, and business ethics—which they learn from selling cookies.

"[Tax Concerns When Your Nonprofit Corporation Earns Money](#)" describes the related earned income of Friends of the Library, Inc. It also proposes a fictitious earned-income example and why it's unrelated and, therefore, taxed. In the end, the IRS makes the final determination if your income is taxable or not. This Nolo [podcast](#) answers questions about related or unrelated earned income.

## Pitfalls to Avoid

If you're considering an earned-income or a social-enterprise effort, watch out for these four common pitfalls:

- **Mission Creep.** Unfortunately, nonprofits, desperate for funding beyond grants and donors, may be tempted to try an earned income strategy and fall into a mission-creep trap. "[Mission Creep: Understand it; Know it; Resist it](#)" emphasizes the importance of strategy: "While changing focus deliberately can be advantageous or necessary, mission creep describes when it happens without strategic direction or

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a formal shift. Strategic adaptations involve a critical process that is well-thought-out and focused, and communicated throughout the organization. Mission creep describes when this process is reactionary, rash, or responding to an opportunity or a crisis.”

- **Lack of Preparation.** Creating a new program component that generates earned income can be exciting. “Hey, let’s start a business and make a lot money!” Yet, too often, nonprofits launch a program without fully researching the need, their expertise, and potential earnings. Many of the nonprofit leaders interviewed for this article cited the importance of doing research, assessing readiness, learning as much as possible about the business model, and working very hard to ensure they were ready to launch their earned income projects.
- **Premature Expansion.** Expanding into new earned-income areas without focused research and analysis can be problematic. After two years in the urban farming arena, Rid-All aggressively pursued efforts to add a food co-op to its offering. They planned to supplement their own produce with additional produce procured from local and rural farmers and sell to large food wholesalers. Although the wholesalers wanted to help, they set higher price points than Rid-All had projected, and the local and rural farmers were convinced they could demand premium pricing because they now had an “in” with the wholesalers. Rid-All—trying to make both the wholesalers and the farmers happy—quickly realized that it was taking a significant financial hit. They were bearing the costs to purchase or rent trucks, hire drivers, rent refrigeration systems, pay auto and general liability insurance, properly package goods, and more. The expenses evaporated any potential financial gains and actually resulted in significant losses. Although they were able to make a quick departure from the co-op model, Co-Founder Randy McShepard said “this expensive lesson set an entirely new direction and strategy for how Rid-All has done business since. Direct and deep relationships with vendors have proven a far better approach and allowed them to expand at their own pace.”
- **Low Return on Investment (ROI).** If there’s little or low return on investment, it may not be worth the effort. In [The ROI of Fundraising](#), the author says there’s no single answer to determining a ROI, but many individualized aspects to review and study. There are nonprofits that have been bold in their vision only to learn the earning potential wasn’t there.

## What Should I Be Thinking About Now?

Opinions vary on whether earned income is worth the risk. According to [CommunityWealth.org](#), an initiative of the Democracy Collaborative, earned income/social enterprises are important for several reasons:



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- These businesses build locally controlled wealth, which helps stabilize community economies.
- Social enterprises can provide valuable training opportunities and supportive jobs for those excluded from the traditional labor market.
- The revenue generated helps reduce dependence on government and philanthropic funding, and thus, often encourages nonprofits to adopt more innovative, community-driven approaches.
- Through the development of such businesses, nonprofit organizations can strengthen their management and business capacities, which, in turn, can boost their overall program effectiveness.

In “[Should Nonprofits Seek Profits?](#)”, **William Foster** and **Jeff Bradach** are skeptical about nonprofits spending time, energy, and resources to create earned-income opportunities. “... while the case for earned income may seem persuasive at first glance, a closer look reveals reasons for skepticism. Despite the hype, earned income accounts for only a small share of funding in most nonprofit domains, and few of the ventures that have been launched actually make money. Moreover, when we examined how nonprofits evaluate possible ventures, we discovered a pattern of unwarranted optimism.”

They describe the downside of earned-income ventures, including lower returns on investment than nonprofits want to admit, diverting attention away from the mission and downplaying the difficulties in running a business. They also offer questions nonprofits should ask to determine if earned income is a path to take.

If you’re considering earned income as a funding stream, think about your mission, goals, and expertise areas. Is there a need in the community for your knowledge and expertise? Have you done a risk assessment or market survey to determine the likelihood of a successful venture? What’s the best way to deliver a “product”? The Society for Nonprofits [offers](#) the pros and cons of earned income, tips, questions to ask, and seven steps to earned income.

## Conclusion

For many nonprofits, pursuing earned income or a social enterprise may be a good path. But for others, it causes headaches and distractions. Every nonprofit is unique with their own mission, environmental climate, funding opportunities, and stakeholders. We encourage you to do some homework before you open the doors.