

THE SUSTAINABLE NONPROFIT

Putting It All Together: Refining Your Competitive Strategy

by David La Piana and Michaela Hayes

This is the third and final installment in our series on competition in the nonprofit sector. In the [first article](#) we discussed the reality of competition in the sector and defined the four types of resources for which nonprofits compete: customers (those who are directly served by your organization), funding, human resources (staff, board members, and volunteers), and publicity or media attention. We then defined the three types of competitors with which nonprofits must contend: direct, substitutable, and indirect. The focus of our [second article](#) was on how to assess your competitors and — most importantly — how to identify your competitive (also known as comparative) advantages vis-à-vis those of your competitors.

Since the second article was published, we hope you've found the time to identify your primary direct and substitutable competitors, as well as to determine the strengths of your organization in comparison to those of your competition. Ideally, you have taken your assessment one step further and have identified one advantage that allows your organization to be effective in meeting the needs of its target market and to stand out from its direct and substitutable competitors — in other words, that truly distinguishes your organization from its competition.

- [Are You an Effective Competitor?](#)
- [What Are Your Comparative Advantages?](#)
- **Putting It All Together: Refining Your Competitive Strategy**

The success of any organization is determined by many factors, but the most important are whether:

- your competitive advantage is valued by your target market and helps your organization secure the resources it needs to advance its mission; and whether
- your organization effectively leverages this advantage and its other strengths to advance its mission.

If either of these conditions is not met, then your nonprofit is unlikely to fully realize its potential in terms of advancing its mission and maximizing its impact.

In order to achieve those two things, your organization needs to develop and implement an organizational strategy. If you're wondering what we mean by "strategy," you're not alone. It's an often-overused term that means different things to different people. Nevertheless, we've developed a working definition of it that distinguishes three levels of concern. *The Strategy Pyramid*© (see below) provides a simple graphic representation of the types of challenges faced by the leaders of nonprofit organizations. Beginning at the pyramid's base, **operational strategy** is concerned with routine administrative processes and management systems, as well as planning for future needs. A sound operational base allows an organization to offer **programs**, which are developed using staff and/or volunteers' unique capabilities within the context of available resources and the organization's culture and values. Most of a nonprofit organization's resources are dedicated

to its program(s). At the **organizational strategy** level, big-picture questions involving mission and vision are addressed in conjunction with ongoing efforts to realistically assess trends in an organization's competitive environment and the resources available to respond to those trends.

The pyramid is best read from the top down. First, an organization must determine its vision, mission, desired market position, and overall strategy. Once all that has been decided, it makes choices about its programmatic approaches, which, in turn, dictate the operational requirements of the entire enterprise.



Figure 1: The Strategy Pyramid ©

Strategy is important at all levels of the organization, but organizational strategy is most important of all; everything an organization does should be aligned with its overarching strategy. But what if your organization doesn't have an overarching strategy? The answer to that question is simple: It needs to develop one.

Organizational strategy is based on an organization's answers to the following questions:

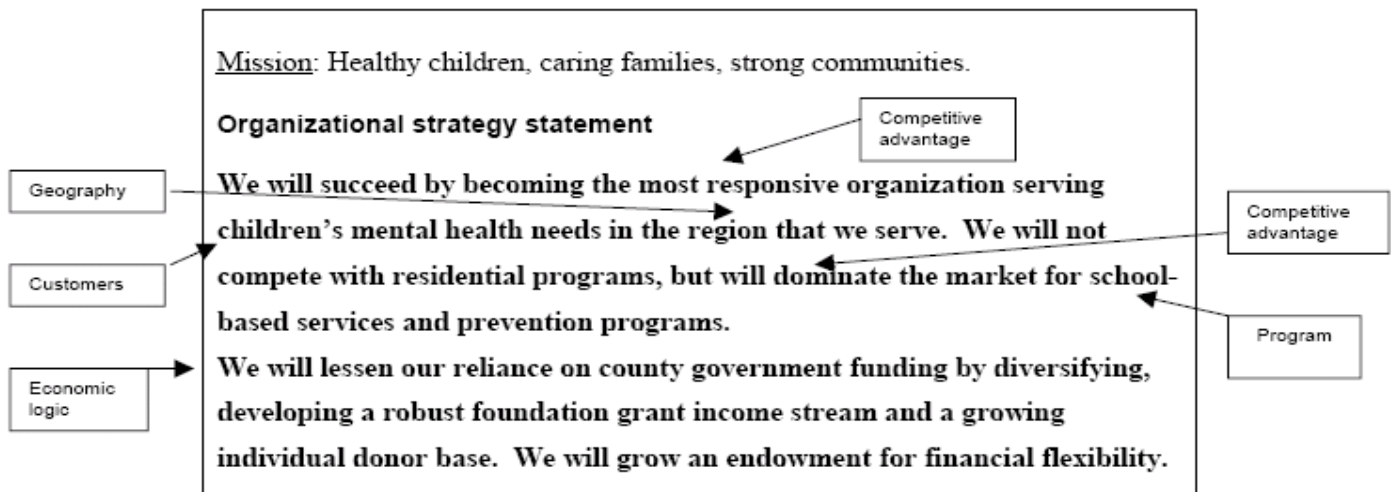
- What is our scope?
 - What kinds of customers/clients do we serve? (i.e., what are their characteristics?)
 - What programs/services do we provide to those customers?
 - Where do we provide our programs/services?

- What does the market (including our competitors and partners) for those programs/service look like, and what is our position in that market?
- What are our sources of funding and are they sustainable?
- What makes us special (i.e., what are our most important *competitive advantages*, especially from the perspective of our customers)?

One of the most important aspects of organizational strategy is the concept of *differentiation*. Essentially, this is what competitive advantage is all about — providing something both substantive *and* different from your competition that also delivers real value to your target market. To apply this concept to your organizational strategy, start by answering the questions listed above, keeping in mind your organization's mission (the impact you are seeking to have in your community), the problem you are seeking to help solve and/or the need you are seeking to meet, and the impact you hope to have with respect to this specific need/problem. Your competitive advantage(s) is/are central to your strategy. Also critically important is your economic model — that is, how does your organization plan to assure its financial sustainability.

Below, we've included an example of an organizational strategy statement for a mental health agency for children, with labels highlighting answers to some of the above questions.

Figure 2: Case Study Mission Statement



Once you have a general statement describing your organizational strategy, you need to assess whether the strategy is realistic. The way you do that is by analyzing your market as a whole. Once again, you need to look at your competitors, but now you need to consider them in a bigger context — the marketplace in which you plan to operate. Such an analysis will help you better understand your market and your position within it, while also helping you to determine whether you need to develop a competitive organizational strategy, a more collaborative strategy, or a combination of both.

First, identify your top three to five direct competitors (and make a special note if you have more than five direct competitors, as this may be an indication of a crowded marketplace). The competitors you identify should be the organizations that are most similar to your nonprofit in terms of scope — i.e., their program offerings, customer/client base, and geographic focus. Next, compare your organization to each of these competitors in terms of the programs you offer and your competitive position vis-à-vis the four key resources — customers, funding, human resources, and publicity or media attention. Then complete the worksheet below to identify

whether a competitor has a distinct advantage over your organization, is relatively similar (neutral), or is at a disadvantage compared to your organization.

Worksheet 1: Competitor (Direct and Substitutable) Analysis

Key Performance Area <i>(factors to consider)</i>	Competitor A's Advantages and Disadvantages in Relation to Our Nonprofit (check one)			Comments <i>(Why is this an advantage or disadvantage? What are the implications for our nonprofit?)</i>
	Advantage	Neutral	Dis- advantage	
Customers <i>(consider satisfaction with programs, reputation of organization)</i>				
Market share <i>(In terms of customers served does this competitor have a large or small share of the total market in the geographic area? Large = advantage; Small = disadvantage)</i>				
Program <i>(consider quality and effectiveness of programs, and strength of mission-focus)</i>				
Finances <i>(consider financial stability, funding diversity, fundraising capacity)</i>				
Leadership and Human Resources <i>(consider board, executive, staff, and volunteers)</i>				
Marketing / Communications / Public Relations <i>(consider how effective these are and how well known the organization is)</i>				

Do this for each of your top competitors, and then for each ask yourself: How strong a competitor is this? Rank your competitors from strongest to weakest. Then consider where your organization falls in this list. Is it at the top (i.e., the strongest competitor in your market)? The middle? Or near the bottom (a comparatively weak competitor)?

In order to fully understand your market, you need to consider trends in that market, which in turn can affect its size. The main trends to consider are listed in the worksheet below. Complete the worksheet for each type of trend, and consider the impact of the trends on your customer base.

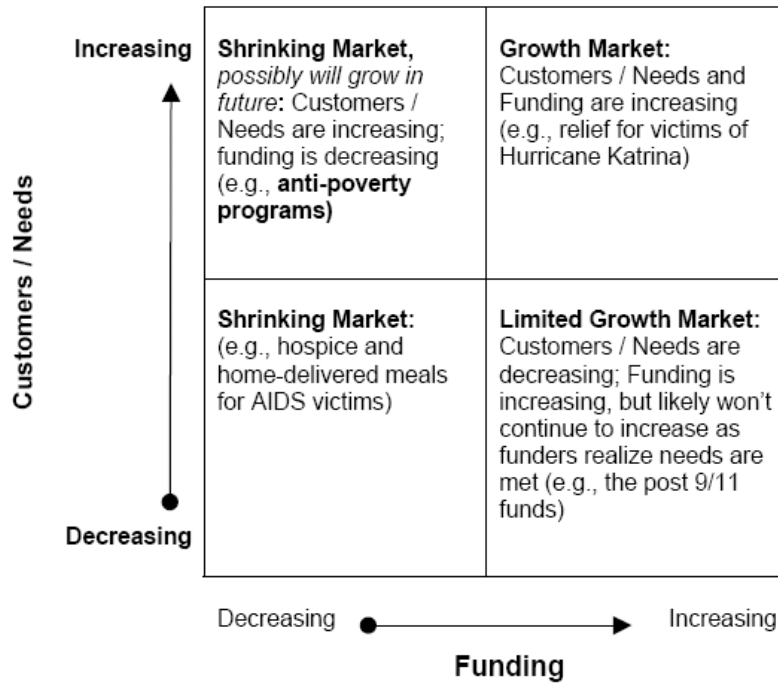
Worksheet 2: Market Trends Summary

Factors Affecting Market Size	How This Affects Our Customer Base	Why We Believe This (rational and sources of supporting data)
Demographics	Demographic trends indicate that the population we serve is <input type="checkbox"/> Growing <input type="checkbox"/> Stable <input type="checkbox"/> Shrinking	<input type="checkbox"/> The population is aging <input type="checkbox"/> The birth rate is increasing <input type="checkbox"/> Immigration to our service area <input type="checkbox"/> Emigration from our service area <input type="checkbox"/> Other. Specify: _____
Economy	Economic trends indicate that the population we serve is <input type="checkbox"/> Growing <input type="checkbox"/> Stable <input type="checkbox"/> Shrinking	The economy is: <input type="checkbox"/> Strong <input type="checkbox"/> Weak <input type="checkbox"/> Stable This results in (<i>circle trend</i>) <input type="checkbox"/> Increased/Decreased need for our programs <input type="checkbox"/> Increased/Decreased ability of our customers to afford our programs
Funding	Funding trends indicate that the population we serve is <input type="checkbox"/> Growing <input type="checkbox"/> Stable <input type="checkbox"/> Shrinking	Third-party payers' interest in and ability to fund our programs is: <input type="checkbox"/> Increasing <input type="checkbox"/> Decreasing <input type="checkbox"/> Stable, unchanged
Political climate	Political trends indicate that the population we serve is: <input type="checkbox"/> Growing <input type="checkbox"/> Stable <input type="checkbox"/> Shrinking	Policies promoted by political leaders will affect our programs as follows: <input type="checkbox"/> Increase need/demand <input type="checkbox"/> Decrease need/demand <input type="checkbox"/> Have no impact on need/demand
Overall impact of trends on need or demand	Based on all the trends above, the population we serve is: <input type="checkbox"/> Growing <input type="checkbox"/> Stable <input type="checkbox"/> Shrinking	The trends that most impact our customer base are:
Overall impact of trends on available funding	Based on all the trends above, funding for our programs is likely to: <input type="checkbox"/> Grow <input type="checkbox"/> Remain about the same <input type="checkbox"/> Shrink	The trends that most impact future funding for our programs are:
Duration of trends	The impact of these trends is expected to be: <input type="checkbox"/> Long in duration <input type="checkbox"/> Short in duration <input type="checkbox"/> Of unknown duration	Comments:

Source: Adapted from *Play to Win*, ISBN 0-7879-6813-7, © 2005; Jossey-Bass, an imprint of Wiley. From "Putting It All Together: Refining Your Competitive Strategy," *Philanthropy News Digest*, September 2005

Based on your assessment, determine which quadrant in the matrix below best describes your market. The table displays the two most critical resources for your organization: the customers you serve and funding for the services you provide. Consider whether your customer base is increasing, decreasing, or remaining about the same; then consider whether the funding for your services is increasing, decreasing, or remaining about the same.

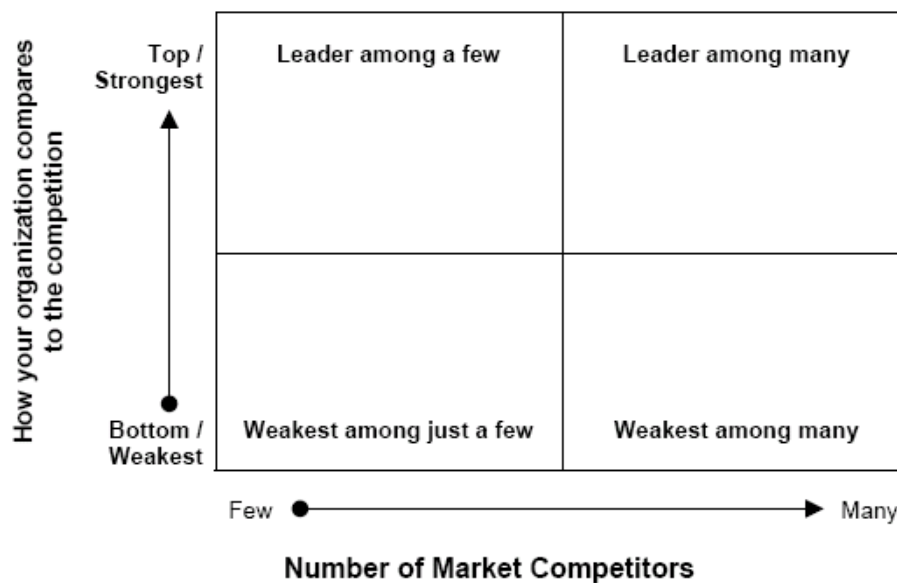
Figure 3.1: Market Trends Matrix



By this point, you should have a sense of the following:

- The number of direct competitors in your market;
- Whether that market is growing, remaining relatively stable, or shrinking;
- How your nonprofit stacks up against your competitors (i.e., where does it fall in the matrix below).

Figure 3.2: Competition Matrix



The top two quadrants are definitely where you want to be. If your organization does not fall in either of those quadrants, you need to consider whether you should invest in building your capacity, taking into consideration those areas where you identified your organization as being at a disadvantage relative to your competition, or whether you should exit the market altogether. Of course, there are so many possible configurations of market position, size, and trends that determining your strategy will be more complicated than this. The table below shows the primary combinations of these variables and the types of strategies you might choose in response. This should help you determine whether you need to adopt an explicitly competitive strategy, an explicitly collaborative one, or something in between.

Figure 4: Market Position and Strategy Matrix

Your nonprofit's competitive position	Number of competitors in your market	Direction of combined market trends	Possible strategy (make sure this strategy advances your mission)	Is this a competitive or a collaborative strategy?
Strong	Many	Growing	Aggressively highlight your competitive advantages; address weaknesses that are competitive disadvantage; seek differentiation	Competitive
		Shrinking	Consider acquisition of smaller direct competitors and indirect competitors	Competitive
	Few	Growing	This is the optimal situation. Continue doing what you are doing; continue innovating to maintain your edge; remain vigilant for new and up-and-coming competitors	Competitive
		Shrinking	Continue what you are doing; address disadvantages; consider acquisition of smaller direct and indirect competitors to reduce cost.	Competitive
Middle: <i>Some strong competitive advantages, some competitive disadvantages</i>	Many	Growing	Consider acquiring or partnering with direct competitors that can help address your disadvantages and increase your share of the market. Seek differentiation.	Competitive or Collaborative
		Shrinking	Consider acquiring or partnering with smaller direct competitors to increase your market share, and indirect competitors to help you expand into new, related markets.	Competitive or Collaborative
	Few	Growing	This is a good situation. Address your disadvantages; enhance your differentiation. Look-out for new up-and-coming competitors.	Competitive
		Shrinking	Strengthen your position; address your disadvantages. Consider acquiring / partnering with smaller direct competitors to reduce cost.	Competitive or Collaborative

Weak	Many	Growing	Strengthen your organization; address your disadvantages. Consider partnering or merging with a larger, stronger nonprofit. Focus on differentiating your organization.	Competitive or Collaborative
		Shrinking	Either strengthen your organization (and seek a niche in this market) or consider exiting the market.	Competitive or Exit Strategy
	Few	Growing	Strengthen your nonprofit; address your disadvantages. Invest for long-term growth, but beware of the likely entrance of new competitors if the market continues to grow.	Competitive
		Shrinking	Consider exiting this market, unless you are essential to customers (e.g., meeting essential needs that no-one else can meet.)	Exit Strategy

Now, taking into consideration the various types of strategies outlined above, let's revisit the organizational strategy statement for the children's mental health agency (Figure 2, above) and consider how the statement takes trends, as well as the competition and the agency's own position in the marketplace, into consideration. The agency's findings from its competitor and market trends analyses, and the decision it made regarding how best to differentiate itself from the competition, are reflected in the second sentence of the statement: *"We will not compete with residential programs, but will dominate the market for school-based services and prevention programs."*

How did the agency arrive at this crucial component of its strategy? The agency was developing its strategy at a time when residential programs dominated the market for children's mental health services. However, because it didn't have residential facilities of its own, or the resources to develop them, it couldn't compete directly with other competitors in its market. In addition, government funding for mental health services — the source of much of the funding for its residential programs — was decreasing. Other trends in the marketplace included a growing belief that children with mental health needs would be better served if they were allowed to stay with their families, and a growing understanding of the value and cost-effectiveness of prevention. As a result, the agency saw that it couldn't compete head-on with its main competitors, and also that the funding for its competitors' services was at risk.

So, rather than compete head-on with competitors in its market, the agency decided to differentiate itself from its competitors — and to take advantage of the decreased demand for residential programs and increased demand for community-based programs delivered at school sites — by focusing on prevention. The decision to do so was made all the easier by the fact that programs focused on prevention were becoming attractive to other funding sources (e.g., major donors and foundations), thereby increasing the agency's chances of diversifying its sources of revenue and reducing its dependence on government funding. Over time, the agency actively sought to expand its scope and activities through mergers with other, similar organizations, and thus grew its market position to one of dominance. At the time it adopted its new strategy, it was serving just twenty children per year. Now, many years later, and thanks in part to its laser-like focus on that strategy, it serves fifteen thousand children a year.

Conclusion

In sum, the nonprofit sector is no stranger to competition, and it's important that nonprofits are aware of this fact and look for opportunities to develop effective and ethical competitive strategies, as necessary, to advance their missions. Let it be noted that these strategies do not preclude the need to adopt collaborative strategies where these can best serve the organization's mission. Simply put, our desire in this series has been to help nonprofit leaders become more familiar with the competitive forces already at work in the sector and to consider how they can identify and strengthen their competitive advantages vis-à-vis other organizations to bring value to their customers, clients, and communities.

We hope you've enjoyed the three articles in the series and will walk away with at least one concept, tool, or insight that proves useful in your work. If you have something further you'd like to discuss, we'd love to hear from you and welcome your comments and feedback.

David La Piana and Michaela Hayes are the co-authors of [Playing to Win: The Nonprofit Guide to Competitive Strategy](#), from which this article is drawn. La Piana is founder and president of [La Piana Associates, Inc.](#), a consulting firm that specializes in solutions to the strategic issues faced by nonprofit organizations and their funders. Recognized as a leading expert on nonprofit management and governance, David has worked extensively with funders and nonprofits in health, human services, the environment, education, and the arts. A graduate of the University of California at Berkeley, he has taught at the University of San Francisco's Institute for Nonprofit Organization Management and at the Haas School of Business at the University of California, Berkeley.

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posted: 9/30/05