**Balancing Margin and Mission:**
**Nonprofit Competition in Charitable versus Fee-Based Programs**

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## Abstract

Competition in the nonprofit world has intensified in recent years, and nonprofit managers are challenged to devise strategies that will serve both organizational needs and public interest. We propose a framework for thinking about nonprofit competition based on the intersection of two dimensions: the *domain* of competition, which can be either fee-based or donative activities; and the competitive *strategy*, which can be either price- or differentiation-based. The experience of the American Red Cross, a prominent nonprofit organization facing competition in both fee-based and donative domains, provides data for the elaboration of the framework, and for tentative conclusions about the implications of nonprofit competition for both margin and mission.

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## Introduction

Competition in the nonprofit world has intensified in recent years due to increasing numbers of agencies seeking support, shifting government funding, and the presence of for-profit organizations in human services (Tuckman, 1998; Weisbrod, 1998b; Dees, 1999; Skloot, 1981). Competition over fee-based services has become particularly important as these activities represent an increasing proportion of the nonprofit revenue base. During the period 1977-1996, the majority of nonprofit revenue growth was in fees (55%), followed by government support (41%), with only a small proportion (4%) coming from private giving. In social service agencies, the increasing reliance on fees has been even more pronounced, with over two-thirds (69%) of revenue growth in this period derived from fees, 22% from government support and 9% from private giving (Salamon, 1999).

This changing landscape raises questions about the competitive strategies agencies should adopt and the likely implications of competition for clients and funders. In the business world, strategies are based on organizational strengths and market conditions, and aim to enhance profits (Porter, 1980; 1996). As long as the market remains competitive, social benefits are produced through the efforts of individual firms to attract and retain customers. By contrast, nonprofits must grapple with the dual challenge of succeeding financially in a competitive environment and simultaneously serving mission--a more demanding task, given the likely tension between mission and margin (Frumkin and Andre-Clark, 2000; Ryan, 1999).

The relevant literature reflects this tension. One strand focuses on social implications and policy concerns, looking at the question of whether (and how) nonprofits behave differently from for-profits in the same industry or market. Theoretical models and empirical comparisons consider such behavior as pricing, production quality and quantity, and provision of charitable services (Wolff and Schlesinger, 1998; Simpson and Shin, 1998; Liu and Weinberg, 2001; Melnick, et al., 1999; Vita and Sacher, 2001; Hirth, 1999; Sloan, 1998; Weisbrod, 1998a). The findings of this literature have been mixed, with some studies identifying differences in behavior and others finding none. Hirth (1997) has argued that studies finding no difference may miss the nonproits' major potential impact, which is a positive spillover effect on the behavior of for-profits in the same market.[1]

A separate body of literature, extrapolated from the work on competion in the business world (Porter 1980, 1996; Williamson 1994), advises nonprofit managers on strategy. Though there has been some attempt to adapt business concepts for the nonprofit context, the discussion of strategic choice has remained tethered fairly tightly to ideas from the for-profit world. Two basic approaches are offered, one emphasizing efficiency and the other differentiation.

The first strategy is favored by writers following the lead of the cost-cutting business culture of recent decades. They argue that the core challenge in the nonprofit sector is to improve the efficient use of financial and human resources in the accomplishment of mission (Walraven 1994; Pappas, 1995; Wolf, 1990 and 1999; Drucker, 1992; Letts, Ryan and Grossman, 1999; Dropkin and LaTouche, 1998; Sandler & Hudson 1998; Schmaedick 1993).

The alternative strategy, anchored in marketing theory, urges nonprofits to do a better job positioning and differentiating their services (Oster 1995; Kotler & Andreasen, 1991; Wilbur et al 1994). Managers are encouraged to select a distinctive market position that is difficult to imitate, then bring all organizational activities into alignment with that position. This differentiation might be based in the values of the organization and the expressive dimension of its work (Mason, 1996; Berger and Neuhaus, 1977) or it may have less to do with values than with the organization's ability to locate a niche within which it can operate successfully. A sizable literature on fundraising (Kelly, 1997) has emerged to guide nonprofits in their creation of a message that reflects their distinctive mission or that is tailored to a specific niche.

There has been little intersection between the discussion of nonprofit strategy and the literature on the social implications of nonprofit competition. The lack of integration is unfortunate, because—in contrast to the situation in business--part of the nonprofit manager's responsibility is to consider the effect of strategy on charitable mission, not simply on the fiscal health of the organization (Salamon, 1995). Even if the manager himself is willing to sacrifice mission for greater margin, a strategy that does so will eventually become untenable as it alienates community stakeholders and overseers. The choice of strategy in the for-profit sector is rarely simple, but special characteristics of the nonprofit sector make the process even more complex here.

## I. A FRAMEWORK FOR THINKING ABOUT NONPROFIT COMPETITION

This article offers a framework for thinking about the organizational and social implications of nonprofit competition from a managerial perspective. In keeping with this perspective, one dimension of the framework reflects the question of *strategy*, and includes the choice of emphasizing efficiency or differentiation, as outlined above. The second dimension captures a critical aspect of competitive context, the *domain* of competition--which can be either fee-based activities or charitable funded programs. The importance of context in nonprofit competition is a general conclusion of the literature, but there is no concensus on how context should be defined. We have chosen to highlight domain because it captures special features relevant to the nonprofit competitive experience.

Unlike businesses, nonprofits may compete either for donors to support charitable activities or customers in fee-supported programs.[2] From an economic perspective these activities are structured very differently. In donative competition, donors' gifts are solicited to pay for services to be delivered to others; in fee-based competition, the payer is also the consumer. In addition, competitors differ across domains--from nonprofit or public agencies in the donative market to a mixed-market of nonprofits and for-profits in fee-based activities. In short, the two domains are subject to very different social and economic influences, making this distinction a salient one for understanding nonprofit competition.

The intersection of strategy with competitive domain produces four distinct forms of competition in the nonprofit world, as illustrated in the matrix below (Figure 1). We hypothesize that these forms are likely to have different social and organizational implications, and in the remainder of this paper consider the effects on both mission and margin for each cell.

[FIGURE 1 ABOUT HERE]

To understand these effects and elaborate the framework, we draw on the experiences of the American Red Cross (ARC), a prominent nonprofit organization facing competition in both donative and fee-based activities. An analysis of the ARC case illuminates the implications of different forms of nonprofit competition, and suggests where particular strategies are more or less likely to produce public value.

## II. THE AMERICAN RED CROSS

Founded in 1881 as part of an international Red Cross movement to provide care for those wounded in battle, the American Red Cross today offers a variety of services under its general mission of *providing relief to victims of disaster and helping people prevent, prepare for and respond to emergencies*. With a budget of almost 2 billion dollars, a staff of over 1.3 million volunteers and 30,000 employees, the ARC provides disaster services to over 150 thousand people each year, conducts health and safety programs for some 13 million people, and receives over 5 million blood donations annually (American Red Cross 1997 Annual Report).

The Red Cross' two chief activities are the collection and distribution of biomedical products (primarily blood), and the provision of disaster relief and other humanitarian services. Though these different activities were at one time all performed by the ARC's network of local chapters, they are now located in separate divisions of the organization: Biomedical products are handled through Biomedical Services, a highly centralized operation of 47 regional centers overseen by area offices and the ARC headquarters, whereas disaster relief, health and safety education, and related programs are conducted by some 1300 local chapters in a more decentralized operation.[3]

Because of differences in their funding, the two sides of the organization have somewhat different competitive priorities. Biomedical Services sells its products to health care institutions in a competitive, albeit heavily regulated market. It does not generally solicit monetary donations, though it does rely on donated blood to keep the cost of its products as low as possible. Chapters, on the other hand, fund their activities--particularly the expensive disaster relief programs--primarily through donations. They also provide fee-based services, such as CPR/first aid training and other health and safety programs, in a competitive, fee-for-service market, but the revenue from these programs is a small portion of the chapters' operating funds. In summary, both divisions compete for customers and donors but the role and relative importance of the different competitive activities varies by division: Biomedical Services is supported primarily by customer fees whereas chapters are supported by donations. Though no single organization can provide lessons generalizable to all nonprofits, the ARC does offer rich enough variation in the domains of interest that it should prove a useful starting point for the proposed approach to understanding nonprofit competition.

We gathered data on the competitive experience of ARC managers in two ways. First, a series of six focus groups (three with Biomedical Services, three with chapters) were held with ARC managers who were participating in an executive training program at our institution. Groups ranged in size from 5 to 7 participants, and a total of 38 managers (18 from chapters and 20 from Biomedical Services) took part in these discussions. Managers were asked about various aspects of their competitive experience--what they competed for, against whom, what strategies they employed, and what effects competition had had for the organization, customers, donors, and the community. The sessions lasted approximately one hour each and were tape-recorded and transcribed. A content analysis of transcript data identified certain key themes that became the basis for questions in a survey instrument that was later distributed to the 179 senior ARC managers who participated in the executive program. Of these, 106 responded, for a response rate of 59%. In addition, one respondent in a large chapter distributed the survey to four other managers in his chapter, who also responded, bringing the total usable responses to 110.

In the following two sections we review ARC experiences in competition, first in the domain of fee-based activities and then in the competition for donors. Each section begins with a description of the important characteristics of the markets in which the respective ARC divisions operate, then elaborates (within context) each of the two major strategic choices. These sections conclude with the managers' assessments of competition and strategy in the given domain. The final section of the paper integrates the lessons drawn from these different competitive contexts and offers observations pertinent to managerial thinking and future research in this field.

## III. COMPETITION IN FEE-BASED ACTIVITIES

The ARC competes for fee-paying customers in the sale of biomedical products and in the marketing of health and safety education. These particular products and services represent commodities that can be--and are, to some degree--provided by the private, for-profit market. At the same time, nonprofit provision seems desirable given the equity concerns and public-goods features in both cases. Both markets do include for-profit and nonprofit competitors, and managers in both areas report increasing levels of competition over time.

### 1. Characteristics of the Products and Markets

In the case of Biomedical Services, the industry as a whole was at one time geographically segmented under a national policy, in which particular providers were responsible for serving designated areas. That condition no longer holds and many areas are now served by multiple blood banks in a highly competitive market.

Biomedical Services managers are subject both to increasing cost constraints on their customers and to heightened regulatory scrutiny. On the latter point, the ARC has felt particular pressure to increase revenues to pay for the expensive reengineering investment it undertook in response to an FDA lawsuit over tainted blood. As ARC manager Dan Ramirez[4] argued, “Our consent decree drove us to spend $269 million for a reengineering process . . . in order to pay that back . . .we had to take it from somewhere, and our senior management decided that was someone else’s pockets, and we needed to grow our market share . . . and so we fired the first salvo, and they, as good competitors, have responded. We have always had these skirmishes out there. But this has become an all-out competitive environment.” Blood bank managers have seen a short-term, bottom-line focus replace long-term relationships with their customers. When Bill Wood's largest account suddenly went to a bid process, he found that “They could care less if we serviced them for 40 years. It just went by the wayside. . . . They felt everyone was equal on quality, a unit of blood is a unit of blood, and we need the best pricing.”

A similar kind of market situation has been developing on the chapter side. Health and safety education programs, once offered for free, are now fee-generating programs--a result in part of the difficulty of locating and sustaining charitable support. But the charging of fees has not been a cure-all; other health and safety providers have also seen that this is an area in which profits--or margins for cross-subsidy--can be made. Will Fallon said that for his chapter, “it is one of the most significant strategic issues we’re facing, because [health and safety programs] generate money for us. And as we look at our fundraising diversity, we feel pretty good . . . [but] our health and safety revenue has been flat.” Ariel Kasinsky added, “The reason why it’s flat is because of the competition. People now have a choice. And the vendors that are coming to our historic customer base are offering things we don’t offer.”

In the changing landscape of the fee-based markets that ARC now confronts, its senior managers face the two broad strategic options explained above: competing on the basis of price or competing on the basis of product differentiation. In focus group discussions and survey responses, both Biomedical Services and Chapter were less comfortable with price-based competition than with differentiation (usually based on quality), but the organizational consequences of the two strategies differed because of the different role of fee-based activities in the two divisions.

**2. Price Strategy in Fee-Based Markets**

On both sides of the organization, the ARC appears well-positioned to benefit from a price-based strategy in fee driven markets. In Biomedical Services, the organization enjoys advantages of market share (it manages 45% of the U.S. blood supply), favorable access to inputs (its brand name appeals to volunteers and blood donors, and its geographical spread allows it to move blood from over- to under-supplied territories), and large size (allowing it to make major capital investments and to sustain short-term losses). Parallel advantages apply to the chapters' health and safety education programs, albeit to a somewhat lesser degree. And yet, for both sides of the organization, price-based competition is new and in some ways inconsistent with the organization's traditional practices and culture.

Biomedical Services managers depicted price-based competition as necessary but difficult for the organization, whereas quality differentiation was an appropriate option but not as effective in the market. Anne Margolis's comments reflect the sentiments of many others: "I have a serious issue with competition for products and services and the blood donors. I'm basically surrounded by competition…[but] I'm *not* competing with them, I *can't* compete with them. . . . They're greater than 50% cheaper." She went on to say that the customer might be interested in the “value-added” that the ARC provides, but wouldn’t pay for it at the differential ARC charged. Harry Franklin offered his explanation in response:

> “We actively market a [Cadillac] Catera, when someone wants a [Chevrolet] Malibu. They tell us they want a Malibu, we tell the manufacturing plant we want Malibus, as a dealership, and what they send us is Cateras. . . . And the customer’s saying, “Don’t you guys ever listen to us?”

Anne shot back, "But we're liable for the quality, so if something goes wrong, you know, all those pieces that the customer doesn't want to pay for up front, they certainly *expect*." When Anne Margolis arrived in her region, it had lost 25% of its business “strictly over price.” She set about trying to regain the customers, but found that competition on the basis of price was a vicious circle: “They were interested in a capitated package, so we were able to put together something that in total approximated what they were currently paying. They simply used us to go back to the prior supplier and leverage a better price. . . . The reason we're doing well now is we were able to pick up new business from another competitor's territory, and pick off the high margin products."

Though the ARC would seem to be well positioned for price competition in blood products, there are a variety of pressures that constrain the Biomedical Services managers' actions and create significant tension. For chapter managers, the issues are somewhat less intense but not terribly different. While they do not see the ARC as a low-cost leader in health and safety programs such as life-guarding and CPR courses, many chapter managers are fully prepared to respond when price seems critical. Even though most do not believe that price-based competition is generally their best strategy, they all understand that price cannot be ignored and they do what they can to compete in this way, including lowering fees and offering promotions and specials. With price discounts, ARC managers are able to gain access to the customer, and then "at that point we talk to them about the quality”--for the ARC, a more comfortable territory. Paul Sampson noted that in his community,

> There’s a lot of people that have sprung up competing for first aid & CPR . . . [and] a lot of businesses call around. They’re price-shopping and so the first thing you have to do is compete against the price, to get your foot in the door to at least make your pitch.

The effect of price-based competition on mission is ambiguous for both sides of the ARC. While a primary emphasis on cost-minimization can keep prices down, it can also jeopardize quality in a market where buyers have limited information. Though all blood banks are subject to FDA regulation, many ARC managers feel that the size and visibility of their organization (including that resulting from the FDA charges against it) have caused the ARC to go farther than their competitors in trying to address quality issues. Similarly on the chapter side, there may be quality differences in the programs offered by ARC and its competitors, but it isn't clear how relevant such differences are. For customers who don’t need the high-end training offered by the ARC and would prefer not to pay for it (in both time and cash), the availability of lower-priced, lesser programs and services could be a benefit. However, it is also possible that customers might choose a product or program of undesirably lesser quality without recognizing the loss. Both scenarios were described by managers in their focus groups.

Beyond quality, a second mission-related difficulty with the price-based strategy has to do with equity and availability concerns. Competing on the basis of cost means charging a price that competitors cannot beat, but doing so eliminates the possibility of using high-margin products or markets to subsidize low-margin activities. Subsidies may be desirable from the perspective of meeting social goals. ARC blood managers routinely serve rural hospitals even though they lose money in the process, but they find it difficult to do so in today's competitive environment. Mark Rodriguez expressed the tension clearly:

> See the concept that's only recently become of interest to all of us is being able to determine whether a specific customer contributes any margin to our business or not. . . . We do not ask, can the Red Cross afford to be servicing that hospital at this price--whatever hospital it is. You could list all 3,000 hospitals, rank-order them from best profitability to lowest. What I might want to say is we want to ensure as a system that the hospital with the highest margin should always have every product they ever wanted and never put them on back order. But there are other issues of what is the mission of the Red Cross.

John Moore added, "If I were the owner of a business as opposed to steward of the geographic area's blood supply, I would jettison two-thirds of my customers." Jackie Spencer's region had asked the consulting firm of McKinsey and Company to conduct a pricing study. The conclusion was that "we have been too timid about our prices. And I would agree with that." Jackie felt it was a mistake not to price in a way that reflected the costs of running each local operation. "If you price to recover your costs, for a fair return, to feed your business and keep it strengthened and ongoing, then let the market decide whether they want to be a part of you or not."

The problem exists both in hard-to-serve geographic markets and in high-demand or expensive products. As Kate Hanson explained, "There are eight different blood types. One or two of those types are used more frequently than they're represented in the donor population, so they have a higher economic value. . . . When we approached [pricing] as the community blood supply, . . . it didn't matter." But now, with commodity pricing and commodity service in a competitive market, "most of us do now have service differential pricing."

The tension in a price-based strategy is more pronounced in the case of blood products than with health education programs because chapters are in a better position to counteract the loss of cross-subsidies. Chapters are already--in fact, primarily--in the business of providing charitable services funded by donations, so they may be able to fund some educational services in this way as well. But for both chapter and blood bank managers, the ability and willingness to compete on the basis of price alone in fee-based markets is tempered by concerns over quality and access. Both sides are more comfortable with a strategic response based on product differentiation.

**3. Differentiation Strategy in Fee-Based Markets**

Differentiation in fee-based activities can be accomplished along a number of dimensions, including the quality and type of products offered and special customer needs. Three types of differentiation came up in discussions with managers: focus on a distinctive product or package, highlighting quality differences, and in the case of Biomedical Services, provider reliability.

Though some chapters relied on core competencies--focusing on a particular type of product or package, Biomedical Services managers seemed to feel that product-line differentiation was not a viable competitive strategy.  Bill Williams considered competition from a "niche company" to be his "greatest single threat. . . . we have a very high profit product, and somebody could come in . . . on that particular product line, and we'd be dead in the water." Anne Margolis, who had struggled to regain business lost because of pricing, also argued that product focus was not a workable approach:  "In a region being financially viable, you've gotta have the full product mix, you can't just be doing red cells, you've gotta be doing red cells, platelets, plasma."

A more successful form of competitive differentiation employed by blood region managers was the provision of service packages that made it appealing for customers to stay with them.  Cassie Williams was proud of her region's having  "built a number of barriers to competition in our service.  We integrated ourselves into the hospital blood bank, and helped them set their supply levels, [do equipment maintenance] and do some things regulatorily for them, as part of a total supply contract, that have helped us keep out competition."  This kind of strategy was also employed on occasion by the chapters, but it often took a catch-up form, having been done first by competitors.

Relying on distinctive quality for competitive differentiation had different implications in the two markets.  In Biomedical Services, quality was an appealing strategy given the organization's huge investment in new testing facilities, and was asserted to be the primary strategy favored by the national office, but wasn't seen as a viable strategy by many regional managers.  Customers knew that suppliers were all regulated and wouldn't generally pay for the quality differential the ARC was offering. "Quality?" said John Gardena, "They look at it and they say, Well, wait a minute--doesn't the FDA tell [both of] you how to do it?" A colleague chimed in, "Our organization still tries to sell the quality side, and it's not goin' anywhere."  A third interjected, "We tell 'em we've got a premier national testing lab second to none--" and two others responded simultaneously, "So?"  An exception was the manager who reported winning a contract with the federal government based not on price but on quality control.

In health and safety education, managers did see quality as an important feature of what they were selling, though they did not always feel the organization did a good job of communicating its distinctiveness.  In one focus group, a manager said he would point out that having ARC provide CPR education would allow the employer to "relax because they're much better trained than [with] the competition," and a colleague asserted that "skill retention is higher" with ARC's method.  Chapter managers believed that their longer, more interactive instruction was worth a higher cost, though they were not always sure the organization was able to demonstrate this to customers.

An important source of differentiation in the Biomedical Services market is the ability of a provider to guarantee supply. The ARC as an organization is very well positioned in this respect, with its access to donors and national size, and most ARC managers see availability as by far the organization's most significant competitive advantage. Some insisted that product availability was "the only leverage we have right now" and others reported being able to regain lost customers through their reliability. One blood bank manager noted that seven of his hospitals deserted him in favor a competitor offering a lower price, but within eight months six of the seven were back. The reason was ARC's reliability: With the competitor, "they couldn't get the product." Karen Jason found that "shortage of supply. . . has advantaged us in new markets. . . we've been able to go in there as the Red Cross and say if you sign an agreement with us we will deliver . . . . [customers] see it as a critical supply and they do not see surety on the part of the competitor to meet their needs."

The effect of a differentiation strategy on mission depends on the nature of the differentiation and the choice reflects a clear tension between margin and mission. Differentiation consistent with *mission* would necessarily focus on a market segment poorly served by private firms, but such a segment would in all likelihood be unprofitable. For example, if the ARC were to focus on serving community hospitals rather than tertiary care hospitals it would lose the subsidy available from its business with the latter group, which tends to purchase high-margin products.

Conversely, if the organization were to focus only on profitable segments, it would leave the more difficult-to-serve segments to the whims of the private market. In Puerto Rico, for example, the ARC is unable to collect enough blood to meet local needs, and as a result must import supply from other, higher cost regions. With the relatively low price of the blood, costs are not covered. As one manager explained, “Politically, the emblem cannot abandon the Puerto Rican people, but if [ARC] were a company, we would.”

An approach that might work would be to focus on the most difficult segment and then subsidize this service through fund-raising, i.e., shifting the program from primarily customer-based or “commercial” toward a more “donative” type of activity. This seems a more workable strategy for chapters than for blood regions, given the chapters' much greater reliance on donations.

Sometimes a favorable set of conditions combines with organizational leadership and innovation to allow ARC to meet both mission and margin by developing a new product or market focus, as happened to Sally Forester’s chapter when they developed a certified nurse assistant training. She said they entered this market because of community need--their local area was a destination for elderly people and they saw that skilled CNAs would be in demand for local nursing homes. After “an enormous amount of work” and sustaining financial losses over some years, the program “now has the potential of being a cash cow and a profit leader for our more fledgling programs.” It draws on ARC’s strengths: “One, because of the integrity of who we are, our brand image is strong. . . . the level of our instruction is more comprehensive and we have three licenses to help solidify the program with the state.” This seems to be an example of doing well by doing good, but the program is an exception and it remains to be seen how easily ARC can sustain its advantage in this market.

## 4. Assessments of Strategic Choices in Fee-Based Competition

ARC managers were somewhat divided both in their choice of strategy and in their assessments of the effects of fee-based competition on the agency, customers, and the community (see Table 1 below for a summary of implications and effects). Though they were all intensely aware of the need to operate efficiently--cost is clearly a concern for their customers--the majority saw their primary strategy as differentiation, usually in terms of quality (75% of all survey respondents favored a strategy based on differentiation over one based on price). Consistent with this choice, managers also identified service and product quality as the top of their list of competitive advantages, with low cost at the bottom. However, there are several indications that managers in Biomedical Services were more concerned about price than were chapter managers and that the two groups viewed the effects of customer competition differently. Though managers generally favored a differentiation strategy, a higher proportion of those in Biomedical Services than in chapters bucked the trend: 27% of Biomedical Services respondents, compared to 16% of chapter respondents, favored an overall strategy based on price. In addition, in ranking strategies for customer competition, Biomedical Services managers' second choice was the use of variable pricing; for chapters' it was competing on the basis of what they do best. In focus group transcripts, the word "price" appeared 24 times for chapter groups and 67 times for Biomedical Services groups. Biomedical Services managers also complained loudly about national pricing policies that ignored local market realities.

Both groups offered positive comments about the effects of competition in fee-based markets, though there were more qualifications from Biomedical Services managers. Common positive observations in both groups had to do with the effect of competition on customer service and related aspects of performance. As one blood bank manager reported, it was only after losing a major customer that his unit began to work on customer service and review its basic operating procedures; competition prompted a long overdue, critical self-evaluation.

But some managers felt the pressure to lower prices and costs had hurt all blood suppliers. As Anne Margolis said, “It’s not productive; I’m just waiting to have the business taken away again.” And several expressed concern with the effect of a highly competitive environment on their organization’s culture. Alice Latham felt there to be “a continuing tension between mission and margin” and observed that “the business focus that competition has required has taken our terminology away from mission.” A frank exchange in a Biomedical Services group illustrated the tension. When asked how their work would change if ARC were a for-profit firm, one manager responded that "probably Los Angeles wouldn't be part of our system" because of its high cost and low revenue. A colleague added, "[If it] hemhorrages out there, cut it loose--like GE did, when they were looking at their different [divisions]." The organization's perspective is "you can't abandon these places," said another manager, but "if you were strict for-profit you would say, 'We can't make money there, let somebody come in who can make money doin' it.' "

Comments along these lines were much rarer in the chapter discussions of fee-based competition. Some were even uncomfortable with the notion that health-and-safety programs should be expected to support themselves, thinking of these activities as forms of community service. Bill Taylor commented, “We do [training] because that’s our role in the community, because we want the community to be safe and to be prepared. Period.” Chapter managers also seemed to experience less difficulty in trying to reconcile margin and mission as they competed in fee-based activities. Whereas Biomedical Services managers often sounded distraught over organizational decisions that may have been mission-driven but had unfavorable effects on their ability to compete, chapter managers seemed to feel a greater sense of control. One acknowledged the "constant tension" but when asked if this was a problem, she responded: “No, and I think it shouldn't be. I think that part of our job is to make sure that people understand what the balance is and how that fits together.”

[TABLE 1 ABOUT HERE]

Overall, the chapter managers’ comments about customer competition had neither the urgency nor tension of the comments from Biomedical Services managers. To understand the difference in concern, it is important to recognize that the competition over fee-based activities among chapters is on a much smaller scale--relative to other activities--than it is in Biomedical Services, making these kinds of issues far less prevalent for the chapter managers. Their primary competitive concerns are in the donative realm, where issues are very different and the tensions less profound.

## IV. COMPETITION IN DONATIVE ACTIVITIES

The competition for charitable contributions in some ways resembles market-type, fee-based activities, but there are important differences, primarily in the relationship between consumer and payer. In the typical market exchange, the payer buys something for his own consumption or that of someone closely related, as when an employer purchases safety training for its employees. When a donation of money is made to a Red Cross chapter for the delivery of humanitarian services, however, the recipient/consumer generally is unknown to the donor/payer. An additional complication is that the charitable "product"--in this case, community-wide disaster services--is not easily measured and observed.

Blood donations are even less analogous to standard market situations. Whereas cash donors are in effect "purchasing" a good even if they do not directly consume it, the blood donor is providing inputs for a product that will be sold. If we are to construct this activity as a market-type exchange, we must define what it is that the blood donor is receiving for her donation. One possibility is that the donor knows that although the blood products will be sold,[5] the cost to recipients will be lower and the availability of blood greater than if donors had to be paid or were unwilling to donate. The "good" the donor is buying is the availability of relatively low-cost blood to those in need. Alternatively, the experience of giving blood may give the donor positive feelings about herself, in which case the donation is given in exchange for psychic satisfaction.

From the ARC's viewpoint, competition for donors is critically important on both the chapter and Biomedical Services sides, though donations do play a different role in the two activity areas. For chapters providing disaster relief, donations support entirely charitable services. For blood regions, donations support fee-based activities, and even more significantly, blood donations underwrite the ARC’s strongest competitive advantage in this market--ability to ensure access to the product. Below we explore the strategies deployed by ARC to compete for donations of both cash and blood.

### 1. Characteristics of the Products and Markets

Both chapter and Biomedical Services managers reported increasing competition in their donative activities, though there were different factors at play, calling for different strategies. In the case of blood donations, key factors are increased competition among blood banks and increased work and family claims on the potential donor’s time. When competition is primarily for donor time, the appeal is primarily altruistic, and collaboration with competitors may increase the total supply. When competition is directly with other collectors of blood, however, the recruitment must be based on a different kind of appeal, one that can rely on price or differentiation. The focus in this discussion is on the latter form of competition.

Chapter managers also face direct and indirect forms of competition as they pursue the donated dollar: indirect competition from other claims on donor income, and direct competition from other nonprofits, including one of its funders, the United Way. In the 1950s, the United Way undertook to solicit funds for the ARC (among other charities) and for some decades the United Way was the ARC's major source of donations. However, in recent decades this support has diminished and the two organizations now compete for funds. Other factors intensifying competition include the increasing sophistication of donors, a concomitant increase in the sophistication of fund-raising techniques, and a proliferation of direct disaster-relief competitors. These trends have forced chapter managers to change the way they talk about their work. One explained, "We talk about it *as* a business, we talk about market segments, we talk about market share, we talk about stuff in ways that people in for-profit enterprises talk about what they do. . . Our language is very different from when I came in the organization." The ARC chapter personnel now feel as though they must sell their mission in a way that is more compelling than competing claims on disposable income.

The chapters' most direct fund-raising competitors include the United Way, the Salvation Army, some public emergency relief funds, and even the national office of the ARC itself. As the competitive universe has become increasingly crowded, ARC chapters have attempted to develop a strategy to counter these new pressures.

**2. Price Strategy in Donative Markets**

Two types of price-based strategy are available to the ARC in its competition for donations. First, the organization could argue that it provides relief services or blood products more efficiently than competitors offering the same services--i.e., better quality or higher quantity for the same donation. Second, to cash donors the organization could assert that its greater *administrative* efficiency allows it to put a larger share of all charitable funds directly into services than do other charitable organizations (of any type).[6]

As in fee-based activities, both Biomedical Services and the chapters appear on the surface to be well situated to pursue an efficiency strategy, given the organization's extensive experience in service provision and a size that allows economies of scale both in services and administration.[7] However, it is not clear how effective this strategy can ever be with donors. In market exchanges, the consumer is aware of the unit price of goods offered by different suppliers and is sensitive to price. In the charitable market, the donor may be far less sensitive to cost--particularly if the mission is urgent or difficult--and is also less likely to track efficiency. Even if accurate information were available on either service or administrative efficiency, it is unclear whether donors would weigh possible differences in the costs of a service not delivered to them directly. In fact, none of the focus-group participants–from either chapters or Biomedical Services--described competitive strategies in donative markets based on these types of efficiency arguments.

One variant on cost-based competition is relevant only to the blood-donor market, and that has to do with the price paid by the donor in terms of time and inconvenience. Managers are sensitive to these factors and their importance to donors, and much of their effort is directed at improving the donor's experience. Alan Webster explained that reducing waiting time was an important step: "you know, you're in and out in 45 to 60 minutes. . . . that is a response to that precious time that we're asking for." However, ARC managers do not speak of their actions in this area as a primary strategy, more as a set of activities that are necessary but insufficient to remain competitive. When asked if they monitored their agency's relative performance on this dimension, almost all managers said they did not. Les Waltham commented that an efficiency emphasis might not be entirely appropriate, as could be at odds with quality or other donor concerns: “[One competitor] does have metrics and they run it pretty lean and mean and therefore the customer service isn't very good. . . sometimes they have many hematomas on their blood drives and so they don't get asked to come back.”

In terms of effect on mission, “price”-based competition for donors could be beneficial to the extent that it pushed all organizations to become more efficient and deliver more value for the donated dollar or unit of blood.  In addition, one of the major negative effects of price competition in fee-based activities–the elimination of cross-subsidization--might even be considered a public benefit in the contributions market, where cross-subsidization would mean raising money for one activity and spending it on another, arguably something that should not be taking place.  Price-based competition could run counter to mission, though, if it resulted in the lowering of service quality, and there is very much an issue of information asymmetry here as the consumer (recipient) is not the one making the decision to "buy."  In some circumstances, a focus on efficiency could eventually collide with an agency’s mission, leading to client-creaming, or to changes in program design or delivery.

### 3. Differentiation Strategy in Donative Markets

In competition for donors, the organization can differentiate in terms of the services it provides, the donor population it targets, or both. The ARC is particularly well positioned to differentiate its services, as its long-term experience in providing disaster services and blood products give it special credibility as a provider. In addition, its strong reputation, local presence, and extensive volunteer force could be used to solidify a loyal donor base.

In Biomedical Services, the brand-name advantage ARC enjoys in its competition for donors is in turn relevant to its competition for customers. In the struggle to maintain a reliable supply, managers have come to realize both the importance of the organization's name and the value of the "other side of the house"--the chapters--in this competition. A concrete example was described by Jeff Marin:

> I have 20 chapters and when I first came around there wasn't a whole lot of relationship with them . . . for a number of reasons. We all of a sudden realized that they were our greatest advocate in terms of getting to sponsors of blood drives, and [now that we've begun] to reinvest in that relationship, [if] competition comes in and takes a huge supermarket chain away from me, we call the chapter in that community and the VP of the supermarket chain is on the chapter board and says 'I'll take care of that.' One phone call and we're back in.

The ability of the chapters to reinforce and build the brand name of ARC turns out to be essential to the Biomedical Services division in many competitive situations. Having the aura of good work related to disaster relief separates the ARC from many of its competitors, especially the for-profit firms. One blood bank manager explained, "I just think of the thousands of people in our state who are associated with one of our chapters, either on the boards, or have been serviced by them, friends and relatives and neighbors, who when they see a Red Cross blood drive, think that's it." The "halo effect" is so powerful that some managers find other organizations making use of it, marketing themselves in ways that suggest they are affiliated with the Red Cross.

Blood banks differentiate their appeals to donors in a number of ways in addition to brand name. For example, hospitals may collect blood for their own use, targeting patient relatives and their own employees. And other blood banks sometimes argue that a service relationship with the local hospital justifies their presence as a collector in that community, putting the onus on ARC to assert an alternative claim. Differentiating on the basis of legitimacy, quality, or charitable reputation requires a delicate hand. Even as it aggressively competes for donors, the ARC must take care in the way it does so. As Les Waltham pointed out, "What'll happen if you're not careful is the donors get a little frustrated . . . they'll tend to trow up their hands and say I'm not gonna give blood at all." A more promising alternative is for the ARC blood banks to differentiate their appeal by improving donor experience, as in a particularly successful program in which an individual staff member accompanies the donor through the entire process.

Chapters also rely on differentiation in donor competition, making a conscious effort to "become relevant to the individual," as one put it. Sara Kensley felt that competition worked to the ARC's advantage because of the strength of its particular programs. "When you look at community foundations and United Ways, they start to get into our business, that's wonderful because we can go right up and say, United Ways don't provide any services, and oh, by the way, we're the ones that are most important in your home and your business every day." At the same time, an awkward factor in the ARC's differentiation strategy is the age of its programs. Of the top things for which Red Cross is known--disaster, blood, first aid, CPR--the youngest program is now 50 years old. Demonstrating relevance is particularly challenging when the donors are young entrepreneurs who want to support something immediate with visible impact.

What are the effects of a differentiation strategy on mission? In contrast to the case in the more commercial activities, differentiation in donative services can serve both margin and mission: A focus on the needs of the least well-served is not only consistent with mission but presumably in line with the organization's own interests insofar as it makes a stronger appeal for donations. It might still be that an organization would wish to target an activity or segment (among unprofitable ones) that is relatively easier to serve--a kind of creaming--but the temptation would certainly seem to be less than it is in the more commercial domain. Two problems remain, however. First, an agency that successfully establishes itself as the dominant provider in a particular service area may eventually perform less well than it would under conditions of more direct competition. Second, a differentiation strategy can cause resources to be redirected from service provision to marketing and public relations. This problem arises to a lesser degree in commercial activities, because the service or product being sold there is something far more tangible to the purchaser.

Chapter managers did see the problem of emphasizing marketing over substance in the competition for "air time." As Tony Eden explained, "Whoever seems to be seen the most in times of disaster are the ones people remember when it comes to opening the checkbook."

Concerns about duplication of service have led donors and sometimes the agencies themselves to promote collaborative effort. Bill Taylor's chapter works with the Salvation Army to coordinate service delivery by, for example, dividing up territory in situations requiring the feeding of large numbers of people following a disaster. For their own part, some donors--including companies and foundations--are increasingly specializing in the types of services they want to fund, making "mission fit" harder to find but also perhaps avoiding some duplication.

Though chapter managers generally felt that competition had sharpened their capacity, very few actually described circumstances in which donations had increased as a result of improved service performance or mission-related differentiation. One exception was a chapter that found that identifying unmet needs in the community as well as serving as an umbrella agency had enhanced its standing enough to attract important board members, which would in turn increase its fund-raising potential.

Neither the chapters nor Biomedical Services rely much on donor-differentiation strategies (as opposed to service-differentiation), and the likely social effect of such strategies is ambiguous. Targeting segments of the donor population could be beneficial if it provided better donor experiences and reduced confusion or alienation among donors. Certainly, head-to-head competition for access to the donor group can have the opposite, undesired effect, as Sam Brady found when a competitor conducted a blood drive after his in the same building. The landlords decided they didn’t need the “aggravation” and ultimately denied both groups access. On the other hand, if single agencies came to dominate individual segments of the donor market, service quality might well decline.

### 4. Assessments of Strategic Choices in Donative Competition

As in competition for customers, both Biomedical Services and chapters compete for donors primarily by attempting to differentiate themselves from the competition rather than making an appeal based on efficiency. In survey responses designating how central a given strategy was to their response on donor competition, chapters tended to favor increasing sophistication of donor solicitation, followed closely by improving the donor/volunteer experience, and then promoting the distinctive qualities of the ARC's programs. Biomedical Services respondents saw improving donor experience as most central, followed by promoting the distinctive qualities of the ARC, and then increasing sophistication of solicitation.

In terms of the effects of competition, among survey respondents both groups were generally positive, but chapter managers were clearly more so than Biomedical Services managers (these survey responses are discussed in greater detail in the next section). Managers participating in focus groups generally felt that competition had had beneficial effects, but there were some who disagreed and dissenters were particularly vocal in the Biomedical Services groups, where there was concern about aggressive competition confusing or alienating donors and a few managers claiming that "the more the competition acts out aggressively, the more it turns the donors off and we're all hurt" or "when the competition gets unruly the donors run for cover and the blood supply dwindles, for everybody." On the other hand, some managers also cited improvements in donor treatment as a result of competition. See Table 2 for a summary of implications and effects.

Among the benefits chapter managers saw from donor competition were enhanced services as a result of the perceived pressure to perform. Sara Kensley claimed, “I think this plays to our advantage . . . because we keep an eye on the Salvation Army, as an example, knowing very well if we didn’t come out on top in terms of service delivery, they’d take that advantage just in a moment, so it keeps quality up there.” Barry Klein seconded the notion that competition had been beneficial, insisting, “I think we've all agreed that competition helps us to improve our programs. . . . in terms of quality--and in terms of price, for the consumer. But I think for us it keeps us generating new ideas. It's awful easy to become complacent, and I think that's what happened to our organization a number of years ago is that we did become complacent and we didn't recognize the opportunities.”

[TABLE 2 ABOUT HERE]

Of course, doing good work is not enough; the prospective donor must be aware of the organization's effort and the need to support it. Competition has clearly sensitized chapters to the need to make their case and they are getting better at it. But as noted above, disaster-service competition invites public-relations battles that can divert energy from substantive activities into publicity. ARC managers didn’t report such a conflict internally, though some saw it in their competitors, who would appear at a disaster site only as long as TV cameras were running. Tony

Flores, a staff member in disaster relief argued that in the end, substance would show and on balance the effects of competition were very positive:

> . . . it gets back to value, and it gets back to service or whatever we're providing the American public. I think the competition sharpens that. And if you're doing a really good job and you're providing a really good service and you're providing real value and you're able to explain what you're doing then that'll win out… And I think that frankly, this is a marathon, it's not a sprint… A lot of the competition is into it for the sprint and they may be successful for awhile, but after awhile it begins to catch up with 'em.

Tony's comments about the "marathon" also suggest a way in which competition for charitable dollars may be problematic in disadvantaging smaller, lower-profile, and perhaps less mainstream organizations. When pressed on the question of whether donative competition ever had negative effects, a few managers noted this possible harm. As Jo Ackerman said, "It becomes survival of the fittest. . . . I can see the disadvantage to a grassroots, local organization that really has a worthwhile enterprise that is trying to grow, that is squelched out of any kind of market share because they just can't compete, and that is a downside . . . . If we would stay closer to our mission and be striving for that quality without that competition stabbing us in the back, but because it's the right thing to do . . . I think it would be a better world."

## V. BALANCING MARGIN AND MISSION

The experiences of ARC managers—summarized in Figure 2—highlight broader issues relevant to an increasingly competitive nonprofit sector. Two general conclusions emerge from this summary. First, a given strategy has very different implications in the two domains, and nonprofits will find it easier to choose a strategy that harmonizes margin and mission when engaged in donative rather than fee-based activities. Second, an organization's competitive activities in one domain will influence its success in another, with positive and negative implications for mission.

### 1. Margin-Mission Discord Varies Across Competitive Domain

Within fee-based markets, differentiation that is good for margin is *not* likely to be consistent with mission, but within donative markets, this strategy may serve both margin and mission. Price-based competition is probably better for the organization in its fee-based activities than in donative activities, but is also more antagonistic to mission in fee-based activities, primarily because of the pressure to eliminate cross-subsidies.

[FIGURE 2 ABOUT HERE]

More generally, in the fee-based domain the organization's interests in survival conflict with its commitment to service, and as illustrated by the trade-offs in Figure 2, finding a successful approach to competition will be much harder than in donative programs. ARC managers made the difficulties clear in their discussion comments, but the conclusion also emerges from their survey responses. As illustrated in Table 3, Biomedical Services managers--whose units are predominantly dependent on fee-based activities--were much more likely to give negative assessments of competition's effects than were chapter managers--whose units are much more dependent on charitable donations. Though it is true that both divisions include a mix of donative and fee-based activities, there are dramatic difference in the relative proportions of these revenue sources for the two divisions, and in the priorities assigned to different types of competition, as shown in the table.

The association of Biomedical Services with fee-based competition and chapters with donative competition provides a context for interpreting the contrast in the two groups' survey responses on the effects of competition. Though respondents in general tended to report a positive assessment of the net benefits of competition, the view was far more positive from chapters than Biomedical Services. For example, asked if the net effects of competition were positive, negative, or mixed, for each of four groups (donors, customers, community, and agency), chapter managers were heavily inclined to report net positive effects for all four groups (50% or more of the respondents did so for each group). Biomedical Services respondents were much more critical: The only group for which a majority reported a net positive effect was customers. In separate questions about the net effects on donors, community, and agency, the Biomedical Services managers' assessments were far less sanguine than the assessments of chapter managers (see Table 3). Overall, chapter respondents gave more positive assessments and fewer negative ones than did Biomedical Services people, with both differences statistically significant.

A similar pattern emerged in response to a question in which respondents were given a list of possible effects of competition and asked to identify those they had seen. The items included three that were clearly positive and three that were clearly negative, with two that were neutral or could be seen as either positive or negative, depending on viewpoint. Chapter respondents *all* identified some positive effects, whereas 22% of Biomedical Services respondents highlighted none of the possible positive effects; the average number of positive effects identified was also higher for chapter people, though not significantly so. Conversely, Biomedical Services respondents were much more likely than chapter managers to identify two or three negative effects (70% versus 29%). The average number of negative effects identified by Biomedical Services people was significantly greater than the number identified by chapter people.

In terms of the individual items listed, though, majorities of respondents in each division identified both positive and negative effects. For example, 98% of chapter respondents and 70% of Biomedical Services respondents said there had been improved service quality as a result of competition. At the same time, large majorities of both groups also reported having seen internal conflicts between mission and margin (69% of chapters, 65% of Biomedical Services). Of those who said competition had produced such conflicts, most reported having seen "operating decisions based more on margin than mission." A higher proportion of Biomedical Services than chapter respondents had seen competition result in better service to some customers than others, for market reasons.

[TABLE 3 ABOUT HERE]

In short, both focus group comments and many survey responses strongly suggest that competition is likely to be both more difficult to manage and more potentially damaging to mission when it occurs in the realm of fee-based activities than in the donative market. Though the possibility of competition leading to improved services is present, even realized, in both domains, the other influences in these different "markets" push in opposite directions. In markets for fee-based services, standard economic pressures operate and must be actively resisted if nonprofits are to remain true to mission. But if resistance to these pressures is too strong, the agency will fail to survive in such markets. By contrast, there are countervailing influences in the market for donation-supported activities that allow nonprofits to compete in this domain with less threat to mission.

**2. Competitive Activity in Different Domains Interact**

It is clear from other research that fund-raising competition has pushed nonprofits increasingly into fee-based activities. But the ARC experience also suggests that competitive fee-based activities may undermine a nonprofit's commitment to mission. The most effective forms of competition—dropping unprofitable markets and variable pricing—are appropriate for business firms but may result in a loss of value for nonprofits. The organization's commercial activities may actually diminish its success with donors, as they either become disillusioned or decide that it no longer needs their support.

At the same time, the ARC experience also illustrates how charitable activities can support success in fee-based programs. The ARC's very favorable reputation as a relief organization not only enhances its appeal to some customers, but more importantly, supports its access to blood donors, a critical input for successful competition in the biomedical products market. The positive aspect of this relationship is that it enables the organization to survive in a competitive market without being forced to adopt strictly profit-motivated strategies such as abandoning hard-to-serve customers. As long as the commitment to mission determines organizational decisions in this market, the result is favorable from both managerial and social perspectives. The negative implication, of course, is that the organization could use its charitable reputation simply to out-compete for-profit firms in the commercial market, serving its margin but not its mission (Finkelstein, 1996). The use of good will and other benefits from charitable activities to boost success in a commercial market is an important and viable strategy for nonprofits, but appropriate only insofar as their commercial activities include a significant degree of charity.

The increasing importance of fees and other forms of commercial revenues in the nonprofit sector has led some to argue that the boundaries between businesses and nonprofits have eroded. As nonprofit health, education, and human service organizations have begun to encounter head-on competition for customers from a growing army of both nonprofit and for-profit firms, the fundamental characteristics of nonprofit organizations are being put to the test. Given these changes in the nonprofit financial landscape, managing in the sector has grown much more complex. Not only do nonprofits need a strategy to deal with competitive pressures, but they need different kinds of strategies for different kinds of competitive situations. The alignment of strategy with mission requires a careful appreciation of the tradeoffs involved in securing the fee-based and donative revenues necessary to support the work of an organization while protecting the public benefits that justify the special status of nonprofit organizations.

Because few if any nonprofits enjoy the luxury of eschewing fee-based revenues in favor of an exclusive reliance on donations, managing these tensions is likely to become a core challenge in nonprofit management in the years ahead. Fitting strategy, funding streams, and mission together in a coherent and effective way represents the frontier of nonprofit management in an increasingly competitive environment.

## VI. QUESTIONS FOR FUTURE RESEARCH

Our findings are drawn from a single case study, and are therefore not necessarily generalizable to other nonprofit organizations or very different markets. However, the ARC case does suggest that a framework that includes both competitive domains and alternative strategies may be a useful way of thinking about the managerial choices and social implications involved in nonprofit competition. Additional investigation should be undertaken to explore in greater detail and multiple contexts the relationship between donative and fee-based competition. Are there particular organizational characteristics or market conditions in which the relationship is most likely to serve the public interest? What blend of monitoring and regulation might be necessary to ensure that interest is served? And what strategic choices do privately and publicly successful nonprofit managers employ?

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**Figure 1**

**Forms of nonprofit competition**

| | Customers | Donors |
|---|---|---|
| Price/Efficiency | Low cost services | Efficient use of charitable funds |
| Differentiation | Specialized services | Targeted use of charitable funds |

**Table 1**

**Effects and Implications of Alternative Strategies**

**in Fee-based Markets**

| | **Biomedical Products** | **Health and Safety Education** |
|---|---|---|
| **Price strategy** | • attention to operating costs<br>• need for variable pricing<br>• market pressure to serve on basis of profitability | • attention to operating costs<br>• must offer special deals to attract customers<br>• some pressure to eliminate free services |
| **Differentiation strategy** | • quality-differentiation rarely sufficient<br>• guaranteed supply most advantageous<br>• special service packages meet customer needs<br>• focus on hard-to-serve market is unsustainable | • quality-differentiation sometimes viable<br>• special service packages meet customer needs |

**Table 2**

**Effects and Implications of Alternative Strategies**

**in Donative Markets**

| | **Blood donations** | **Cash donations supporting disaster relief** |
|---|---|---|
| **Price strategy** | • useful if "price" means donor time and convenience; otherwise ineffective | • ineffective with donors<br>• can lead to creaming |
| **Differentiation strategy** | • ARC name works well<br>• has led to some improvements in donor service<br>• can lead to competing claims on territory that alienate donors | • ARC name works well, though age/tradition of programs a problem for younger donors<br>• quality differentiation keeps service good<br>• can result in emphasis on publicity over substance |

**Figure 2**

**Implication of alternative strategies in different competitive domains**

| | **Fee-based** | **Donative** |
|---|---|---|
| **Price** | | |
| Implications for margin | good use of ARC capacity (+) | requires donor awareness/sensitivity (-) |
| Implications for mission | lower prices (+)<br>reduced cross-subsidy (-)<br>threat to quality (-) | greater efficiency (+)<br>threat to quality (-) |
| **Differentiation** | | |
| Implications for margin | can target high-margin markets (+) | target underserved areas–good for ARC appeal (+) |
| Implications for mission | means avoiding low-margin markets with underserved clients (-) | service where most needed (+)<br>greater service expertise (+)<br>improved donor experience (+)<br>emphasis on image (-) |

**Table 3: Survey Responses on Competition for Two Groups of Managers**

| | Biomedical Services N=23[1] | Chapters N=46 |
|---|---|---|
| Budget sources: | | |
| portion from donations (average) | <1% | 62% |
| portion from fees (average) | 99% | 25% |
| Area in which competition rated most important; also top competitive concern | organizational customers | individual donors |
| Net effects of competition on donors | | |
| positive | 17% | 50% |
| mixed | 35% | 43% |
| negative | 48% | 7% |
| Net effects of competition on customers | | |
| positive | 52% | 62% |
| mixed | 43% | 22% |
| negative | 4% | 16% |
| Net effects of competition on the community | | |
| positive | 4% | 64% |
| mixed | 68% | 31% |
| negative | 27% | 4% |
| Net effects of competition on the agency | | |
| positive | 43% | 60% |
| mixed | 39% | 36% |
| negative | 17% | 4% |
| On net effect questions, | | |

[1]Note that some survey respondents were located in neither Biomedical Services nor chapters; they are not included in this table. Note also that percentages may not add to 100 because of rounding.

| | | |
|---|---|---|
| average number of positive responses (4 possible) | 1.17 | 2.33 |
| average number of negative responses (4 possible) | .96 | .30 |
| Proportion indicating they had seen these particular effects of competition: | | |
| improved quality of service/product (+) | 70% | 97% |
| improved quality of donor experience (+) | 65% | 73% |
| greater efficiency (+) | 65% | 60% |
| greater range of services offered (+/-) | 26% | 47% |
| confusion or alienation among customers (-) | 52% | 31% |
| confusion or alienation among donors (-) | 61% | 13% |
| lower margin on products and services (+/-) | 57% | 33% |
| internal conflicts between margin and mission (-) | 65% | 69% |
| Of those who saw internal conflicts, proportion reporting: | | |
| operating decisions based more on margin than mission | 71% | 69% |
| better service to some customers than others, for market reasons | 79% | 47% |
| Average number of positive effects reported | 2 | 2.3 |
| Average number of negative effects reported | 1.78 | 1.13 |
| Proportion reporting: | | |
| no positive effects | 22% | 0% |
| no negative effects | 4% | 22% |

ENDNOTES

[1]Schlesinger (1998) asserts that behavioral differences can only be properly measured and understood when the interaction of external context and ownership are taken into account, and that most studies fail to do this.

[2]While Hansmann (1980) uses the categories of “donative” and “commercial,” this article generally uses “fee-based” rather than “commercial” to refer to nonprofit activities that are both supported by fees and mission-related as opposed to activities that are engaged in primarily or entirely for revenue-generation, which would more accurately be called “commercial.”

[3]For a concise description of the organization’s history, see Varley (1999).

[4] All names are pseudonyms. Transcript conventions include the following: ellipses indicate omitted text; comments in brackets are not the speaker's words but are inserted to make sense of a passage.

[5]In fact, donors are not necessarily aware that blood products are sold, and some have been disturbed to learn this. This analysis generally assumes that donors are not so misinformed.

[6]Note that the general effort to operate efficiently will serve the organization but is not necessarily a strategy in the competition for donors unless it is used in the marketing process.

[7]We note, as did many managers, that there can also be dis-economies of scale, resulting from bureaucratic impediments.