Compumentor and the DiscounTech.org Service

Creating an Earned-Income Venture for a Nonprofit Organization

Christopher Lovelock
Phil Chap
Kate Scorza Ingram

A nonprofit organization has established a for-profit venture to sell donated and discounted technology products. The venture is now profitable and ambitious goals have been set for the future. The general manager must develop a communications strategy to build sales through different channels.

Nonprofit ventures [have] few of the traditional supports available to other types of organizations. Straddling the for-profit and nonprofit cultures, they inhabit a world not officially recognized, where roadmaps do not exist. Life on the thin strip between one land and another is always a precarious existence, full of trials and tribulations, but also charged with opportunity.

Bill Shore, Chairman, Community Wealth Ventures

Rebecca Masisak, general manager at DiscounTech, a web-based business that distributed donated and discounted technology products to nonprofits across the United States, savored the testimonial just received from a satisfied customer.

We couldn't possibly be where we are today if it were not for DiscounTech. We’re a nonprofit arts education organization with a budget of under $2 million and seven employees. There is no designated information technology person and no one in the office really has any IT skills – most of the seven employees are artists!

Three years ago, we had no network – all workstations were stand-alone and if someone needed to print out a document, they had to save it to disk and walk over to the only computer connected directly to a printer. We had no website, no domain, and only the most basic accounting program. Today, we have a fully installed network and all new software, including a very sophisticated accounting program that allows us to track our financials much more efficiently. We still have no designated IT person or line item in the budget to handle IT needs but with CompuMentor, DiscounTech, and TechSoup all of our IT needs have been met.
DiscounTech was an earned-revenue venture of CompuMentor, a nonprofit technology assistance organization. After two years of losses, DiscounTech was forecast to become profitable during the fiscal year (FY) ending June 30, 2004. CompuMentor was counting on these revenues to help to fund its own activities. It was now March 2004 and to achieve the current year’s goals (and the even more ambitious ones set for FY 2005), Masisak had to create a service that would positively impact the use of technology of an ever increasing number of nonprofits to assist them in fulfilling their missions. To do so, she had to attract and retain ever larger numbers of nonprofit organizations interested in obtaining deeply discounted technology products through DiscounTech’s distribution system. At the same time, she had to retain and expand the support of the companies that donated these products. Among her concerns was developing an appropriate communications strategy to acquire new customers.

**CompuMentor**

Daniel Ben-Horin, a longtime computer consultant, journalist, and administrator, founded CompuMentor in San Francisco in 1987 with the mission of helping other nonprofits to use technology more effectively and efficiently. (See Exhibit 1.) CompuMentor had since become one of the nation’s leading nonprofit technology assistance organizations, offering consulting services in technology planning, database planning and implementation, network and infrastructure installation, and scheduled technical support services. In an interview with the *San Francisco Chronicle*, Ben-Horin had declared, “We act like a computer therapist.” CompuMentor’s target customers included community organizations such as health clinics, agencies addressing domestic violence, arts organizations, and schools. Ultimately, its work benefited the populations served by these nonprofit customers.

For the fiscal year ending June 30, 2004, CompuMentor’s revenues were forecast to total $8.99 million, with expenses budgeted at $8.19 million, up from revenues of $4.85 million and expenses of $4.60 million in FY 2002. Historically, the principal sources of revenue had been grant and foundation support, software handling, and IT consulting services, but earned income from DiscounTech was expected to assume increasing significance.

**TechSoup**

In 2000, CompuMentor launched TechSoup to leverage its 13 years of technology assistance experience. TechSoup created an IT information portal and online community where nonprofits could read about and discuss technology issues relevant to their own operations at no charge. It provided unbiased product information, reviews, tools, checklists, and resources to a community of more than one million nonprofit technology users. TechSoup also provided customers with its weekly e-newsletter, By the Cup. To build this community, it even featured actual soup recipes submitted by users. During each of its first two years, TechSoup was ranked number one by the British organization IT for Charities, who declared, “If you want to find out about IT information or resources for charities, then this is the place to go on the Web.”

**Technology Product Philanthropy**

Ben-Horin believed that technology product philanthropy—offering hardware and software free or at deeply discounted prices—was the key to helping nonprofits capitalize on the use of technology in their operations. Although many technology companies donated products to nonprofits, they often found that running in-house product donation programs was costly and that difficult. Similarly, many nonprofits had found the process of obtaining donations directly from companies to be time-consuming and awkward.

Several factors made it hard for nonprofits to obtain technology products through traditional product donation programs. A nonprofit would need to:
• Understand that it needed a technology product/service.
• Determine that the only way to meet this need was via a donation or negotiated discount.
• Identify which firms offered this option.
• Request an application to the donation program.
• Meet the requirements and complete the application forms — usually comprising dozens of paper pages, supported by numerous copies of required documentation.
• Perform each of these tasks for each vendor of each product.

As a result, the application process for donated products could take anywhere from weeks to months, during which time the nonprofit would have no idea of the status of its request. These difficulties were compounded by the fact that each item was donated separately and there were few if any consolidated product offerings available for nonprofit technology customers.

This situation gave Ben-Horin and executive director Phil Ferrante-Roseberry the idea of creating a subsidiary organization that would generate income for CompuMentor by providing a distribution channel for technology suppliers to donate their products to nonprofits simply and inexpensively, while simultaneously providing nonprofits with easy access to a both a consolidated array of related products and adequate support services. This new earned-income venture, launched in January 2002, was named DiscounTech.

Ben-Horin and Ferrante-Roseberry were pleased with DiscounTech’s progress and ambitious for its future financial success. They had emphasized to Masisak and the board the importance of generating a growing and dependable level of earned income that would enable CompuMentor to expand, thereby insulating it from the risk of cutbacks in grants and foundation support.

The Nonprofit Market

There were more than 1.6 million nonprofit corporations across the United States, collectively employing some 10.6 million paid employees. Nonprofits contributed 6.7 percent of the U.S. gross domestic product, ahead of banking, technology, and the federal government. Independent Sector estimated that 82,000 new entities were formed each year. Although the nonprofit market was growing at an annual rate in excess of 5 percent, faster than the 3.1 percent rate of the gross domestic product, it represented one of the largest underserved business markets in the United States.

The nonprofit market could be segmented by budget size, sub-sector, and geography. Based on data from GuideStar, the national database of nonprofit organizations, nonprofits could be grouped by size of budget into three segments. Some 92 percent had annual budgets of less than $1 million, 5.7 percent had budgets from $1 million - $5 million, and only 1.9 percent had budgets in excess of $5 million. According to a survey of one million IRS-recognized nonprofit organizations, four sub-sectors—Human services, education, public/societal, and health services—encompassed 41.3 percent of all nonprofits. Finally, there were two forms of geographic segmentation, by region and by type of location, such as urban or rural. The states with the most nonprofits included California, Texas, Illinois, Michigan, Ohio, Pennsylvania and New York.

Research suggested that most nonprofits were wired, willing, and ready to adopt information technology. Some 77 percent of nonprofits in the field of human services provided Internet access to their staffs and 80 percent of their executives saw information technology as a timesaving and production-enhancing tool. However, nonprofits were constrained by funding, limited time, and lack of expertise when it came to making technology-related decisions. Factors influencing the extent and selection of their technology
purchases often reflected the number of technology-dedicated staff, the nature of the existing technology infrastructure, and where the organization stood in its technology lifecycle.

**Nonprofit Ventures in the United States**

Because the income derived from programmatic activities rarely covered the full costs of running such organizations, nonprofits were forced to rely on funding from donors and grantors, including corporations, government entities, foundations, or individuals. In recent years, there had been growing interest among nonprofits categorized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code in creating “nonprofit ventures,” defined as for-profit subsidiary businesses that would serve as additional sources of earned income. (See Exhibit 2.) This income stream was seen as particularly attractive because it could be used to cross-subsidize the social mission of the organization without the restrictions commonly attached to grants and donations.

There were two broad types of ventures: commercial and semi-commercial. In both instances, organizations had to pay income taxes on ventures unrelated to the nonprofit mission. A commercial venture was defined as one that could survive based solely on profit-making criteria, such as a restaurant run by an art museum. Although it might enhance the visitor experience, the restaurant did not contribute directly to the institutional mission of exposing the public to the visual arts. However, its after-tax profits could be used to help fund museum activities. A semi-commercial venture might earn profits but its existence was justified by the parent nonprofit’s social mission. For instance, a venture in which a theater decided to rent its costumes to other theaters or schools could be seen as meeting the nonprofit’s mission to share quality theater with society. If the revenues raised from this venture proved in significant, a case could be made to the IRS that the rental shop existed solely to serve the mission of the theater.

**DiscounTech**

DiscounTech’s donation-distribution model was based on a prior software distribution program that CompuMentor had operated as early as 1989. At that time, staff rented trucks, collected review copies of software from journalists, and distributed them to nonprofit clients during consulting engagements. In 1995, CompuMentor had formed tentative product distribution partnerships with Microsoft and Lotus. This fledgling program enabled CompuMentor to forge the key corporate relationships that would later make the DiscounTech venture possible. Once the first few suppliers made agreements with DiscounTech, others became more interested.

**Service Concept**

DiscounTech employed a web-based service that offered donated and discounted technology products and services (plus support) at a very low price to nonprofits across the U.S. It operated as a centralized location where corporations could donate products and nonprofits could order them. By aligning its product distribution and services to complement the information distributed by TechSoup, DiscounTech and TechSoup jointly enabled nonprofits to obtain general technology information; make good choices on acquisition of needed hardware, software, and services; obtain support; and keep up-to-date with new developments. In its first year of operation, FY 2002, DiscounTech had saved customers over $20 million relative to the retail price for the same products. The following year, savings reached $120 million. Other than warehousing of certain products, there was virtually no cost of goods sold, since DiscounTech was not acting as a reseller. Nonprofit customers ordered the products online much as they might order from amazon.com or other e-commerce websites, thus avoiding the need to deal with a complex web of suppliers. DiscounTech generated earned income by charging customers an administrative fee for each item, usually ranging from 5 percent to 10 percent of retail price. Operating costs were minimized by directing nearly all marketing and customer transactions toward one Web-based point of sale and by sharing support resources with CompuMentor.
Similarly, a supplier of donated and discounted hardware, software, and services could access a central resource that operated a platform to publicize and promote the donor’s giving programs to nonprofits; provided no-cost outsourcing of product donation, distribution, and administration in line with the donor’s own specific guidelines; and supplemented donations with the information and resources found on TechSoup. As Masisak observed:

In most donor firms, philanthropic work is managed by someone in the HR, marketing, or corporate philanthropy departments. At Microsoft, the community affairs office handles the work, and at Cisco, corporate philanthropy does. At some other firms, individual people are philanthropically oriented, but there is no philanthropy group within the company. That’s a different mindset. Those that are more philanthropically oriented want the program to grow, they just don’t want to spend lots of time or money on it, so we help. It doesn’t conflict with the interests of the sales group and saves their resources to focus on their own for-profit business. We will work with any type, as long as it benefits our customers and donors.

Operations

DiscounTech was located in a 4,800-square foot warehouse facility in San Francisco, around the corner from CompuMentor’s offices. Approximately 25 percent of this space was reserved for secure product storage. The general manager, Rebecca Masisak, who held an MBA from Columbia, had previously been senior vice president of strategy and operations for the largest private Internet and local telecom service provider in the U.S. Reporting to Ferrante-Roseberry, Masisak managed a staff of 17, organized into four groups: operations; project management; inventory/reporting and analysis; and systems analysis and administration. (See Exhibit 3.) The staff verified prospective customers’ tax-exempt status and vendor specific eligibility, provided customer service, processed and fulfilled orders, managed inventory, and worked with donors to launch new products on the site.

Customers could use DiscounTech’s website to order products in a similar fashion to many other e-commerce sites. The following chart illustrates the process.

Delivery procedures varied according to the nature of the product and supplier preferences.

- Downloadable products: DiscounTech sent the customer an email with instructions on how to download the software, and sent a validation email to the donor.
- Products warehoused by DiscounTech: Staff would pick products such as full-packaged software from the storage area, then pack, and ship them to customers. (See Exhibit 4.)
- Products warehoused by donors: Some donating firms warehoused and shipped items, such as refurbished computers and networking equipment, directly to customers. DiscounTech staff qualified customer orders and sent them, in spreadsheet form, to the vendor partner for fulfillment.
Nonprofits could contact DiscounTech by phone or email. Service representatives were ready to answer their questions and could direct them to online, print, or other resources for further technology information. Over 80 emails a day reached the office, and the number was expected to increase as the service grew. Staff could run quarterly or monthly sales reports by vendor.

**Products and Markets**

DiscounTech’s product range included operating systems, office applications, networking equipment, website tools, media and design tools, hosted and database applications, online training, refurbished computers, and credit card processing hardware. Specialized software applications included accounting, development and fundraising. There were plans to expand into services such as payroll processing, broadband communications and training programs, accessible via the Internet through subscriptions to application service providers (ASPs). Most products were new and donated by firms such as Microsoft, Cisco Systems, Symantec, and Intuit. DiscounTech typically charged 5-10 percent of the retail price, offering the lowest available prices to nonprofits. Its top-selling products were currently Microsoft Office and operating system tools, Symantec anti-virus software, and Micromedia Studio web-production software.

General product offerings, such as printers or operating systems, were targeted at the entire nonprofit market. However, within this market, specific segments might have distinctive product needs and be reached through specific channels. Budget size was known to be correlated with the type of products needed, and whether or not there was likely to be a dedicated technology decision maker. For example, a larger budget in a mature organization would indicate the need for server-based products and more sophisticated networking and licensing solutions.

Rural and urban nonprofits had different requirements for technology infrastructure and tools, as well as for support and advice. The lack of infrastructure in many rural areas necessitated wireless connectivity. Some market sub-sectors required unique products and solutions. For example, community health clinics shared a common need for electronic medical records software that was compliant with the Health Insurance Portability and Accountability Act (HIPAA) of 1996. In general, DiscounTech targeted nonprofits with operating budgets of less than $2 million. They had a wide range of social missions, no line item in their budgets for technology, and no in-house IT personnel. Remarked Masisak: “They often have ten employees or less and in most, no one knows technology.”

According to GuideStar, only about one percent of tax-exempt organizations listed a top technology position on their IRS Form 990. In the absence of a technology specialist, decisions about the use of technology were taken by “accidental techies” or the senior management team, most often the executive director. Reaching people in each category required different modes and channels of communication. “Accidental techies” — staff members or volunteers who possessed some computer knowledge and supported an organization’s technology infrastructure in addition to their primary assignments — were seen as particularly important decision makers.

**Customer Acquisition**

At the end of FY 2003, DiscounTech had 11,989 active customers, of whom 70 percent were classified as new (acquired during that year) and 30 percent as existing (acquired previously). The annual costs associated with retaining existing customers amounted to $4 each.

New customers were further subdivided by method of acquisition. New/Paid customers were those attracted to DiscounTech through paid outreach channels; at the end of FY 2003, they accounted for 42 percent of all active customers and had an average acquisition cost of $28 each. Reflecting growing advertising expenditures, Masisak forecast that this cost would reach $35 in FY 2004. New/Referral customers, representing 28 percent of the customer base, were acquired through referral programs, such
as tag-on messages to emails and newsletters encouraging recipients to tell their contacts about DiscounTech, at an average cost of only $3 each.

The most common sources of awareness of DiscounTech were word-of-mouth from friends and colleagues (26 percent) and the CompuMentor website (26 percent). Another 14 percent became aware of DiscounTech through TechSoup, whose communication channels included the website itself, an email newsletter, special product announcement emails, and targeted emails to customers who had expressed interest in new product offerings in the past. Unfortunately, DiscounTech’s lack of marketing information systems limited its ability to realize the full potential of referrals and promotions. A major systems project to develop a new customer relationship management system had been initiated in October 2003, but was running significantly behind schedule.

Advertising was the primary promotional strategy employed in FY 2004, with expenditures budgeted at $258,794, a 31 percent increase over the previous year. The goal was to attract a certain number of new visitors each month to the DiscounTech web site and then convert a proportion of these into paying customers. To get a prospective purchaser to visit the site, DiscounTech marketed to prospects through online advertising, through donated and paid Google keyword ads, on partner websites, at events, and by word of mouth.

For online advertising, the objective was to get the prospect to click on a small banner ad displayed on another organization’s website. DiscounTech’s average click-through rate (CTR) was 0.6 percent, as compared to an industry average of 0.3 percent. (For a glossary of terminology used in online advertising, see Appendix A.)

The next step was to convert the visitor to customer status by placing an order. Lacking the tracking tools to follow specific visitors, categorize them as new visitors, returning visitors, or existing customers, and see what actions they took, DiscounTech was limited to calculating an average conversion rate across all types of visitors. This was based on the simple expedient of dividing the number of orders placed during a specified period of time by the number of visitors during that period. In FY 2002, the conversion rate was only 1.6 percent but it rose to 3.3 percent in FY 2003 and Masisak’s goal was to achieve a rate of 5 percent in FY 2004 and 7 percent in FY 2005.

Communicating with prospective customers was complicated by the highly fragmented nature of the nonprofit market. With few targeted channels available, DiscounTech had been forced to use channels directed at a broad cross-section of nonprofit organizations (collectively described as “nonprofit-facing media”). Building on an initial donated banner ad campaign in FY 2002, DiscounTech’s online advertising continued to appear largely in such media as the websites of Nonprofit Times, Chronicle of Philanthropy, Philanthropy Journal, and Charity Channel. Creative elements included banner ads, e-newsletters, and direct emails.

After saturating those vehicles, DiscounTech expanded into general-audience online media, seeking to reach nonprofit decision makers or influencers with specific lifestyles and psychographics (opinions and values). These media included some focused on technology (for instance, CNET, Information Week); online newspapers emphasizing topics such as education and politics; and some media that focused on social change, such as Mother Jones and About.com’s environmental section. Banners had also been placed on the websites of such general news media as The New York Times, Los Angeles Times, and Washington Post.

Banner ad messages were necessarily simple. One promoted “The Software You Know – Donated Just for Nonprofits,” flashed the names of Microsoft and several other well-known brand names, and added “Get it at DiscounTech.org.” Another showed a dollar sign morphing into the message: “Stretch Your Budget. Software and More. Donated and Discounted Just for Nonprofits. Available at DiscounTech.org. Made possible by Generous Corporate Donations.”
Paid advertising was one way in which traffic was attracted to the DiscounTech site, accounting for 14 percent of the 69,659 visits recorded in February 2004. (See Exhibit 5.) TechSoup.org, with its large online community, was the largest single traffic source that month at 41 percent, with another 2 percent traced to its weekly newsletter, By the Cup (“BTC”), and 1 percent from CompuMentor.org (“CM.org”). Other sources included online chatrooms such as Connections for Tomorrow and WIN-TAP—sites that helped small nonprofits share information regarding grants, product offers, and new products. However, no specific referral source could be identified for 22 percent of all traffic.

**Relationships with Suppliers**

To create a new donor or discounter relationship, the DiscounTech staff analyzed market information, obtained in-house expert feedback, created financial projections, and carefully explored how the donation might meet program goals. Prior to accepting a specific product, staff members assessed factors such as the hardware or software’s importance to the nonprofit sector, number and description of items being donated, specific guidelines and terms concerning the donation, and DiscounTech’s ability to provide support and implementation guidance. Masisak observed,

> Setting up suppliers really starts with building relationships with them. Suppliers are not all the same. Some are very philanthropic, while some are very interested in marketing benefits, and they see DiscounTech as a channel for marketing to nonprofits. We will work with any vendor, as long as it’s beneficial to the nonprofits we serve. You can’t assume ones that are more philanthropic are similar; you need to work with each firm’s unique needs and interests.

If both parties agreed, DiscounTech created a memorandum of understanding to define the offering and the relationship. The donor usually determined the guidelines, including the right to reduce or even withdraw donations depending upon its financial status. Each donor could specify the types of nonprofits that qualified for its products, as well as the number of products that might be obtained over a given time period. For example, Microsoft’s new program allowed any 501(c)(3) nonprofit that was not a religious organization to order one each of up to six different products and up to 50 licenses per product during a two-year period. DiscounTech’s website recorded these rules so that an organization’s order history and status could be reviewed online to determine if it had been qualified in the past and was now eligible to order.

DiscounTech then created a product content for its website, set up order qualifying and fulfillment processes, and trained staff in the new process and the new product itself. The Marketing Communications department considered when and how to announce the new product to customers. Staff forecasted sales volumes, plus initial inventory levels in the case of warehoused products. The final step was to establish administrative fees.

Most donors had regular product donation cycles, but fulfillment delays sometimes occurred when they gave priority to fulfilling profit-generating orders first. In some cases, a donor supplied products through such non-typical channels as a refurbished products group or corporate philanthropy department. These practices could also result in delays, thus complicating DiscounTech’s ability to manage lead times and product availability. In general, however, donors did their best to maintain a steady supply. Said Masisak:

> Once we have some kind of ‘starter’ donation with most of our partners, they like their experience in the program. They have also been willing to listen to feedback on customer needs and have often expanded either their product line, the scope of who is eligible, or have allowed us to streamline our process to qualify organizations and fulfill donation requests.

For instance, Microsoft’s Community Affairs group had worked with CompuMentor for several years and had grown their product donations substantially. While other suppliers could offer Microsoft products at an 80 percent to 90 percent discount through the MS Charity Program, DiscounTech was the only
labeled distributor of donated Microsoft products in the United States. Microsoft projected that the
annual retail value of products distributed through DiscounTech would increase from $35 million in FY
2002 to approximately $125 million in 2004. Although Microsoft donations dominated DiscounTech
orders and revenues, increased offerings from other suppliers meant that the proportion of total derived
from Microsoft products was expected to slip from over 90 percent in FY 2002 to slightly less than 70
percent in FY 2004.

Many suppliers had told DiscounTech staff how much they appreciated the time and cost savings
obtained by using its services, as well as expressing support for the social benefits achieved. However,
staff members reported that some donors had expressed dislike for the name DiscounTech, arguing that it
was too commercial and did not represent their philanthropic intentions. In particular, they seemed
frustrated that their greater contributions—products donated free of charge—were being presented
equally alongside those that were merely discounted. Masisak wondered if the name might also lead
nonprofits to assume that the products themselves were not of the same quality as those sold through
regular retail channels. An internal debate had developed on whether to rebrand the organization.

Pricing Strategy

Masisak noted that it was important that nonprofits should pay something for the donated products they
obtained from DiscounTech.

We don’t want nonprofits to order things just because they are free or dirt cheap. And besides, we
want the impact of donations to DiscounTech to be spread around as much as possible. Our goal
will always be to provide technology with the knowledge, training, and guidance to use it well.
Making nonprofits take technology seriously through a small financial commitment is part of that
process. Feedback shows that this financial aspect not only motivates recipients to use a donated
product but also gives them a very real and tangible understanding of its value to their
organization.

Accordingly, DiscounTech set administrative fees for each new product with reference to the costs of
program implementation and operations. Operational costs included creating website content, order
function programming, advertising, and any warehousing. The fees set by DiscounTech for donated
products ranged from 3 percent to 35 percent of retail price, but rarely exceeded $200. Discounted
products accounted for only a very small percentage of all items and typically sold for about 5 percent less
than a nonprofit would pay if it applied directly to the supplier.

Competition

A variety of other sources offered free or discounted technology products to nonprofits:

- **Gifts in Kind International (GIKI)**, itself a nonprofit, provided discounted and donated office
supplies, building supplies, education/recreation, and consumer products to nonprofits. Serving
ten countries, it had good name recognition. Its tech offerings included hardware from 3Com,
Nortel, PowerQuest, and used laptops from IBM. GIKI did not provide technical assistance and
users had to pay a $250 registration fee in order to access most GIKI offerings. Its lowest
administration fee was $15.

- **Consistent Computer Bargains (CCB)** was a for-profit, charity-pricing reseller. Its
CCBNonprofits division targeted nonprofits exclusively and offered both software and hardware,
but emphasized software products, on which it enjoyed much better margins. It currently offered
Microsoft software as a charity reseller, Macromedia (academic pricing only), Corel, MacAfee,
Computer Associates, Cisco, and some smaller companies via their reseller channel. Hardware
discounts were lower than competitors’ since CCB was a pass-through for Compaq, Gateway, and
Acer. It charged a $5 handling fee on all purchases under $500, plus $4.95 for all license orders. Discounts ranged from 5 percent to 20 percent off retail.

- **TechMarketplace** was a project of the TechFoundation. This for-profit service provided very specialized discounted and donated product offerings specifically for nonprofits. Current product offerings included WebEvent, WebEx, Mission Maestro, and Awards, among others. An online ordering platform had been listed as coming soon, but was not yet in place. The size of the discounts depended upon the vendor contract.

- **Charity Licensing Resellers** were a group of for-profit online agents offering technology products specially discounted for non-profits. “Charity pricing” was higher than the cost of donated products. Microsoft and Symantec had the most publicized programs and allowed verified nonprofits to receive software at 80-90 percent off retail pricing. There were specific rules regarding how this software could be acquired, and strong dictates that products received under these rules could not be re-sold or used by for-profit entities.

- **Other Commercial Retailers** of technology products included Office Depot, CompUSA, or local computer stores. These retailers could provide discounts, but the amount was constrained by the wholesale prices they paid for each product. Costs were linked to the vendor-pricing program. No additional price savings came from the retailer.

- **Dell, HP and other manufacturers:** These firms provided personal computers, printers, and other hardware through discount programs to nonprofits. This hardware was often bundled with an operating system and office management software. Increasingly, these firms saw large non-profits as an important market.

DiscounTech offered products from a broader array of suppliers than competing organizations. (See Exhibit 6.) Some competitors had attempted to position themselves as a central order point for discounted software, a business model most recently been attempted by 501click, a for-profit business. However, 501click had found that relying on discounted merchandise alone was insufficient to bring nonprofits to their site, and was eventually forced to exit the market. Surviving entities combined either an extensive array of choices at low prices, or donations/discounts with additional resources.

**Future Plans through FY 2005**

For the fiscal year ending June 30, 2004, DiscounTech projected a net income of $571,762. (See Exhibit 7.) With the exception of some small grants from foundations, usually tied to specific projects such as enhancing back-end systems to accommodate the requirements of a new donor, almost all of DiscounTech’s projected FY 2004 revenues of $6.12 million were earned income derived from administrative fees charged to nonprofit customers. About 1 percent of this revenue would be shared with certain discount partners whose products were sold through DiscounTech’s own warehouse, while 42 percent would be shared with CompuMentor to cover costs associated with consulting services, TechSoup support, and emerging programs. The balance of $3.66 million represented gross income before expenses of $3.09 million, including advertising and salaries.

Now that DiscounTech was both established and profitable, Masisak sought to maintain an appropriate image and service level for donors and customers, as well as to reinforce customers’ relationships with CompuMentor and TechSoup. With the board’s approval, ambitious goals had been set. Masisak and her team aimed to generate a net income of more than $1.9 million in FY 2005. Achieving this goal would require attracting significant numbers of new customers in addition to retention of existing customers. One issue was whether it would be realistic to try to increase average spending levels per customer.

Masisak was debating what role paid marketing communications should play in future strategy and how to budget advertising and related communications expenditures most effectively. Could a case be made for
employing offline media, particularly print? If so, what types of nonprofits should be targeted and how might the messages be differentiated from those in the banner ads and e-news items that Discountech had emphasized to date?

As inputs to these decisions, she planned to undertake an in-depth analysis of recent experience with different channels and also to re-examine the findings of an online survey of Discountech customers that had been conducted eighteen months earlier (See Exhibit 8. Key findings are reproduced in Appendix B.)

Although CompuMentor’s board and management team welcomed the prospect of increasing financial contributions from Discountech, some wondered how continued expansion of this earned-income venture might eventually affect the culture and priorities of the parent nonprofit.

Endnotes

1 Adjunct Professor of Nonprofit Management, Yale School of Management.
2 Research Assistant, Yale School of Management.
3 Research Assistant, Yale School of Management.
Exhibit 1  CompuMentor Mission Statement

Many organizations are serving the needs of low-income, underserved populations and creating positive social change. We believe these organizations could have even greater impact through the appropriate use of technology. This requires access to technology — resources, tools, and information — as well as assistance with planning and implementation. Every day, through our broad range of technology programs, we’re working behind the scenes to provide this kind of support.

‘Appropriate’ Technology

We believe technology solutions must be appropriate for each organization. The solution must fill the technology need. But the organization must also be able to afford it, manage it themselves, and sustain it over time.

Our broad range of services is designed with this in mind. Organizations can choose the type of assistance that’s appropriate for them at any given time. Our hands-on consulting services provide deeper, project-based assistance typically for a fee. With our online resources, all found on TechSoup.org, nonprofits help themselves to ready answers, information, and tools like software and worksheets. Organizations can use both forms of assistance together, as they move through their technology lifecycle.

Our Staff

A key to CompuMentor’s success is its unique staff. We hire individuals with highly developed technical and organizational skills who want to devote these skills to public service. To attract and retain staff, CompuMentor is committed to maintaining an equitable, actively collaborative internal environment, emphasizing fair compensation, continual learning and skill enhancement.”

Exhibit 2  Internal Revenue Code Section 501(c)(3)

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.
Exhibit 3  CompuMentor Organization Structure
Exhibit 4  Picking Orders for Products Stored in DiscounTech’s Secured Warehouse Area

Exhibit 5  Sources of Referrals to DiscounTech, FY 2004

Referrers to DT: Feb 04

- Customer Emails: 7%
- Other Sources (e.g. trackable links): 1%
- Paid Ads: 14%
- No Referrer (e.g. bookmarks, untrackable links): 22%
- Search Engines: 12%
- BTC 2%
- CM.org: 1%
- TS org: 41%
### Exhibit 6  Supplier Offerings Comparison

<table>
<thead>
<tr>
<th>DiscounTech</th>
<th>GIKI</th>
<th>TechMarketplace</th>
<th>Consistent Computer Bargains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akiva</td>
<td>Citrix</td>
<td>Altrue</td>
<td>Acer</td>
</tr>
<tr>
<td>B2P</td>
<td>Dell (recycled printers)</td>
<td>Broadleaf Services</td>
<td>Adobe</td>
</tr>
<tr>
<td>BAVC</td>
<td>IBM</td>
<td>CDW</td>
<td>Corel</td>
</tr>
<tr>
<td>BEA</td>
<td>Microsoft</td>
<td>Dell</td>
<td>Dell</td>
</tr>
<tr>
<td>Cisco</td>
<td>Office Depot</td>
<td>Easeweb</td>
<td>Gateway</td>
</tr>
<tr>
<td>ClickTime</td>
<td></td>
<td>Everon IT</td>
<td>HP</td>
</tr>
<tr>
<td>eTapestry</td>
<td></td>
<td>Intranet</td>
<td>IBM</td>
</tr>
<tr>
<td>GrantStation</td>
<td></td>
<td>Kaseya</td>
<td>Lexmark</td>
</tr>
<tr>
<td>Groundspring</td>
<td></td>
<td>Microsoft (Charity)</td>
<td>McAfee</td>
</tr>
<tr>
<td>Intuit</td>
<td></td>
<td>PC Connection</td>
<td>Microsoft (Charity)</td>
</tr>
<tr>
<td>Lotus</td>
<td></td>
<td>Qurb</td>
<td>Symantec</td>
</tr>
<tr>
<td>Macromedia</td>
<td></td>
<td>Telosa</td>
<td>Toshiba</td>
</tr>
<tr>
<td>Mailshell</td>
<td></td>
<td></td>
<td>Xerox</td>
</tr>
<tr>
<td>Microsoft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ontero</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PayCycle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Symantec</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telosa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ulead</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VeriFone/NPC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WebGecko</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Exhibit 7  DiscounTech Pro Forma Statement of Activities, FY 2002 – FY 2005

<table>
<thead>
<tr>
<th></th>
<th>FY 2002</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Actual</td>
<td>Forecast</td>
<td>Forecast</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation Contributions</td>
<td>-</td>
<td>60,000</td>
<td>70,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>60,000</td>
<td>1%</td>
<td>70,000</td>
</tr>
<tr>
<td>Earned Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Distribution</td>
<td>1,251,315</td>
<td>4,006,575</td>
<td>6,053,531</td>
<td>8,252,882</td>
</tr>
<tr>
<td>Total Earned Revenue</td>
<td>1,251,315</td>
<td>4,006,575</td>
<td>609%</td>
<td>609%</td>
</tr>
<tr>
<td>Total income</td>
<td>1,251,315</td>
<td>4,006,575</td>
<td>100%</td>
<td>6,123,531</td>
</tr>
<tr>
<td>Revenue Sharing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partners</td>
<td>-</td>
<td>51,663</td>
<td>1%</td>
<td>67,123</td>
</tr>
<tr>
<td>CompuMentor Programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting Services</td>
<td>355,818</td>
<td>764,801</td>
<td>1,118,078</td>
<td>1,278,039</td>
</tr>
<tr>
<td>Emerging Programs</td>
<td>250,526</td>
<td>127,962</td>
<td>163,854</td>
<td>187,262</td>
</tr>
<tr>
<td>TechSoup</td>
<td>610,946</td>
<td>801,108</td>
<td>1,116,152</td>
<td>1,267,031</td>
</tr>
<tr>
<td>Total CompuMentor Programs</td>
<td>1,217,290</td>
<td>1,693,871</td>
<td>42%</td>
<td>2,398,064</td>
</tr>
<tr>
<td>Total Revenue Sharing</td>
<td>1,217,290</td>
<td>1,745,534</td>
<td>43%</td>
<td>2,465,207</td>
</tr>
<tr>
<td>Gross Income</td>
<td>34,025</td>
<td>3%</td>
<td>2,321,041</td>
<td>57%</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>482</td>
<td>0%</td>
<td>196,931</td>
<td>5%</td>
</tr>
<tr>
<td>Salaries</td>
<td>224,866</td>
<td>13%</td>
<td>1,460,365</td>
<td>38%</td>
</tr>
<tr>
<td>Other expenses</td>
<td>122,151</td>
<td>10%</td>
<td>1,291,428</td>
<td>32%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>346,335</td>
<td>27.7%</td>
<td>2,554,862</td>
<td>62.8%</td>
</tr>
<tr>
<td>Net Income</td>
<td>(312,310)</td>
<td>-25.0%</td>
<td>(233,822)</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>-</td>
<td>15,000</td>
<td>22,887</td>
<td>30,737</td>
</tr>
<tr>
<td>Net Increase to CompuMentor Reserves</td>
<td>(312,310)</td>
<td>(248,822)</td>
<td>549,174</td>
<td>1,905,595</td>
</tr>
</tbody>
</table>

*Fiscal year runs from July 1 to June 30*
### Exhibit 8  Summary of Representative Monthly Advertising Results, FY 2004

<table>
<thead>
<tr>
<th>Channel</th>
<th>Ad Type</th>
<th>Targeting</th>
<th>Imp</th>
<th>Visits</th>
<th>CTR</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assoc.of Fundraising Professionals</td>
<td>e-news</td>
<td>NP-facing</td>
<td>26,000</td>
<td>86</td>
<td>0.33%</td>
<td>$750.00</td>
</tr>
<tr>
<td>Assoc.of Fundraising Professionals</td>
<td>banners</td>
<td>NP-facing</td>
<td>300,000</td>
<td>68</td>
<td>0.02%</td>
<td>$1,167.00</td>
</tr>
<tr>
<td>Charity Channel</td>
<td>e-news</td>
<td>NP-facing</td>
<td>22,000</td>
<td>29</td>
<td>0.13%</td>
<td>$217.00</td>
</tr>
<tr>
<td>Chronicle of Philanthropy</td>
<td>e-news</td>
<td>NP-facing</td>
<td>20,000</td>
<td>96</td>
<td>0.48%</td>
<td>$960.00</td>
</tr>
<tr>
<td>Chronicle of Philanthropy</td>
<td>banners</td>
<td>NP-facing</td>
<td>11,323</td>
<td>52</td>
<td>0.46%</td>
<td>$900.00</td>
</tr>
<tr>
<td>The Foundation Center</td>
<td>e-news</td>
<td>NP-facing - regional (DC, NY)</td>
<td>32,000</td>
<td>200</td>
<td>0.63%</td>
<td>$315.00</td>
</tr>
<tr>
<td>Los Angeles Times</td>
<td>banners</td>
<td>general - news</td>
<td>1,095,481</td>
<td>1,002</td>
<td>0.09%</td>
<td>$4,733.00</td>
</tr>
<tr>
<td>Mother Jones</td>
<td>e-news</td>
<td>general - social issues</td>
<td>30,000</td>
<td>161</td>
<td>0.54%</td>
<td>$1,125.00</td>
</tr>
<tr>
<td>Mother Jones</td>
<td>banners</td>
<td>general - social issues</td>
<td>80,194</td>
<td>439</td>
<td>0.55%</td>
<td>$1,604.00</td>
</tr>
<tr>
<td>The Nation</td>
<td>e-news</td>
<td>general - politics</td>
<td>220,000</td>
<td>212</td>
<td>0.10%</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>The Nation</td>
<td>banners</td>
<td>general - politics</td>
<td>814,022</td>
<td>1,575</td>
<td>0.19%</td>
<td>$2,333.00</td>
</tr>
<tr>
<td>Nat. Center for Family Philanthropy</td>
<td>e-news</td>
<td>NP-facing</td>
<td>7,000</td>
<td>51</td>
<td>0.73%</td>
<td>$500.00</td>
</tr>
<tr>
<td>The New Republic</td>
<td>e-news</td>
<td>general - social issues</td>
<td>20,000</td>
<td>100</td>
<td>0.50%</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Nonprofit Times</td>
<td>e-news</td>
<td>NP-facing</td>
<td>14,900</td>
<td>8</td>
<td>0.05%</td>
<td>$975.00</td>
</tr>
<tr>
<td>New York Times</td>
<td>e-news</td>
<td>general - news</td>
<td>400,000</td>
<td>983</td>
<td>0.25%</td>
<td>$2,900.00</td>
</tr>
<tr>
<td>New York Times</td>
<td>banners</td>
<td>general - news</td>
<td>191,553</td>
<td>2,073</td>
<td>1.08%</td>
<td>$2,492.00</td>
</tr>
<tr>
<td>Philanthropy Journal</td>
<td>banners</td>
<td>NP-facing</td>
<td>33,434</td>
<td>5</td>
<td>0.01%</td>
<td>$475.00</td>
</tr>
<tr>
<td>PNN</td>
<td>e-news</td>
<td>general - key-words</td>
<td>10,000</td>
<td>14</td>
<td>0.14%</td>
<td>$240.00</td>
</tr>
<tr>
<td>Sprinks</td>
<td>e-news</td>
<td>pay-per-click</td>
<td>n/a</td>
<td>4,398</td>
<td>n/a</td>
<td>$1,724.00</td>
</tr>
<tr>
<td>Washington Post</td>
<td>banners</td>
<td>general - news</td>
<td>453,459</td>
<td>400</td>
<td>0.09%</td>
<td>$8,180.00</td>
</tr>
</tbody>
</table>

Previously run ads

TOTALS                           |          |                            | 3,834,166 | 12,908 | 0.34% | $34,008.00 |

Key
Imp = Impressions
CTR = Click-through rate
Appendix A    GLOSSARY OF COMMONLY USED TERMS IN ON-LINE ADVERTISING

Click-through (CT) is generated when a user clicks on an online advertisement in order to visit the advertiser’s Web site.

Click-through Rate: The response rate of an online advertisement, typically expressed as a percentage and calculated by taking the number of click-throughs the ad received, dividing that number by the number of impressions received, and multiplying by 100 to obtain a percentage. Example: 20 clicks / 1,000 impressions = .02 x 100 = 2% CTR

Cost-per-Impression: Percentage of impressions measured against total spend on a given advertisement. Abbreviated as CPI.

Cost-per-Click: Percentage of click-throughs made measured against total spend on a given advertisement. Abbreviated as CPC.

Conversion Rate: Percentage of web visitors who complete a desired action (e.g. register and become a paying customer) measured against total click-throughs. Abbreviated as CR.

Impressions: The number of times an ad is viewed.

Page View: The number of times a web page is requested.

Visit: A visit is a user entering a Web site at some page for the first time that day (or some other specified period). The number of visits is roughly equivalent to the number of different people who visit a site. This term is ambiguous since it could mean a user session or it could mean a unique visitor that day.

Unique Visitor: A unique visitor is someone with a unique address who is entering a Web site for the first time that day (or some other specified period). Thus, a visitor that returns within the same day is not counted twice. A unique visitor count tells you how many different people there are in your audience during the time period.
Appendix B  Findings from Online Survey of Discountech Users September 2002*

Figure A: Source of Awareness of Discountech

Source of Awareness

<table>
<thead>
<tr>
<th>Source of Awareness</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friend/colleague</td>
<td>26</td>
</tr>
<tr>
<td>Compumentor website</td>
<td>26</td>
</tr>
<tr>
<td>TechSoup website</td>
<td>14</td>
</tr>
<tr>
<td>Link from a related website</td>
<td>6</td>
</tr>
<tr>
<td>By the Cup email newsletter</td>
<td>5</td>
</tr>
<tr>
<td>Search engine</td>
<td>4</td>
</tr>
<tr>
<td>Email</td>
<td>3</td>
</tr>
<tr>
<td>Conference/event</td>
<td>3</td>
</tr>
<tr>
<td>Discountech print catalog</td>
<td>3</td>
</tr>
<tr>
<td>Listserv posting</td>
<td>2</td>
</tr>
<tr>
<td>Print advertising</td>
<td>1</td>
</tr>
<tr>
<td>Banner ad</td>
<td>0</td>
</tr>
<tr>
<td>This survey</td>
<td>0</td>
</tr>
<tr>
<td>Radio/TV/Newspaper</td>
<td>0</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>8</td>
</tr>
</tbody>
</table>

*Note: A total of 4,569 registered users were contacted and 831 responded. Of these respondents, 88% were buyers, while 12% were registered but had not yet purchased.
Appendix B (continued)

Figure B: User Agreement on DiscounTech’s Service

Figure C: Methods of Finding Out About New Products
Figure D: Importance of DiscounTech Features

Importance of DiscounTech Features

- Availability of the most recent product versions: 54 (5), 32 (4)
- Consistent, reliable product availability: 50 (5), 36 (4)
- Software purchases which can be upgraded: 35 (5), 38 (4)
- Ability to reach customer service staff by email: 37 (5), 36 (4)
- A wide selection of software: 31 (5), 41 (4)
- Overall ease of the shopping experience: 33 (5), 36 (4)
- Quick delivery time: 27 (5), 38 (4)
- Purchase unlimited quantities of software licenses: 35 (5), 27 (4)
- CS staff by phone: 31 (5), 32 (4)
- Availability of unbiased product information: 31 (5), 32 (4)
- Availability of order status online: 18 (5), 32 (4)
- Purchase unlimited quantities of software titles: 24 (5), 25 (4)
- History of annual technology purchases: 7 (5), 9 (4)

Figure E: Technology Sources

Where Organization Buys Tech Products

- Direct from manufacturer (e.g., Apple, Dell): 52
- Office supply stores (e.g., Office Depot): 61
- Online/Website other than manufacturer: 49
- Online special pricing or donation services: 42
- Computer superstores (e.g., CompUSA): 42
- Distributor/Wholesaler: 23
- Electronics stores (e.g., Circuit City): 20
- Consultant: 15
- Other: 5
Appendix B (continued)

Figure F: Products Customers Would Buy if Offered on Discountech.

Software

- Office (word) 71%
- Operating system 80%
- Database 62%
- Desktop publishing 61%
- Web design 58%
- Financial/accounting 56%
- Graphic design 51%
- Donor management 60%
- Firewall 45%
- Video editing 24%
- Open source 16%
- Other (specify) 5%

Hardware

- Desktop computers 78%
- Printers 77%
- Monitors 72%
- Laptop computers 67%
- Networking equipment - wired 48%
- Servers 46%
- LCD projectors 43%
- Fax machines 38%
- Copiers 37%
- PDA’s (personal digital assistants) 37%
- Tape backup drives 37%
- Networking equipment - wireless 31%
- Other (specify) 5%
### Table 1: User Ratings of Attributes, with Corresponding Performance Rating

<table>
<thead>
<tr>
<th>Most Important Attributes</th>
<th>Extremely Important</th>
<th>Very Important</th>
<th>DiscountTech Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of the most recent product versions</td>
<td>54%</td>
<td>32%</td>
<td>+</td>
</tr>
<tr>
<td>Consistent, reliable product availability</td>
<td>50</td>
<td>36</td>
<td>+</td>
</tr>
<tr>
<td>Software purchases which can be upgraded</td>
<td>38</td>
<td>38</td>
<td>-</td>
</tr>
<tr>
<td>Ability to reach customer service staff by email</td>
<td>37</td>
<td>36</td>
<td>-</td>
</tr>
<tr>
<td>Overall ease of the shopping experience</td>
<td>33</td>
<td>36</td>
<td>NA</td>
</tr>
<tr>
<td>A wide selection of software</td>
<td>31</td>
<td>41</td>
<td>-</td>
</tr>
<tr>
<td>Quick delivery time</td>
<td>27</td>
<td>38</td>
<td>+</td>
</tr>
<tr>
<td>Ability to reach customer service staff by phone</td>
<td>31</td>
<td>32</td>
<td>-</td>
</tr>
</tbody>
</table>

### Table 2: Reasons for Not Purchasing

For the 12% of registered users who have not made a purchase yet, the primary reasons were lack of need and the limited product selection.

- No need for products                                         24%
- Don’t have what I needed                                     24
- Haven’t yet but intend to                                   16
- Not eligible                                                10
- Not familiar enough/just learned about it                   8
- No funding                                                  4
- Customer service comments                                   4
- Found alternative source                                    3
- Still in planning stages                                    3