Who Exactly are the 'Customers' of a Nonprofit Organization?

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Profit-making corporations have it easy: They know exactly who their customers are. For nonprofit organizations, things are considerably more confusing.

No organization can develop an effective strategy without knowing its customer. But who is the customer of a nonprofit group?

Unlike profit-making companies whose income is derived from their customers, serving the "customers" who are identified in a typical nonprofit mission statement doesn't ensure that the organization will survive. Without donors and volunteers, most nonprofit organizations cannot sustain themselves financially. Therefore, a nonprofit group's strategy cannot be derived from its mission statement alone.

Donors ensure survival, and in many ways nonprofit groups treat them as their primary customers. Nonprofit chief executives often spend the largest proportion of their time with donors. Strategic plans are frequently built on fund-raising targets, and new programs are frequently attempted because they fit the priorities of particular foundations or major donors.

But acknowledging the donor as the "customer" is a double-edged sword. Few nonprofit organizations would accept a strategy that catered to their financial supporters instead of serving their social mission. Nonprofit groups, therefore, must simultaneously meet the needs of their clients and donors—two very different constituencies that interact in unexpected ways.

Customers, for example, usually determine pricing; a company can't spend more on its services than its customers are willing to pay. But how much can a nonprofit organization spend to serve its clients?

The clients who benefit are usually not the ones who pay the primary cost. And the donors, who provide financial support, may never have first-hand knowledge of the services they are paying for.

If the donor pays the bill, however, then it must be the donor who sets the price. Nonprofit organizations are left with the paradoxical situation of being able to spend as much on their clients as the value donors place on their service.

That may be why nonprofit groups that provide services that donors themselves value—an Ivy League education or an exhibit at an art museum—can spend much more on their clients than a social-service organization filling a need most donors have never experienced.

Organizations that depend on volunteers have still another group of customers to consider. The estimated value of volunteer hours contributed annually to nonprofit groups in the United States exceeds all cash contributions combined. Besides, given the difference between for-profit and nonprofit wages, one could argue that almost all nonprofit employees are partly volunteers too. And the needs of volunteers are entirely different from those of either donors or clients.

The fact is that every nonprofit institution has three indispensable "customers": the clients it serves, the donors who support it, and the volunteers or staff members who help get the work done. The failure to serve any one, while tolerable in the short run, will sooner or later undermine its survival.

Each of these customer segments represents a market in which nonprofit groups compete. As much as we may like to think that nonprofit organizations don't compete, the facts are otherwise. They compete for donors against other fund-raising organizations, they compete for the time of volunteers against other personal obligations and opportunities, and they even compete for their clients: If people do not choose to use the benefits provided, a nonprofit group cannot fulfill its social mission.

Worse yet, each set of customers wants something different. Creating value for one segment doesn't automatically satisfy the others. If strategy is about serving a set of customer needs better than competitors do, nonprofit organizations must find a way to simultaneously fill the needs of each one of their customer groups.

Foundations must deal with a similar three-part accountability.

They have an obligation to create value for society by using their tax-subsidized resources effectively, but they also must satisfy the needs of their grant recipients if they are to help them succeed. What's more, they must satisfy their donors and boards if their staff members are to keep their jobs. For them, society, grantees, and their boards represent separate segments that expect—and deserve—different needs to be met.

The problem is, no organization can follow three unrelated strategies to create three different kinds of value for three separate constituencies. A single, overarching strategy must be developed to simultaneously meet the needs of all three "customers" in a way that is both internally consistent and mutually reinforcing.

And that makes running a nonprofit organization harder than running anything else.

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