MARKETING STRATEGIES OF NON-PROFIT ORGANIZATIONS

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Abstract

The following paper focuses on different possible ways on how to use marketing in the non-profit and public sector in the Czech Republic. The main purpose is to analyze possibilities already existing. My intention was not to create new ways and ideas but simply concentrating on already known theoretical concepts. Marketing is not a traditional aspect of the non-profit area, but giving the changes that occurred in ways of financing and sponsoring and the increasing amount of competitors, organizations had started using key instruments of marketing in order to differentiate themselves, be known and be able to compete with organizations of similar interests. The aim of this paper is to explain what a non-organization is, how marketing used in the non-profit sector differs from commercial marketing and how to apply usual marketing instruments - i.e. research, segmentation, targeting, positioning, when creating a marketing strategy.

Keywords: non-profit organization, non-profit sector, profit sector, marketing, marketing strategy

JEL Classifications: D3, M3, O33

Introduction

In the Czech Republic, marketing had a very difficult role to portray. In the era of communism, it was perceived as pseudoscience. On the contrary, after 1989 people would assume that marketing was the only thing that could possibly help with transforming to the market economy. We find the use of marketing in the non-profit sector very interesting, in fact much more interesting than the use in the commercial sphere. One of the main reasons why marketing is mainly used in the commercial sphere is because of the fact that people assume the most important thing is to gain profit. The area this paper concentrates upon is the potential of marketing in non-profit organizations. We are talking about organizations, which were not primarily founded in order to be profitable. Their motives come from altruistic intentions. They want to help with various issues or try to fulfill their mission. Usually they offer some sort of service, although they sometimes have difficulties with providing it, since finances, which they need in order to sustain, are usually very hard to get. Marketing is not a traditional aspect in the non-profit sector. The thought of using it was not accepted at the beginning, saying that marketing belongs to only commercial sphere. With the influence of growing competitiveness and also the changes that had occurred in financing, organizations started to wonder how they’d be able to keep up with others. Marketing became a very powerful instrument. One of the main tools is to apply a marketing strategy to the organizations activity. A marketing strategy is a document, which leads the organization to its outlined goals and helps keep track of the right way.
Marketing nowadays is no doubt, one of the key methods in management of these organizations. In order to master all the marketing activities, including fundraising, which are powerful tools for obtaining the amount of required funds. The fact that a non-profit type of organization doesn’t generate profit unfortunately does not mean, that it does not need any finances at all.

The body of work is following: In the first of three parts, I would like to determine the definition of non-profit sector and organization; what are the main features and also I will give attention to fundraising, explaining what it is and why does it play such major role. In the second part I will try to define marketing in connection to the non-profit sector. I will explain the nature of non-profit marketing and different ways of using it. The last part incorporates both. It is dedicated to the marketing process of non-profit organizations when creating a marketing strategy. In the conclusions I will summarize all the possibilities and also limitations of the use of marketing, based on the literature which we used.

The Non-profit Sector

The national economy is in literature often divided due to various criteria. In terms of the financing criteria it is possible to divide the economy to profit and non-profit sector. Non-profit (non-market) sector is the part of the national economy, in which operators raise funds for its activities through so-called redistributive processes. The target function of non-profit sector isn’t profit in financial terms, but in achieving direct benefit. The benefit, which is achieved, is usually in form of public service. Some also divide the non-profit public sector, for which is typical financing from public resources, and non-profit private sector. (Strecková, Malý, 1998)

The main characteristics of the non-profit public sector are management by public administration, decision-making based on public choice and also subjection to public control. The non-profit private sector is funded mainly from funds of people or legal entities. Nevertheless, it is possible to obtain funds from the state. Like stated, organizations of such type do not aim on generating profit, but to achieve direct benefit. (Strecková and Malý, 1998)

On the market of profit sector, demand and supply mutually interact, whereas on the market of non-profit sector the situation isn’t so clear at all. Provider is a non-profit organization, which offers, in most cases, services and does not aim for profit. The ones to whom these services are offered are often called clients e.g. visitors, students etc. We can also define a third party on the market – donors (givers). Donors are usually people or companies that are willing to give money or other resources to help with implementing a publicly beneficial service. The state can also be a donor by providing finances for the same purpose.

An established definition of a non-profit organization does not exist in Czech literature. Therefore the basic characteristics of these organizations are derived from the Czech law, which says that a non-profit organization is basically a tax payer that was not created for the intension of business. That includes interest associations, civil associations, political parties, church and religion societies, foundations, state universities, communities and others. (Act Nr. 582/1992 Coll., Income tax and Act)

Non-profit organizations can be characterized with the following specifics: (Šimková, 2006)
- They stand as a legal entity
- They were not founded for the purpose of generating profit, nor business
- They fulfill specific citizens’ needs
- They can be funded by the state

According to Hannagan, we can also classify non-profit organizations based on: (Hannagan, 1996)
- **The source of funding**: if the funds come from the governments’ donations, voluntary contributions or other sources;
- **The type of product (service)**: if the organizations focuses on people and their behavior, or if it produces materials goods;
- **The organizational form**: we distinguish the following types:
  - donors – main income is from donations
  - commercial – the organizations requires payments for the service it provides to its clients
  - mutual – the organization is ran by its users
  - business – the organization is ran by professional management.

**Fundraising – obtaining financial resources**

One of the major issues nowadays is lack of funds for an organization’s activity. A very important and powerful way on how to get the needed finances is called fundraising, which is used by most of organizations, who try to outlast as long as possible in the non-profit sector. It incorporates many different methods and procedures, which help support the financial stability and development, not to mention the success of an organization. Fundraising is in fact a systematical obtaining of financial or material resources in order to ensure the sustainability and development of non-profit organizations; it has its principles and rules, although we can’t apply them to every case. The fundraising methods are mostly used by non-government or contributory organizations (e.g. schools, hospitals, social care facilities), cities, regions, counties etc.

There are many potential resources in fundraising. Following is a general overview of the primary: (Rektořík, 2004)

- **Public administration**, which could be further divided into:
  1. State administration: an organization can obtain finances from different departments by filling up a simple form.
  2. Self-government: includes sources from counties, cities, towns etc.
- **Individual donations**, which includes single donors, who were either interested in the organization and its work, or were addressed by the organization itself.
- **Company sponsorship ands donations.** Here, connections are mandatory. It depends on each organization, how much companies they reach out to. Key aspect is to address companies that resonate with your goal, thus you have a bigger chance at being successful.
- **Foundations** (Czech or foreign): each foundation has their own rules when applying for a donations, which must be followed precisely.
- **Self-financing**: an organization can get additional funds by selling their products. They must follow rules stated in the organizations deed.
- **EU programs**: organizations have a unique opportunity to obtain sources from the structural funds of European Union.

Among the most commonly used methods in fundraising we classify: (Rektořík, 2004)

- **Personal visits**, which presents usually the most effective method of all;
- **Telephone fundraising / personal letters.** This method is usually used to contact donors, who have previously donated and are familiar with the organization;
- **Direct mail**, where the organization sends letters asking for contribution;
- **Written request for grants**, in order to succeed, and organization must follow defined rules;
- **Media advertising.** which is very powerful when it comes to addressing masses, on the other hand there could be a problem finding donors without personal contact.
“Door-to-door” fundraising, where workers or volunteers address people at their households, but due to privacy intruding this method is not very popular among the organization and potential donors.

An important thing to understand is that fundraising is a way how to find other sources than the regular ones, which usually come from the state or some sort of communities. Given these circumstances, the organization should fully concentrate mainly on multi-source financing of its activities. In today’s fast and competitive market, it could possibly occur that while a few sponsors were enough just a few months ago, today, it won’t be enough. Therefore it is important to not underestimate this powerful tool and to take enough time with it, in order to achieve your goals.

In marketing terms, fundraising has quite a lot to do with the price mix as the amount of financial resources and resources of any other kind, that a single organization can obtain, then influences the price for products and services it offers.

Marketing in the Non-profit Sector

There are three widely recognized stages of marketing throughout the history.

1. Production-oriented marketing stage:
Marketing, as we know, began to emerge in the United States in 19th century. Back then, the competition was weak and sold goods very similar to each other. Demand distinctly exceeded supply. People would buy only necessities. Promotion and distribution were not an issue. In the first decade of the past century, first surpluses started to occur, which forced the manufacturers to handle the situation somehow. A true pioneer in the automotive industry was Henry Ford. With his brand new concept and new methods of promotion, he gained a huge success.

2. Sales-oriented marketing stage:
After The great Depression in 1929 many changes had occurred in the economy of the whole world, economic thinking and also marketing itself. Marketing overspread and apart from the product, focused on the aspect of sales. Now, the main goal had changed to actually selling the product. More and more money had been undergone to advertising. The producers began to concentrate on customers and fulfilling their needs. By planning ahead, they wished to know future trends in order to determine how the demand would develop.

3. Stage of Absolute Marketing:
From the end of World War II., the absolute marketing had started to arise. According to the absolute marketing, the goal of all staff in a company is to focus on customer needs, who is the key aspect that determines the complete market structure. Within almost a hundred years, the situation had completely reversed; before demand prevailed whereas nowadays the supply prevails distinctly. After opening doors to Asian markets, the European products were forced to improve their image, because very briefly, the Asian products became competition. Another feature that came with the absolute marketing was segmentation. Now the market is not perceived as a mass market, yet as the market consisting of smaller segments divided into many different attributes.

Marketing in fact has a major impact nowadays on basically everything around us. More and more, the success of each company or organization depends on their ability to succeed on the market, skills to convince the customer to buy their products or services and last but not least the company’s flexibility, being able to respond to changing needs and desires. The customers are the ones who spend money, therefore companies must pay attention to them. To answer what exactly marketing is, is quite difficult. Given the fact, that marketing, on the contrary of other knowledge, has existed for only about a hundred years, there are many different point of views and opinions on what marketing actually is. Here are a few widely
recognized definitions from respected authors. The best definition of them would probably be the one from Phillip Kotler. Philip Kotler defines marketing as “satisfying needs and wants through an exchange process.” (Kotler, 2001) American Marketing Association (AMA) defines marketing as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.” (AMA, 2013) According to Šimková, “Marketing is a part of the management. It focuses on identifying, anticipating and satisfying customer’s requests” (Šimková, 2006).

What brings all the definitions together is the fact, that marketing focuses on identifying and then satisfying customer needs. It means that the company’s or organization’s activity is successful only, if the customers get the required products or services and a major factor as well is, whether they continue their purchases with the company or not. It follows, that the main goal of marketing is ensuring sustainable sales and in case of commercial marketing, also generating profit.

Most of companies use marketing as an instrument to gain clients. In the past, it has been mainly used in the profit sector, but recently it has become an important element in strategies of non-profit organizations such as schools, hospitals etc.

Companies and organizations take advantage of new opportunities. They reach out to customers, partners and surrounding in general. The traditional concept viewed marketing only as sales or advertising. The goal was to get customers, emphasizing the thought of profit, while taking care of them wasn’t seen as too important. Thankfully this conception has been overcome and a new one has taken place. The key of a company’s success is in the relationship between it and the customer. Companies choose their customers wisely and they also find new ways on how to keep them. (Kotler, 2004)

In other words, companies create new forms of relationships with their customers to provide exceptional value to them, using new technologies i.e. internet.

The importance of Marketing in Non-profit Organizations

Like it was stated above, marketing is often used in connection to the commercial sector and generating profit. When it comes to non-profit organizations, marketing isn’t really established yet. Opinions on whether to use marketing in the non-profit sphere where profit is not the main aim usually differ.

The need of marketing in the non-profit sector follows from the importance of the service’s quality and the fact of how much will the service suit its user. A high quality service will most likely be seen as useful, efficient and suitable for regular funding. (Hannagan, 1996)

Marketing is a very vague and confusing term. Logically, apart from people who think marketing should interfere to the non-profit sector, there are also the ones, that think otherwise. The most common argument against using marketing activities in the non-profit area that: (Rektorík, 2004)

- Marketing in the non-profit organization is associated with inadequate cost.
- Consumption of services in the non-profit sector results from specifically forced consumption
- Most services in the non-profit sector don’t meet the requirements of a market-character service
- Individual processes in the non-profit sector are usually unique and specific
- In some cases, the users delegate responsibility into hands of professionals (e.g. in Health)
- When deciding on the implementation of certain services, price isn’t a determinative factor
- Some services that the non-profit sector provides don’t have market characteristics.

On the other hand, these are the arguments that acknowledge the effectiveness and justify the use of marketing activities in the non-profit sector: (Rektorík, 2004)

- Non-profit organizations get in situation of increasing competition and emulation of obtaining funds and clients in both, public sector and private organizations.
- It is required high efficiency in terms of cost and control.
- With growing consumer demands, better communication with institutions is required.
- Lack of funding resources forces organizations to develop business activities, as additional source of income.
- Increase in the professional level of workforce requires a higher level of management.
- An essential prerequisite for defining the objectives and focus of the organization should be marketing research.

The Marketing Strategy of a Non-profit organization

Marketing is a dominant feature in creating and implementation of a marketing strategy. A marketing strategy includes the part of the organization’s strategy, which distinguishes what are the main strengths, weaknesses, opportunities and threats (so-called SWOT analysis). It also includes rules of how should each activities in an organization work, it sets principles of customer care and pricing policy.

By marketing strategy we often understand a strategic document, which is used by management to long-term directing activities and ensuring strategic objectives. A marketing strategy can also be referred to as a marketing strategic plan, project, or concept. The strategy determines a market for a product or service, on which the organization tries to use their resources, in order to gain market share. The document represents the primary direction to fulfilling the marketing objectives and also to fulfilling the objectives of the organization. A tool that helps with implementation is called a marketing plan, which is mandatory in both profit and non-profit sector. The process of marketing strategy planning could differ in the profit and non-profit area, mainly because of the nature of the non-profit sector which I’ve talked about before.

Identifying Target Markets

The first step in the process of implementation is, in my opinion, to think about the possible ways of succeeding on today’s market. The key thing in order to sustain is to know your situation and position on the market. The organization must identify and acknowledge their market share as well as size of the market. The organization should be able to define its own strengths (qualities) and detect weaknesses. It analyses the internal and external environment. Not only threats are evaluated, but also opportunities, strengths and weaknesses and the current market position. One of the most important instruments used in this situation is the SWOT analysis.

Market Segmentation

There are too many potential customers with one too many needs. Each organization should be able to segment the market into homogenous groups, called segments. The organization could than concentrate on one or even more segments and apply different strategies to each of
them. Market segmentation helps with aiming on customers, addressing them easier through marketing communication and helps to cover the market better. Each segments are defined based on the market segmentation criteria, which are geographic, demographic, socio-economic, psychographic, temporal and also different motives for buying. Of course, there can be other criteria as well depending on whether the organization is situated. (Janečková, Vlastíková, 1999)

The process of segmentation itself works in consecutive stages: definition of the market, that the organization wants to segment, defining personal segmentation criteria, following the choice of the segment. It is quite important to choose segments that are large enough, stable, measurable and achievable with marketing instruments.

The thing that could be helpful with implementation of a marketing strategy is a marketing research. Marketing research could be defined as all activities that explore phenomena and relationships on the market and the impact of marketing instruments on them. Mainly, we talk about research of products, distribution channels, price, customer’s behavior and marketing communication. (Šimková, 2006)

Marketing research is engaged in marketing activities within the market and tries to provide answers to the following six questions: (Hannagan, 1996)

- **Who** buys our products or services?
- **What** products or services people want and what benefits they expect?
- **When** will people buy these products or services?
- **Where** will they buy them?
- **How** will they pay?
- **Why** will people buy the organizations products or services and not products or services of competitors?

**Targeting**

Once the organization completes the market segmentation, it is able to reach out to one of the segments. With that helps instruments called targeting and positioning.

Targeting is the process of evaluating the attractiveness of individual segments and selecting one or more of these segments. (Kotler, 2004) The organization should choose a segment of the market, which may provide the greatest value. Because each organization has limited resources, it should try to get one or just a few market segments, or possibly just parts of them.

Most organizations that enter the market, initially addresses only one segment of customers. Only if the organization is successful, it tries to expand their activities and addressing other customers. The aim of the organization is to create different products or provide different services, and thereby satisfy customer needs of different market segments.

**Positioning**

Once the organization decides which segment of the market to address, they must also select a position they want to attract customers with. Positioning can thus be defined as the way a product is perceived with knowledge of the target group, it's the kind of place in the consciousness of mind that the product has, in relation to competing products. Positioning is the key element of the marketing strategy. It must be clear and the offered product or service must be distinguished from other products and services.

To prepare positioning, it’s necessary that the organization tries to define the potential competitive benefits of its products or services, which can help to stabilize its position. In order to have an advantage from their competitors, the organization must offer greater value
to selected market segments, either because their product or service will require a lower price, or that it will justify a higher price and higher quality product or service.

Setting the Marketing Objectives

For a successful use of marketing in the management of an organization, it is relevant to define their objectives both, short and long term. The objectives are defined as measurable results which the organization or company is trying to achieve. Setting the objectives should be specific and precise. Based on the set objectives, depends the survival and overall development of the organization.

In addition, the objectives of the organization should meet the following requirements. They should be: (Janečková, Vlastíková, 1999)

- **Measurable**: a non-profit organization should quantify its goals (their quantifiable objective can be e.g. a reduction of costs incurred);
- **Realistic**: realistic goals must be set, considering external factors, if the set goals are unachievable, the whole process of setting objectives fails;
- There has to be a *time period* in which the set objectives are supposed to be achieved.
- Individual objectives should not collide with one another.

In the marketing perspective we often distinguish two different types of marketing objectives: (Rektořík, 2004)

- Action objectives. They are specific and measurable results and mostly relate to things we can actually count (e.g. the number of participants, the number of new members etc.)
- Image objectives. They are not measurable. They reflect the mission, vision and ideas of organization and work with them, especially with non-profit organizations.

In order for an organization to set realistic goals, it is necessary to perfectly know its strengths and weaknesses. These abilities are determined by current material and financial resources, their future expectations and by skills and knowledge of employees.

Implementation of the marketing strategy

Firstly, it is very important to carefully plan and prepare such strategy. The process under which the marketing objectives and strategies put into practice is called marketing implementation. However, even a very good marketing strategy is not effective if the organization isn’t able to implement it properly. It may occur that, even if two organizations have equally good strategies, one of them can be more successful on the market due to better implementation. The reason in this case would be that the successful organization managed to implement its strategy and plan faster and better. In order for an organization to succeed, it is necessary for all units in the marketing system, at all levels in the implementation of marketing plans to cooperate. The whole success depends on how well can the organization exploit human resources, the way their organizational structure look like, if the staff is motivated and if the organization has a resemblance of a corporate culture.

A plethora of marketing strategies

It is also important to pay attention to different typology and the subsequent selection of strategic approaches of the marketing strategy. Given that the strategy is closely connected with the individual components of the marketing mix, their structure is usually based on the...
division of marketing variables within the mix and their strategic concept is based on strategies of product, price, distribution and communication. We can also divide them: (Boučková, 2003)

- Based on the market trends (growth, maintenance and retreat strategies)
- Based on the behavior towards the external environment (strategy of cooperation and conflict
- Based on the access to the market and market segments (offensive and defensive strategies)
- Based on the life cycle of the market (strategies for markets in the deployment phase, markets experiencing growth, mature, saturated and declining markets)

Other widely recognized strategies are:

**Market Positioning Strategy**

This strategy identifies four different strategy among which and organization may choose.

*The Market Leader Strategy* – the organization tries to retain a leading position;

*The Market Challenger Strategy* – the organization plans to increase market share;

*The Market Follower Strategy* – the organization is trying to maintain balance in the industry through adaption to the market leaders;

*The Strategy of Filling Market Niches* – this strategy is used usually by small businesses, that specialize in those parts of the market that are not attractive for larger companies, since they require a special approach;

**Ansoff's Grow Strategy**

One of the main reasons for the implementation of marketing strategies in organizations is to determine the growth of the organization. The four main marketing strategies include: (Hannagan, 1996)

*The Market Penetration* – effort of trying to find new customers in the same market;

*The Product Development* – adjusting the quality and performance of a product or service;

*The Market Expanding* – opening new markets;

*The Diversification* – product development and market expansion.

**Minimum Cost Strategy**

In this strategy the organization aims to gain a larger market share through lower costs of production and distribution of their products or services. This strategy is usually implemented to companies or organizations that focus on large-scale to mass market. To ensure that the minimum cost strategy is effective, it is required to be applied in relation to those competitors, who are focused on the same or similar strategy. Otherwise, the organization puts itself at risk, that another company, even with lower costs, could arise on the market, which could eventually damage the original organization, that focused on the strategy of minimum cost.

**Product Differentiation Strategy**

This strategy is based on differentiation of a product or service. Organization therefore focuses on achieving improved performance in area which is important for the customer. The organization may crave a leading position in some place, like in the uniqueness of their
products or services, their style, providing additional services etc. Organizations can differentiate their product or service by using psychological tools as well as influencing attitudes and expectations of customers through advertising, packaging or price. Product differentiation strategies are usually applied by smaller and medium-sized organizations that have very limited financial resources compared to larger organizations operating in the same or similar field.

**Market Orientation Strategy**

The organization focuses on one or more small market segments and does not seek to dominate the entire market or a major part of it. Organizations are therefore trying their best to identify these segments and thus satisfy the needs and desires of their customers best and brightest way possible. The most common reason for the implementation of this approach is the lack of financial resources necessary, to obtain a large market share, profitability of a segment or little competition in a particular market segment.

**Conclusions and discussions**

In order for marketing in a non-profit organization to fulfill its function, it is necessary to first, get to know various options that come with the implementation of marketing activities within the nonprofit sector. In the profit sector, as well as in non-profit organizations is increasing competition and also there are changes in the funding and resources. Marketing is thus a way, how non-profit organizations cope with such pressures. One of the sources of financing their activities is also public funding. This fact is the reason for constant pressure on their effective management. Also, currently, most non-profit organization suffer from the constant lack of funds and especially those that are provided from public funds in the form of grants. This contributes to the fact that the organizations are in most cases forced to supplementary their source of income, usually by additional business activities of various kind. To successfully manage these activities, non-profit organizations are forced to develop a variety of marketing activities.

In addition, the needs and desires of customers increasingly diverse, and demands grow on the quality of products or services that the organization provides to clients. For this reason, non-profit organizations must also provide the necessary levels and qualifications of its management.

In the profit sector, there is also a great opportunity to adjust the offer in order to target the needs and wishes of customers. Non-profit organizations, however, have certain difficulties with this kind of marketing. Although the primary “product” cannot be changed, it doesn’t mean that it’s not possible to change some of the physical aspects of behavior and adapt them to the needs of marketing in the organization.

It is important to see the role of marketing in the non-profit sector as support of the organization to achieve its expected goals easier. Marketing, itself, cannot be the goal, but only a medium to achieve these goals. It can be understood as an important tool that helps the organization to improve its market position. In my humble opinion, the use of marketing in the non-profit is just at the very start. Sooner or later, people will acknowledge all the benefits and efficiency it brings with it and non-profit marketing will become an established term in literature.
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