Conceptualizing Nonprofit Commercialism: A Case Study

Stefan Toepler
Department of Public & International Affairs
George Mason University

Abstract

In recent years, the American nonprofit sector has increasingly shifted towards using more market-based financing mechanisms, in what has been variably termed nonprofit commercialization or social entrepreneurship trends. While this development may either be seen as positive or negative, the growing consensus is that nonprofit organizations have come to adopt entrepreneurial or commercial activities for purposes of cross subsidizing mission-related activities and largely in reactions to shifts in the funding and institutional contexts beginning in the 1980s. Providing an overview of the current debate, this paper uses data from a museum case study to probe some of the underpinnings of the commercialization discussion.

Introduction

The past two decades have witnessed an increasing trend toward commercialization within the American nonprofit sector (Hodgkinson and Lyman 1989; Weisbrod 1998). This trend is usually assumed to be due to significant shifts in the institutional frameworks of the fields where nonprofits are prominent: Reductions in federal support forced social service organizations to rely to a greater extent on fee income (Salamon 1993); the changing face of health insurance subjected nonprofit hospitals to economic pressures that has made them to many observers virtually indistinguishable from their commercial competitors and has led to a recent boom of buyouts and conversions from nonprofit to for-profit status of hospitals and health insurance plans, such as the Blues (Goddereis and Weisbrod 1999); and budgetary difficulties in combination with the lure of industry funding sparked apparently pervasive commercialism in higher education (Bok 2003; Kirp, 2003; Krimsky and Nader, 2003).

A decade and a half ago, Henry Hansmann predicted the emergence of two, relatively distinct nonprofit sectors: A "philanthropic" nonprofit sector—comprising traditional charities, arts and educational organizations—and a "commercial" nonprofit sector, including hospitals, health plans, nursing homes and day care centers (Hansmann 1989). While a split between more philanthropic and more commercial parts of the sector has indeed become apparent by now, the dividing line seems to be less the industry (e.g., health, education, human services) than the types of products nonprofits can produce. More specifically, organizations that produce goods and services for which fees can be

charged to clients or consumers have been particularly susceptible to commercialization. For nonprofit organizations with less tangible outputs—including, for example, membership associations, community groups, lobbying organizations, or many environmental groups—commercialization has not emerged as an issue yet. For the most part, the commercialization debate is therefore focused on professional nonprofit service providers.

In contrast to Hansmann's prediction, arts and cultural organizations have not escaped the trend. Rather, cultural institutions have in many ways been at the forefront of exploiting commercial revenue sources. Key among these is merchandising, which has been particularly visible in public television: merchandise based on popular PBS children shows, such as Sesame Street, Barney, or the Teletubbies, are basic staples of toy stores around the country. Museums have also developed merchandising into an art form. Many museums, such as the Metropolitan Museum and the Museum of Fine Arts Boston, have sold reproductions of works in their collection since their inception and museum book stands or stores selling exhibition catalogues, posters, postcards and related items have long been a staple in most museums. Over the past two decades or so, however, things have changed considerably. Not only have gift shops continued to expand with the museum, but have spilled out to off-site venues, such as shopping malls, airports and department stores. A number of large museums operate catalogue mail order businesses and the e-commerce revolution has enabled even smaller museums to bring their wares to markets outside the confines of the museum's walls.

While the commercialization of the sector has become pronounced, our understanding of the reasons underlying the phenomenon remains somewhat limited. Using data from one prominent museum—the Metropolitan Museum of Art in New York—over a forty-year period, this paper aims at evaluating some of the existing explanations. The following section provides a brief overview of the commercialization issue. After discussing the data and methodology, I will present revenue data and trends for the museum and conclude with some implications for future commercialization research.

The Commercialization Phenomenon

The literature on the overall trend of nonprofits to seek commercial means of financing follows two lines of argument. One line takes a more business-oriented view point and describes the development of social entrepreneurship (Brinkerhoff 2000; Dees et al. 2001, 2002; Zietlow 2001). Using a more entrepreneurial approach to pursuing social missions leads to greater efficiency and effectiveness in nonprofit organizations, reduces dependency on volatile private and public donative support, and increases managerial autonomy by avoiding the many strings that are frequently attached to gifts, grants and contracts. Developing market-based revenues is desirable and results in organizational self-sustainability (Stevens 1996). The second line of argument—usually referring to commercialization or marketization rather than social entrepreneurship—tends to note potential problems and perils of the trend. The main concerns are that increasing reliance on fee and other commercial income may lead to goal or mission displacement, where nonprofit managers begin to focus more on what is marketable and economically feasible rather than desirable vis-à-vis the mission, a shift away from the most vulnerable and hardest to serve clientele, and the potential loss of the distinctive features and

characteristics that differentiate nonprofits both from market firms and public agencies (DiMaggio 1986; Salamon 1993; Weisbrod 1998; Toepler 2001; Eikenberry and Kluver 2004).

Whatever the implications of the rise of commercialism and social entrepreneurship for individual nonprofit organizations and the sector at large, the literature so far has offered some explanations of why the sector has come to go down this route. The first explanation is institutional-historical in nature and underlies—implicitly or explicitly—much of the literature on marketization. Most frequently, two main types of environmental changes are cited that set the commercialization drive into motion: Fiscal retrenchment not compensated by concomitant increases in private donations; and increased need and rising demand for nonprofit services without concomitant increases in public and private donations. While the post-war expansion of the nonprofit sector was largely fueled by new government programs (Salamon 1995), more recent growth relies increasingly on fees, charges, and other forms of earned income. This trend is generally seen as a result of the scaling-back of several federal programs directly or indirectly benefiting nonprofit activities in the early 1980s and continuing throughout the 1990s (Abramson, Salamon and Steuerle 1999). Private philanthropy was not able to fill the emerging gap resulting from reductions of public support and the concomitant increase in demand, leading to a continuous decline of the share of private giving on total nonprofit revenues. As of the mid-1990s, philanthropy accounted for only 10 percent of the financial resources available to the nonprofit sector, compared to 36 percent from government, and 54 percent generated through fees and charges (Salamon 1999). As Zietlow (2001: 21) summarizes the prevailing thinking, nonprofit organizations "saw the need to augment their revenue stream in the 1980s as governments continued an earlier thrust to increasingly rely on private sector provision of welfare and other human services activities (while at the same time reducing federal grant funding for such activities, outside of Medicare and Medicaid) and as demand swelled due to family breakdowns and economic dislocation."

A second explanation, embodied in Weisbrod's commercialization model (Weisbrod 1998), is conceptual in nature. Weisbrod suggests that nonprofit organizations are multi-product firms that may produce a combination of three types of goods:

- Preferred collective-type/mission-related goods, that are difficult to sell in markets;
- Preferred private good, that can be sold in markets, but are related to the mission and nonprofits may prefer to make it available independent of the customers' ability to pay; and
- Nonpreferred private goods, that can be sold in markets, but unrelated to the mission and produced only to generate revenue

As the use of the terms preferred and nonpreferred indicates, the basic assumption is that nonprofit managers have preferences regarding the product mix to be provided by the organization. This is an important difference to for-profits, where the product mix in theory is not determined by management preferences, but by profit-maximization considerations. The preferences of nonprofit managers affect the objective function of nonprofits, as managers derive positive utility from activities that contribute directly to the mission, but negative utility from activities that effectively or potentially detract from the pursuit of the mission. Accordingly, it follows that nonprofits will prefer to concentrate on mission-related collective goods and shy away from nonpreferred, perhaps even preferred private goods. Certain types of revenues are associated with all of these three types of

goods and the managerial preferences for these goods thus extend to the associated revenue sources.

The most preferred type of revenue are unrestricted, exogenous donations, i.e. donations that come to the organization by sole virtue of its activities without requiring the management to generate such donations, as that would also distract managers from pursuing mission-related activities. Such donations could be either government grants or private donations and grants. The other most preferred type of revenue is endowment income. While donations can be seen as payments for the collective good, the free-rider problem applies and nonprofits will thus need to explore also producing private goods to generate revenue for the collective-good production. This will first involve seeking revenues generated through preferred activities, essentially user fees and charges. However, nonprofits may also dislike (derive negative utility from) charging user fees, because of the characteristics of nonprofit missions: While for-profits offer their goods and services to essentially everyone willing to pay, nonprofits typically have output-distribution goals, that is they aim for example to provide medical services to the un-insured indigent. Instituting user fees thus may lead the involuntary exclusion of those the nonprofit intends to serve. Nonprofits will therefore consider engaging in nonpreferred, unrelated, or ancillary activities to generate revenue to support and cross-subsidize mission-related output, although such activities are disliked because they distract from the actual pursuit of mission-related activities.

Table 1: Philanthropic vs. Commercial Nonprofits

	Philanthropic Nonprofits	**Commercial Nonprofits**
Managerial Orientation	more mission-oriented	more market-oriented
Funding Preferences	(unrestricted) donations/subsidies	fee and market-based income
Goals for Commercial Activity	cross-subsidization of mission goals	self-sustainability, financial autonomy
Stimulus for Commercial Activity	external	internal

The commercialization view—that underlies Weisbrod's conceptualization—and the social entrepreneurship perspective are in many ways flip sides of the same coin and not necessarily mutually exclusive. In reality, few organizations are either fully philanthropic (e.g., non-commercial) or fully commercialized, which led Dees to suggest that there is a commercialization continuum between the extremes (Dees et al., 2001). Nevertheless, both approaches make divergent assumptions about the managerial outlook of executives (and, to some extent, governing boards) of nonprofit organizations that are more philanthropic or more commercial in nature. As reflected in Table 1, philanthropic nonprofits are typically thought to be primarily concerned about their missions rather than the business aspects of their work. Managerial preferences for donative income (gifts, grants, subsidies) are pronounced; and, where commercial ventures have to be explored, they are justified as a means of cross-subsidizing the core mission goods of the organization. Commercial activities are thus stimulated externally, as a reaction to donative funding shortfalls and insufficiency of philanthropic resources. Managers of commercials nonprofits, by contrast,

are more market-oriented and assess mission feasibility in the context of market constraints. Income derived from fees and business ventures is not a negative, but a means to achieve organizational self-sustainability and financial autonomy. While externally-induced funding needs may also play a role, the primary impetus for commercial activity is internal, the entrepreneurial attitude of nonprofit leaders.

Taken together, the current state of the nonprofit commercialization debate suggests two propositions: Firstly, commercialization scholars seem largely in agreement that the phenomenon originated in the 1980s as a result—directly or indirectly—of policy changes affecting the sector. If this were the case and if the repercussions on the performance of nonprofits are as negative as some observers suggest, it could be argued by extension that a reversal or at least an amelioration of public policies might be a suitable remedy. Secondly, if "nonpreferred" commercial activities are only undertaken by nonprofits in order to cross-subsidize the preferred public good production and if commercial activities have consistently grown over the last two decades, it stands to reason that nonprofits have experienced commercial cross-subsidization as an effective and successful strategy, as social entrepreneurship advocates tend to suggest. In the Metropolitan case, very little commercial activity should accordingly be expected before the 1980s. At the same time, funding shifts (i.e., reductions in donative revenues) should be discernible that set a commercialization drive in motion; and the extensiveness of the museum's current business activities suggest that commercialization contributed significantly to the sustainability and financial autonomy of the institution. In the following, I will use financial data from the museum to evaluate both propositions.

Data and Methodology

In the absence of useful historical data, the extent of commercialization in the past is notoriously hard to trace. Analysts typically have to rely on macro data (e.g. Salamon 1993) or IRS form 990 information or survey data (see Weisbrod 1998, various chapters). However, all of these data sources have significant limitations, particularly when it comes to inferring organizational strategies and managerial behavior. Moreover, the key data sources that have made it possible to chart the size, scope and financing of the nonprofit sector in empirical terms (e.g., the Census of Service Industries and IRS data) are only available from the late 1970s and early 1980s. As this coincides with the on-set of the commercialization phenomenon, they only allow a very limited comparison to presumably less commercial prior decades. For this reason, I chose a different route in trying to trace these developments. More specifically, I collected financial information from the annual reports of the Metropolitan Museum for a forty-year period from 1960 to 1999. Although the analysis presented here is based on a single case, it will demonstrate both the usefulness as well as feasibility of approaching the commercialization issue from this vantage point. The intention behind this case study was to search for counterfactual evidence. The institution is among those museums that have pursued merchandising with some degree of intensity over the past couple of years. If current commercialization theories are valid, they should have considerable explanatory power in this case. If the case presents evidence that cannot be easily reconciled with theory, it would point to areas where our understanding of the commercialization issue requires further theoretical elaboration.

Data reported here represent operating revenues, excluding capital support. In their financial reports, museums typically report gross auxiliary revenues (i.e., earnings) as part of total revenues and support available for operations. However, to gauge the actual net contributions of these activities to the operations of the museum, I also calculated adjusted operating revenues as the sum of all non-auxiliary revenues plus the excess of merchandising and other auxiliary gross revenues over related expenses (i.e. auxiliary net revenues). Financial statements also show a residual category of miscellaneous "other" revenues and income. This category is shown in the tables, but omitted from the discussion. Changing reporting and accounting standards over the period required a number of adjustments to the data, although key revenue sources were reported continuously and with a high degree of consistency (with one exception discussed below). To eliminate the effects of inflation, the data were converted into constant 1960 dollars.

Changes in the Revenue Structure

General Operating Revenues

Table 2 presents the operating revenue structure of the museum over the 40 year period, reported in five-year averages. As expected, support by local patrons and the municipality clearly dominated the museum's funding in the 1960s. Individual giving did not take the form of donations for operating purposes, but was essentially endowment giving (as well as support for acquisitions). Endowment income and city support accounted for approximately 85% of total revenues. During the 1970s, city appropriations declined somewhat, but endowment income decreased sharply in relative terms. Both sources taken together accounted for only less than half of the income (44%) by the late 1970s. At the same time, the share of gifts and grants began to increase significantly (from 3% in the late 1960s to 22% in the late 1970s), reflecting, at least in part, the emergence of external public and private funders, including the National Endowment for the Arts and growing corporate and foundation arts support. The growing reliance on external funders in turn induced a growing outward orientation and public accessibility of museums (Alexander 1996). This is reflected in the concomitant growth of admission and membership revenues.

The downward spiral of endowment income and city subsidies that had begun in the 1970s continued in the following decade. The contribution of both sources to total operating revenues declined to one-third (18% and 15%, respectively) in the late 1980s, down from more than four-fifths two decades earlier. While membership revenues again grew strongly to 15% of total operating income, gifts and grants leveled out at the relatively high level of slightly more than one-fifth of operating revenues that they had reached at the end of the 1970s. The same is true for admission revenues which held the same share of revenues at the end of the 1980s than in the prior decade.

Table 2: Museum Revenue Structure, 1960-1999, Five-year Averages

OPERATING REVENUE (in thousands $)	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99
Endowment	64%	63%	47%	27%	22%	18%	25%	25%

City Appropriations	23%	23%	22%	17%	16%	15%	11%	8%
Gifts and Grants	1%	3%	9%	22%	23%	22%	30%	33%
Membership	4%	5%	7%	10%	15%	15%	15%	15%
Admissions	1%	1%	7%	12%	14%	12%	11%	12%
Other	1%	1%	3%	6%	6%	7%	7%	6%
Auxiliary Activities:								
Merchandising (net)	5%	1%	5%	7%	3%	8%	0%	-2%
Auxiliary Activities: Other (net)	1%	2%	1%	0%	2%	2%	1%	2%
Operating Revenues	4,957	6,034	7,629	8,741	9,926	14,909	16,555	19,184
Average Growth	22%		15%		50%		16%	

Notes: Constant 1960 dollars. Operating revenues are the sum of all non-auxiliary revenues plus net auxiliary revenues. Before 1980, merchandising expenses were reported without indirect cost recovery charges. Since then, support services charges have been added, affecting the direct comparability of net revenues before and after 1980.

The 1990s brought a significant reversal. With unchanged shares of membership and admission income, the share of city subsidies fell precipitously to 8% in the late 1990s, or just about one-third of what it used to be in the 1960s. Conversely, the museum revived traditional financing strategies. A new capital campaign launched early in the decade helped reverse the continuous relative decline of endowment income and also capitalized on the growth of gift and grant revenues since the 1970s, with the latter reaching a share of one–third of all operating revenues by the end of the 1990s.

Auxiliary Activities

So far, I have discussed donative revenues (including endowment income) and closely mission-related commercial income (i.e. admission fees). How then did commercial activities develop that are less closely tied to the core mission? Auxiliary activities typically comprise museum tasks that may be related or complimentary to the pursuit of core goals, but do not directly contribute to it. These include the operation of museum shops and other merchandising activities, restaurants and food services, parking, life performances in museum spaces, etc. In the present case, publication sales and concert and lecture tickets constituted the key sources of auxiliary income up until the 1960s. Beginning in the 1970s, the emphasis began to shift to merchandising more broadly as well as restaurant and parking income. Before discussing the share and development of net merchandising revenues, a caveat must be introduced. Between the late 1970s and the early 1980s, the museum introduced an important reporting change that could not easily be adjusted for. Specifically, before the end of the 1970s, only direct expenses of publications and merchandising were reported. Beginning in the early 1980s, however, reported expenses also include support services charges. Thus, pre- and post-1980 merchandising net income is not directly comparable and the interpretation needs to be viewed with caution. However, examining net revenues yields interesting insights and to correct for this problem, I will also discuss gross revenues.

As Table 2 shows, other auxiliary activities, such as food and parking services, remained largely unchanged throughout the whole 40-year period—oscillating between one and two percent of total operating revenues. As for merchandising net revenues, the story

is quite different. Merchandising constituted the third largest source of income in the early 1960s. To be sure, with 5% of operating revenues, it was a distant third—compared to endowment income (64%) and city subsidies (23%)—but still a significant income source (Table 1). Dropping briefly down to one percent in the late 1960s (due to increases in direct costs), net merchandising income regained a 5% share in the early 1970s and grew to 7% in the late 1970s, although gifts and grants, membership and admissions revenues each constituted a larger source of revenues by then. Decreasing again in the early 1980s (due to the reporting change noted above), net revenues reached a high of 8% in the late 1980s, before ceasing to contribute income to the museum at all. Specifically, in the early 1990s, merchandising operations just broke even and even incurred losses in the second half of the decade.

Table 3: Gross Merchandising and Auxiliary Revenues as Shares of Total Revenue and Support, 1960-1999, Five-year Averages

	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99
Merchandising Gross as % of Total Revenue and Support S	20%	20%	25%	38%	42%	46%	47%	41%
Total Auxiliary Gross as % of Total Revenue and Support	24%	24%	33%	47%	51%	53%	54%	49%
Total Revenue and Support	6,141	7,787	10,808	16,146	19,017	28,711	36,132	37,752

Note: Constant 1960 dollars.

Given the above caveat, the discussion so far might be somewhat overstating the role of merchandising income prior to the 1980s. For this reason, I will now briefly discuss the development of gross merchandising revenues as a share of total operating revenues and support (as opposed to adjusted operating revenues as before). As seen in Table 3, gross merchandising revenues accounted for 20% of total revenues and support throughout the 1960s. Not accounting for related expenses, this means that merchandising was the second largest source of revenues after endowment income, and earnings outstripped city subsidies as the other significant source of income for that period. The museum had therefore substantial stakes and investments in commercial activities as early as the 1960s. Moreover, the share of gross revenues continually increased over the following decades—reaching a high of nearly half, or 47%, of total operating revenues of the museum in the early 1990s. Only in the late 1990s, gross merchandising revenues dropped off again to 41%. Adding gross revenues of other auxiliary activities, the museum had in fact earnings from commercial activities that equaled or outstripped revenues from the museum "business" proper in the last two decades.

Growth

To provide a better understanding of some of the forces underlying these dramatic shifts in the revenue structure, Table 4 shows the exponential growth rates of various revenue sources. Albeit starting from a very small base, gifts and grants and admissions grew substantially faster than all other revenues types in the 1960s. Membership and merchandising gross revenues also outpaced overall growth, while endowment and city

support lagged slightly behind. Significant change occurred in the 1970s. While total revenues with 7% grew faster during this decade than before, the two traditional cornerstones of museum finances fell behind: City support stagnated and endowment income declined (at a rate of 6%), not only in relative, but also in absolute terms. Adjusted for inflation, the dollar amount generated through the endowment in 1979 was almost exactly half of what it used to be in 1969.

Table 4: Growth Rates of Revenue Sources and Some Expenses, by Decade

	1960s	1970s	1980s	1990s	40-year
Endowment	3%	-6%	1%	5%	1%
City Appropriations	4%	0%	6%	-4%	1%
Gifts and Grants	22%	20%	8%	3%	11%
Membership	7%	13%	8%	2%	7%
Admissions	17%	19%	10%	4%	10%
Other	5%	7%	9%	-2%	7%
Merchandising Gross	7%	12%	8%	-1%	7%
Other Auxiliary Act., Gross	5%	16%	4%	4%	7%
Total Revenue and Support	5%	7%	7%	1%	5%
Merchandising Expenses	9%	12%	7%	-1%	7%
Other Auxiliary Expenses	6%	8%	2%	3%	7%
Total Expenses	7%	5%	6%	1%	5%

Faced with a decline of its traditional resource base, the museum responded with a dual strategy of increasing both other contributed revenues (e.g., gifts and grants, membership) and commercial revenues (e.g., admissions, merchandising and other auxiliary gross revenues). Compared to the 1960s, gifts and grants and admissions retained their strong growth, while the growth rates of membership (from 7% to 13%), merchandising (from 7% to 12%) and other auxiliary activities (from 5% to 16%) increased disproportionally. In other words, while soliciting more gifts and grants and charging more for admission, the museum also sought new members, developed and sold more merchandise, and improved museum restaurants and parking facilities. In the 1980s, the emerging new revenue structure began to consolidate. Although endowment income rebounded, its growth (1%) lagged far behind overall growth of 7% as well as the growth in the newer revenue sources. Interestingly, city support, with 6%, began to increase again at a rate only slightly below total growth, but not fast enough to regain its former position. With the exception of other auxiliary activities that fell behind with a 4% growth rate, all other revenue sources grew slightly above overall growth—with admission charges showing the strongest increase (10%).

While the 1980s can thus be seen as a phase of growth and consolidation, the 1990s brought renewed turbulence. City appropriations began to drop at an annual rate of 4%. In addition, merchandising gross revenues—that, as noted above, had began to equal all other revenues in size—also began to decrease at a rate of one percent per year. The museum's reaction to these changes, however, differed fundamentally from the strategies of

the 1970s. In the 1970s, the museum reacted to declining traditional revenues with an increased exploration of new sources and expansion. In the 1990s, it reacted by reviving endowment income as its most traditional source (with 5%, the rate of growth of endowment income led all other growth), while curbing growth at the same time. In fact, after a consistent growth rate of 7% in the two prior decades, total revenue growth slowed down to one percent throughout the 1990s.

Discussion and Implications

Although an economic history of one institution cannot provide any conclusive answers, there are nevertheless potentially important implications for future commercialization research. What conclusions can be drawn from this case study? First, the case shows a significant upswing of commercial revenues beginning in the late 1970s. This held true both for closely mission-related commercial income (i.e., admission fees) and for less closely related business income from merchandizing. At the same time, the museum experienced decline and increasing volatility in one key donative source of revenues—municipal subsidies. Growing uncertainty over the future of public support could be interpreted as a reason for increasing commercial activity in line with the theoretical prediction of the cross-subsidization argument. However, gifts and grants as well as membership dues (which also contain a donative element) increased simultaneously and would have compensated for reductions in city subsidies without increased commercial activity. This in turn suggests that explaining nonprofit commercialization needs to go beyond a discussion of donations and business revenues. More specifically, the case demonstrates the importance of a different revenue shift: The rise of commerce was preceded by a significant decline in endowment income beginning in the late 1960s and early 1970s.

At least in this case, the loss of endowment support, in both absolute and relative terms, appears to have been the driving force behind the apparent commercialization of the museum. Unfortunately, the role of endowments has so far received scant attention in the debates over the commercial shift of the nonprofit sector over the past three decades. The economic crisis and long periods of hyperinflation in the 1970s arguably took substantial tolls on institutions that relied heavily on endowment income before, and forced them to develop alternative financing methods. If so, the loss of endowment support in real terms in the 1970s is an important contributing factor to the subsequent commercial transformation of the sector. Accordingly, efforts to reverse the commercialization trend would have to take a different direction by focusing on building and/or re-building endowments within the sector. This would, for example, have significant implications for foundation grantmaking, which tends to prefer projects over longer-term general operating and capital support. The only nonprofit industry where the impact of the 1970s economic crises and high levels of inflation has been studied in some depth are philanthropic foundations. Additional work in this respect in other nonprofit sub-sectors may provide useful new insights.

The case also calls into question the assumption that commercial activities are *necessarily* non-preferred by nonprofit managers. To the extent that this implies that nonprofit managers will forgo commercial income if they have access to donative financing sources, the relative prominence of merchandising as early as the 1960s, when

merchandising gross revenues already accounted for 20% of total revenues, is not easily explained. Museums may, however, engage in these activities for non-material reasons as well, such as education, public relations and marketing (Theobald 2000); and in some instances such immaterial or indirect benefits may even outweigh financial considerations. In this sense, commercial activities can be mission-related and thus indeed be "preferred." While this is somewhat akin to the social entrepreneurship idea of using business means to achieve social ends, it is not something that is well reflected in the emerging body of commercialization theory.

Finally, if commercial activities are primarily pursued to generate resources, then this case study suggests that the development of business-like ventures may not always yield the expected long-term results. While net revenues from auxiliary activities have not been insignificant in the past, generating actual "profit" does require substantial investments and cause opportunity costs vis-à-vis alternative uses of these resources. Even at the peak of merchandising "profitability" in the late 1980s, merchandising costs equaled 92% of revenues (that is, every dollar in gross sales yielded no more than 8 cents in actual support for museum operations)—a ratio that would seem unacceptable in fundraising, for example. Moreover, the rapid decline of net revenues in the 1990s also points to the possibility that commercial ventures may be prone to financial failure—an issue that has largely been absent in the commercialization debate so far. With few exceptions, such as Zimmerman and Dart's (1998) study of Canadian charities, there has been surprisingly little work on the actual success of nonprofits in running business activities. There are several reasons for this gap: Nonprofit scholarship is still mostly focused on analyzing traditional sources of support, such as philanthropy, voluntarism and public funding; existing data sources, including tax and census data, are not geared towards collecting sufficient financial data on business operations; and the emerging social entrepreneurship literature has not yet moved much beyond a mostly practice-driven description of the phenomenon and a focus on providing "how to" guidance. As nonprofits are increasingly advised to become more entrepreneurial, the development of a sounder empirical understanding of the actual efficiency of business ventures seems to be of paramount importance.

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Stefan Toepler is Assistant Professor of Nonprofit Studies at George Mason University, where he teaches nonprofit management in the MPA. In 2004, he is also a Fellow in Museum Practice at the Smithsonian Institution.

Stefan Toepler
Dept. of Public & International Affairs
George Mason University
3401 N. Fairfax Drive
Arlington, VA 22201
stoepler@gmu.edu