

As Money Disappears: What Nonprofits Can Do
by Chris Narducci (City Limits, October 20, 2008)

“We’re in a deep hole and it looks like it’s not going to get better for a long time.”

The grim forecast of Michael Clark, executive director of the Nonprofit Coordinating Committee of New York, echoes the alarm of many a news headline over the last few weeks, predicting lean times in the wake of the financial meltdown. But to some experienced hands, the rickety condition of the financial services system – and slimmer municipal budgets – don't have to mean a death sentence for nonprofit organizations.

That's a good thing, because even as both public and private funding for nonprofits is drying up, leaders in the sector recognize that a weaker economy leads to increased demand for social services. The problem is magnified in New York, where nonprofits have received much support from the charitable arms of now-failing Wall Street institutions. Recent cuts to city and state budgets further threaten the future of the many organizations serving the city's neediest. The New York Nonprofit Press counts at least 3,200 human services nonprofits in the five boroughs, part of a \$12 billion industry in the metro region.

“There is a grave concern ... that people won’t be able to get the aid that they need,” said Allison Sesso, deputy director of the Human Services Council, a local umbrella organization for nonprofit human services providers. “Many nonprofits may be forced to close their doors, and people knocking on them will be turned away.”

Despite the possibility that a strained economy could disrupt or even end the operations of groups that provide vital services, the situation is not hopeless. And nonprofits don't have to let the outside climate solely determine their fates – at least not according to several nonprofit business consultants familiar with the New York City scene. In fact, they say, nonprofits can take steps to weather the economic storm. Following are several of the most commonly mentioned tactics:

- **Think – and act – like a competitive business**

According to Clark, who served as president of the Citizens Committee for New York City for 19 years prior to joining NPCC, “the ones that survive” will be the ones that pay attention to business operations in addition to providing services. Business smarts can mean the difference between carrying on and closing up shop. In better times, service organization leaders may have dismissed such a perspective, but less so in today’s more competitive nonprofit world. A drought of outside funding due to a plummeting market will only energize this approach.

“Revenues should exceed the cost of operations,” Clark says. “A lot of nonprofits don’t plan on making a surplus, yet in these times, if they want to survive, they need to have reserve funds.”

According to Randall Quan, managing director at Community Resource Exchange, a nonprofit consulting firm, nonprofits are going to feel the brunt of the economic downturn, but they have a number of ways to insulate themselves. “The most resilient nonprofits will have a range of strategies in their toolbox that includes business tactics,” Quan said.

- **Brainstorm new ways of generating income**

Most nonprofits rely on outside funding in order to meet their mission goals, but increasing numbers are pursuing capital ventures as a means of sustainability. They are updating the way they think of finances and the methods they use to get support.

As an AIDS advocacy organization that operates popular thrift stores, a bookstore and a catering business in order to support its core mission, Housing Works is a model of social enterprise. Bookstore executive director Susie Lupert is likely to point out the quality of her shop's products before even mentioning that it provides housing assistance to AIDS patients.

"We're out there to make money. We run this like any other business under a for-profit model. It's about being good business people," Lupert says. This is music to the ears of many of New York's nonprofit consultants, who specialize in assisting socially oriented organizations with operations and financial management. Housing Works' earned income is plowed back into its services, of course, rather than yielding dividends as a for-profit might.

- **Diversify revenue sources; Access cash reserves**

Overall diversification of revenue is a key tactic that experts emphasize as well. "Most nonprofits operate like an upside-down pyramid, relying on a single source for the bulk of their funding, but this is not good business," said Clark. Better to have an array of sources, such as government, earmarks, foundation grants – and especially, individual donors.

The individual donor is a critical component, comprising more than 80 percent of the roughly \$300 billion in private funding received annually by nonprofits in this country. Focusing on the private individual donor is imperative when nonprofits are expected to rely even less on public funding, as government agencies tighten budgets. Individual donors typically have disposable income, and are likely to be less affected by the downturn.

In addition, several specialists suggested creative ways to garner additional support. One new type of "creative capitalism" directs nonprofits to emphasize the ROI – return on investment – that investors can share in by donating money. Under this marketing strategy, nonprofits must demonstrate their effectiveness to the investor as a means of galvanizing support. The funders do not reap a monetary profit, but rather, the knowledge of measurable social benefits the nonprofit can concretely demonstrate. Another approach is called "engaged philanthropy," a means of securing funds that are contingent on achieving specific results.

Further, for-profits and nonprofits alike need guaranteed liquid assets in tight times. They need to have access to unrestricted reserves – i.e. extra cash – to make up for inevitable revenue shortfalls. "It's hard for many service organizations to find a surplus," Clark said, but in these tenuous times, building a surplus is "critical."

- **Focus the mission, focus the message**

Nonprofits need to concentrate on the organization's core objectives. Many are weakened by attempts to push their impact beyond the constraints of their financial situation, or they get distracted with non-

mission endeavors and fundraising. This is dangerous, says Quan of CRE. Organizations need to be wary of spreading themselves too thin – something to keep in mind when designing those new income-generating social enterprise ventures.

Equally important is communication and sending a clear message to constituents. A nonprofit is only as strong as its base, and organizations need to galvanize this support with strong and timely marketing that forthrightly confronts the financial status of the company. “Nonprofits need to reach out to their core supporters and communicate their financial situation directly. They need to be honest and continuously update [supporters] with their financial story,” said Kristin Giantris, vice president of the Nonprofit Finance Fund, a nonprofit consulting and financing group.

- **Cut costs and balance the budget**

More generally, organizations must make financial management a priority. For-profits operate competitively and with a constant eye on their bottom line. Advisers suggest that nonprofits would benefit from regular financial reports and frequent budget adjustments to accommodate volatile revenue and expenses.

“They shouldn’t be operating on the same budget if they know funding is about to change. They need to change as the situation does,” said Quan.

Further, many nonprofits focus on securing revenues but may forget to keep costs under control. These organizations will need to anticipate cutting costs in order to remain viable businesses. Even “small across the board salary reductions” are something managers might consider, said Giantris.

- **Join an association**

Clark added that joining a trade group like the one he runs can save money and improve operations. The Nonprofit Coordinating Committee offers services to its member organizations such as group purchasing discounts, advocacy, workshops, and consulting – all of which can make a significant dent off the bottom line.

“When I ran a nonprofit, we couldn’t afford not to be part of the NPCC,” Clark said. Likewise, Giantris’ Nonprofit Finance Fund offers loans, financial consultation and skills training. The Community Resource Exchange, where Quan works, has been providing affordable management consulting for social service organizations since 1979.

- **Consider outsourcing – even merging**

Nonprofits might benefit from altering the structure of their operations entirely. One way to save on costs of secondary or administrative tasks is to outsource these duties to external firms. Giantris went further to suggest that mergers with similar or complementary organizations should remain a possibility for nonprofits at risk. “If it looks like funding will disappear permanently, this should be considered,” she said. This is a decision managers need to be prudent about, but it should remain an option for organizations feeling the squeeze of tighter funding.

- **Prepare now for future shortfalls**

Most critical is the need to prepare for upcoming shortfalls, when more services will likely be in demand. "What many people don't realize is that there is a time lag between economic slumps and services being cut," said Sesso. Even if the economy bounces back, it's likely that the damage has already been done and that the real effects won't be seen for months.

In order to be resilient, nonprofits must take measures now, Giantris said, and "address the situation head-on."