

Helping Themselves

With fewer donations and declining investments, nonprofits are thinking creatively about cutting costs and raising revenue

By SHELLY BANJO

When your mission is serving the needy, tough times can be doubly difficult: More people need help, but you have fewer resources.

Nonprofit organizations -- facing cuts in government aid, investment losses and a decline in donations -- have been experimenting with new ways to stay afloat. Besides cutting costs and eliminating waste, they're thinking more creatively about how to use volunteers, garner new donations, strengthen ties with existing donors and create projects that generate additional income.

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"Necessity is the mother of invention," says Melissa Berman, president of New York-based Rockefeller Philanthropy Advisors. "As financial resources dry up, people have the impetus they need to be creative about where to get help and how to keep their mission going."

Here's a look at the strategies some charitable organizations are using:

Special Olympics **Looking Beyond Cash**

The organizing committee for this year's Special Olympics World Winter Games in Idaho faced a \$33.5 million budget shortfall about 18 months before the February event. It had to "get creative...and ramp up quickly," says Bruce Schrepple, chief financial officer of the U.S. Games Organizing Committee. The key was finding resources other than cash to make ends meet.

The committee began by tackling staff-related costs. It reduced plans for paid staff members to 60 from 120 and made up for that by intensifying its volunteer-recruitment efforts. It tapped volunteers from local nonprofits, the National Guard, the Defense Department and AmeriCorps, a nationwide community-service network.

Nonprofits may be able to rely more on volunteers now because many people who have been laid off, some with lucrative severance packages, "are seeking new opportunities to

give back," says Garvester Kelley, a vice president at the Nonprofit Finance Fund, a nonprofit financial-advisory service.

Nonprofits can also reach out to businesses for help in the form of goods and services, rather than cash, Mr. Kelley says. For instance, to train the volunteers for the Special Olympics, the organizing committee was able to replace a costly two-week, on-site program with an online training program designed free of charge by Brainshark Inc. of Waltham, Mass. The committee also found companies and governmental agencies that were willing to provide the Games' information-technology staff, computers, and food and beverages.

Nonprofits looking to employ this strategy "need to be as specific as possible about what they need" from both the companies and the volunteers to "make sure you are getting something you can actually use," says Lucy Bernholz, founder and president of philanthropy consulting firm Blueprint Research & Design Inc. of San Francisco.

Also, processing donations of goods and services and organizing volunteers for the Games took time and training, something nonprofits need to be aware of and prepared to handle, says the organizing committee's Mr. Schreppe.

Covenant House **Connecting With Donors**

With donors facing job losses and economic uncertainty, the New York division of Covenant House, an agency serving homeless, runaway and at-risk youth, saw donations through its direct-mail campaign decline 20% in 2008 from the previous year.

Nonprofits say the uncertain economy has caused many donors to abandon their write-a-check-for-anyone approach in favor of more-focused charitable giving. That makes it critical for organizations to strengthen their connections with their current donors, says William Foster, a partner at the Boston office of Bridgespan Group Inc., a nonprofit consultancy for nonprofits.

Covenant House achieved that by enlisting the youths it serves to call past donors to thank them for their gifts and explain the impact the donations had made on their lives. The people receiving a nonprofit's services are the best spokespeople for the organization, says Jerome Kilbane, Covenant House's executive director.

After receiving a call, "the size of the donor's gift increased by 50% from the year before" on average, Mr. Kilbane says. That hasn't completely offset the decline in other donations, he says. But he adds that Covenant House also has seen at least a 50% increase in the number of people who are willing to take a tour of the organization, and historically donations are larger from people who make such visits. The calls are planting seeds that in some cases might bear fruit a year from now, says Mr. Kilbane.

While a personal connection is critical to fund raising, it could also go awry more easily than direct mail, experts caution. Anyone calling donors "needs training to effectively engage with someone on the phone," says Ms. Bernholz of Blueprint Research & Design.

"I would also be careful about calling people again in six months, because then you just become a telemarketer," she says.

Ms. Bernholz says nonprofits need to recognize that donors have fewer resources than they did last year, and do everything they can to help the donor "make a contribution they feel comfortable with, not guilty into."

Forge

Transparency Is Key

It isn't just the economy that's battering nonprofits. Many have been victims of recent financial scandals, and several have had to shut their doors as a result.

That has eroded trust among donors, and the only way to regain that trust is for nonprofits to be open about their finances, operations and policies, says Sean Stannard-Stockton, principal and director of tactical philanthropy at Ensemble Capital Management LLC of Burlingame, Calif.

Mr. Stannard-Stockton points to Forge, a nonprofit that implements community-development projects -- such as building libraries and schools, running job-training programs and facilitating microloans to farmers -- for refugees in Africa.

Forge hasn't been caught up in the recent financial scandals, but it encountered other difficulties. Forge started out sending students, each of whom committed to raise \$5,000, to work with the refugees. But in 2007, the organization eliminated the volunteers and instead employed the refugees themselves to design and lead the projects. That also eliminated a chunk of the organization's revenue stream just as Forge was losing other donations amid the economic downturn, leaving it to face a \$100,000 budget shortfall for 2008.

In response, Forge founder Kjerstin Erickson began blogging about her mistakes and Forge's situation on socialedge.org, an online community for entrepreneurs, nonprofit professionals and philanthropists to discuss approaches and solutions to social problems. She began by telling her story and unveiling her financial records to the public, down to details including staff salaries and budgets.

Within days, bloggers, nonprofit consultants, foundations and donors caught wind of the story and began asking more questions and offering suggestions. Some readers stepped up to offer Ms. Erickson free consulting help, and a foundation followed with a \$50,000 donation. Eventually, increased donations erased Forge's budget gap.

"Public confidence goes up, not down, when people quickly and honestly admit their mistakes and explain how they are going to move forward," says Mr. Stannard-Stockton, who picked up Forge's story on his own blog.

Philanthropy experts warn that nonprofits can't rely on transparency to bail them out of a financial crisis. "Transparency isn't a tactic you use to fund-raise, it's a value for your organization to adopt," Mr. Stannard-Stockton says. But it does build trust and understanding among donors, making them more likely to continue giving.

Joffrey Ballet **Generating Income**

Nonprofits hard-pressed for donations may consider creating a project to generate income.

In August 2008, the Joffrey Ballet in Chicago faced a 40% decline in ticket sales and a reduction in corporate sponsorships, leaving a \$300,000 budget shortfall.

In January, the Joffrey decided to generate income by offering dance classes to the public. The classes are taught in the group's existing space, by the Joffrey's dancers, and the ballet's existing staff handles marketing, so there are no substantial additional expenses.

Since January, the classes have generated \$200,000 in revenue, and the Joffrey is expecting to earn another \$300,000 by June. Moreover, people who take the classes are buying tickets to see their teachers and the rest of the company perform, says the Joffrey's executive director, Christopher Clinton-Conway.

Some advisers caution that an economic crisis can be the worst time to start an income-generating activity. "For a nonprofit to put a lot of resources into what could be a risky proposition could be dangerous," says Ms. Berman of Rockefeller Philanthropy Advisors.

She suggests first making sure there is a market for the proposed business, and then determining how much money would have to be invested before it became profitable and whether the organization has the skills and staff to manage the business. Any activity should be directly related to the organization's mission and core capabilities, she adds.

Bonnie CLAC **Serving the Not-So-Needy**

Nonprofits that offer marketable services might be able to raise funding by expanding their client base to include people who are better off.

Bonnie CLAC (Car Loans and Counseling) is a nonprofit based in Claremont, N.H., that facilitates low-interest car loans for low-income individuals looking to buy cars and helps them through the car-buying process. To allow them to qualify for the loans, it requires

them to take a five-week financial-literacy course. It also provides consultants they can call for financial advice of any kind. In 2008, it saw demand for its services increase more than 25% from the previous year as the economy worsened and credit standards tightened.

Bonnie CLAC charges about \$800 for its full range of services. But it costs the organization about twice as much or more to deliver those services, so every additional client is a financial drain. To generate more revenue, Bonnie CLAC decided to help people with higher incomes find loans and negotiate with car dealers. It charges these clients the same \$800, but because it doesn't require them to take the financial-literacy course and doesn't offer them consulting help, it reaps a profit of about \$500 for each of these clients, says Chief Executive Terri Steingrebe. And that has allowed it to keep up with demand for its services from lower-income clients. As an added bonus, Ms. Steingrebe says, many of the new clients have donated their old cars to the organization's bridge-car program, which provides low-cost loaner cars to people going through Bonnie CLAC's financial-literacy program.

Mr. Kelley of the Nonprofit Finance Fund says that while expanding a nonprofit's market can generate new income, it can also divert staff and other resources, and it may require new investment that won't be recouped for a while.

He suggests nonprofits consider expansion only if they think they will be able to sustain the growth in the long term. They should consider whether they have the capacity to enter into a new market, whether they are sticking with their business model and whether the expansion is aligned with their overall mission.

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