



Nonprofit Income Innovation During the Great Recession Lessons for Stormy Weather

Operating a nonprofit has always been about living with uncertainty and ambiguity. The economic downturn added volatility to this dysfunctional mix. –Mary Ruiz, President/CEO, Manatee Glens

This essay focuses on nonprofits' response to the Great Recession. It makes visible their divergent experiences with a focus on income streams. It analyzes the recession's impact and shares the best of lessons learned. I base the information from interviews with nonprofit leaders in Spring 2012.¹

The Storm

The Great Recession and the near-simultaneous Florida tax changes brought upheaval to the nonprofit landscape. Linda Osmundson, with Community Action Stops Abuse (CASA), said, "It was more than the recession. There has been a change in what the public is interested in buying." Every nonprofit interviewed, except one, experienced stressful and memorable budget shocks. "It's been a rollercoaster," said Dr. Kent Lydecker with the Museum of Fine Arts. From the experience, most nonprofit leaders built stronger, more sustainable nonprofits. However, this is not universal. The impact, especially in terms of future fiscal soundness, varies. Janet Samuelson with Service Source², for example, shared that at her organization, the changes were site and program specific. I found that nonprofits fell into three categories.

1. The Made-Us-Wiser Experience

Nonprofits, with this experience, weathered the beatings of the Great Recession and emerged with improved organizations. As G. Scott Goyer, with the YMCA of the Suncoast, said, "It made us wiser." While every nonprofit leader to whom I spoke made improvements, this set weathered the storm and grew more professional organizations doing it. They emerge with enhanced capacity to positively impact their work, possibly for years to come. While the short-term future still looks somewhat tenuous, long term it looks rosy. These nonprofits are, in short, better for the experience. As illustrated, these nonprofits emerge from the recession storm cloud stronger.³

¹ Since 2012 is a long time ago, I updated this paper with footnotes.

² Service Source has multiple sites across the United States.

³ The "better for the experience" nonprofits can act as our role models. You might be asking, what did they do in "the cloud?"

Take Mary Ruiz with Manatee Glens. The recession provided Mary with the opportunity to make several changes on her wish list. For instance, she introduced and got funded a hospital-without-walls for teens suffering from co-occurring emotional and alcohol and drug problems. The service enjoys huge clinical success and a cost reduction from \$325 to \$50 daily per family. What might have been challenging to fund in regular times became an acceptable option instead of shutting the service down. “The funders might not have been interested in it except that it was an alternative to losing the program,” Ruiz explains.⁴

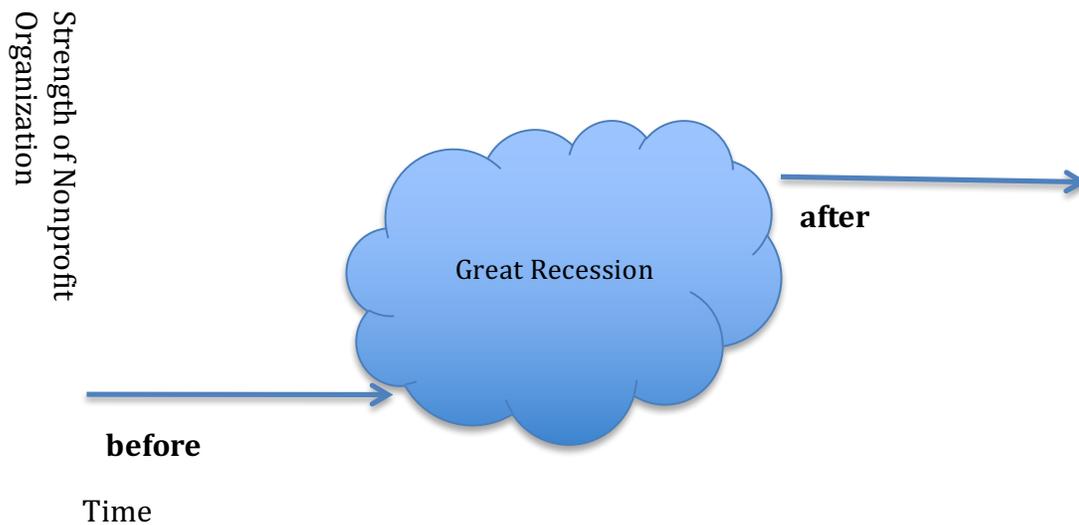


Figure 1 The Made-Us-Wiser Experience

David Jezek, with the YMCA of St. Petersburg, represents another entity in this group. Financial challenges in 2008 required that he reduce staff and associated expenses by \$250,000. Through a new collaborative partnership, he combined job functions and improved services, which saved \$100,000. Additionally, David moved a portion of his administrative staff from a branch to the corporate office, and he negotiated 600 additional square feet of office space downtown at no extra cost. In the vacated branch space, he opened a dance studio that yields more than \$30,000 in new revenue.⁵

Community Health Center’s leader Pat Mabe tapped stimulus funds to improve her physical plant. She invested in new partnerships, inviting grant funders to share costs. In one program, she increased the number of new mothers getting

⁴ Mary Ruiz correctly calculated that the Great Recession provided her an innovation opportunity. You have the same chance now. Your funders, donors, and the community will see you as a leader if you propose new approaches, especially ones that reduce costs and continue services now.

⁵ David Jezek upgrades his operations to improve his revenue. I particularly like the new dance studio with its long term reoccurring revenue.

medical attention in their first trimester from 41 to 71 percent. Even though the funding ended, the Center used what they learned to provide better services organization-wide.⁶

Less dramatic, but just as significant, is Olivia Thomas with SPARCC's experience. The recession was a wake-up call for SPARCC about caring for individual donors. In the past, Olivia shares, "We didn't do much. The money always came in." Post-recession, SPARCC has renewed zeal to support existing and develop new individual donors.⁷

The Continuing Cloud Experience

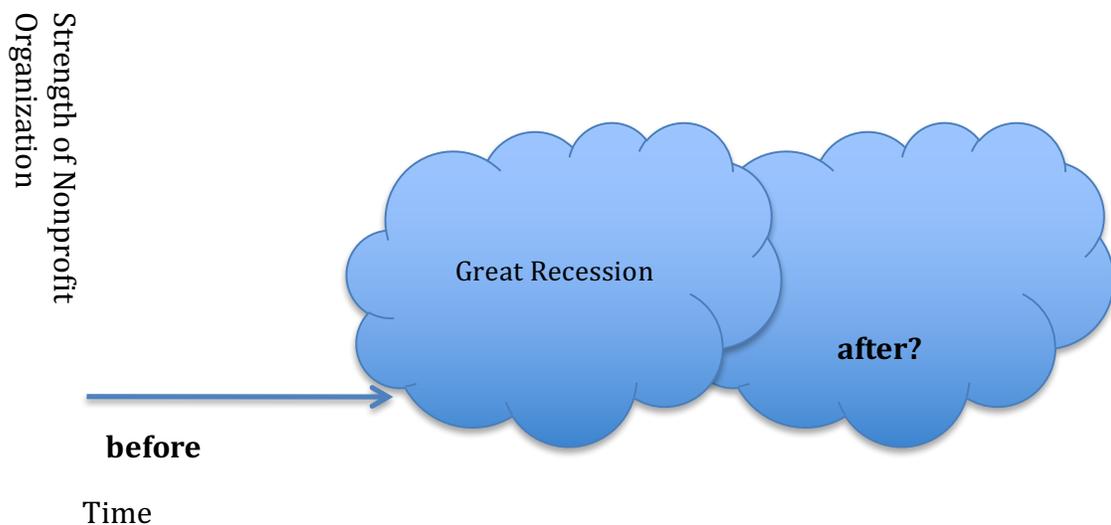


Figure 2 The Continuing Cloud Experience

About one-third of the nonprofits interviewed had a different experience: what I call the continuing cloud. As illustrated, they also entered the recession cloud and took dramatic actions. Instead of the cloud lifting and the silver lining appearing, they encountered stormier weather and uncertainty. For instance,

- R'Club experienced a 25 percent drop in enrollment that is rebounding very slowly. Without enrollment, their earned revenue is down. Staffing needs, however, remain high.
- Gulfcoast Legal Service's income is traditionally based on the interest that lawyers earn on escrowed funds. Interest rates are abysmal.
- CASA's income historically came from government grants. Many have not yet and may never return to their previous funding levels.

⁶ Pat Mabe takes a multiple-prong approach focused on one-time opportunities.

⁷ SPARCC stands out as an example of an organization that grew professionally.

- Bright Beginnings experiences a 40 percent funding cut when a major funder changes priorities.⁸

What is the difference between these nonprofits and the first group? Their funding models failed to provide anticipated support in a timely manner.⁹ Also:

- Most were heavily government dependent. Whether federal, state, or local, government funding continues to be erratic. Some groups report increases, like Big Brothers Big Sisters of Tampa Bay. Most report decreases. This is caused by deficits and a seismic change in public beliefs about the role of government funding. Paul Runyon, with Coordinated Child Care of Pinellas, sums it up, “The environment has changed.”
- Less ability to retract. Many in the first group were able to cut services or staff dramatically to respond to financial challenges. Retracting quickly is harder for services involving government contracts or school-year commitments.¹⁰
- Slower or different cycle. These nonprofits might be experiencing a slower recovery cycle. That is, if I interview them in six months, the cloud may be behind them, too. Certainly, if I conducted my interviews a year earlier, more nonprofits still would have been in the cloud. All of the groups are actively exploring or investing in alternative income sources to replace or enhance what they lost or fear to lose. For instance, I recently worked with Gulfcoast Legal Services on a staff retreat to begin a more intense program of individual donations. These nonprofits seek a winning formula or formulas to take advantage of all they learned in the economic downturn.

The It’s Cloudy Outside Experience

Just one nonprofit reported that its income increased during the period. Instead of entering the cloud, Southeastern Guide Dogs was impacted by it but persevered in following their strategy. The plan called for a focus on donors and marketing. During the Great Recession, they increased donations and believe that without the economic downturn, these would be even greater.¹¹

⁸ Bright Beginnings has since shut its doors.

⁹ If your funding model has left you in a quagmire, you have proof that your need to upgrade your funding strategy. Significant economic fluctuations *are* part of life. To determine your options, read [7 Nonprofit Income Streams](#). If your growing contributions, read [Let’s Raise Nonprofit Millions Together](#).

¹⁰ Keep notes on how you retracted for future analysis and planning.

¹¹ I place the Guide Dogs in the “grew more professional group.” Check your strategy. You may find its right on track and simply needs execution.

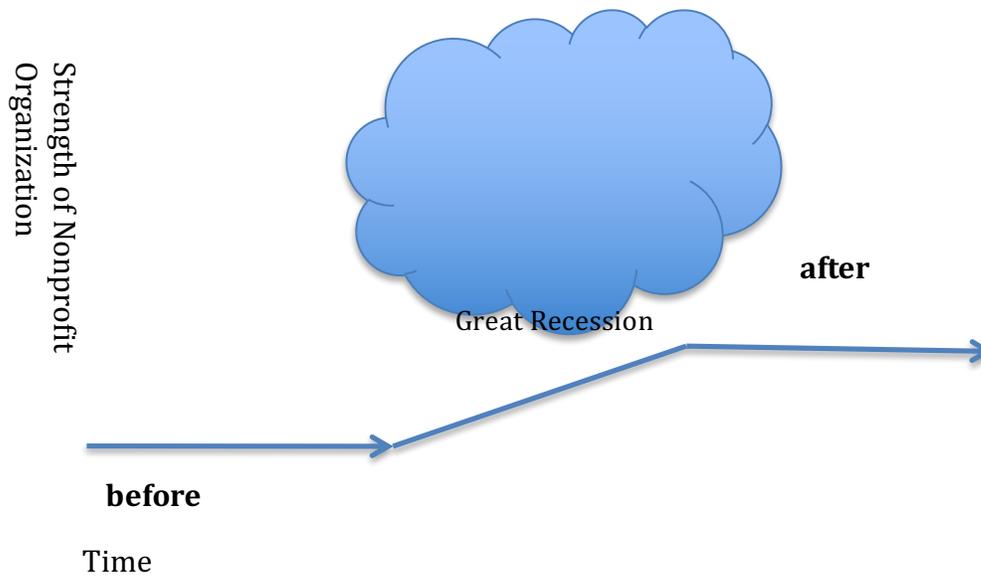


Figure 3 It's Cloudy Outside Experience

Conclusion

The Great Recession was not for wimps. Most interviewed leaders insisted that the experience “changed everything.” As we have seen, the change was not equal for all nonprofits. Most organizations are emerging from it stronger and more robust to pursue their mission. One-third struggle to find new equilibrium. I have no doubt they will find it. As Mary Ruiz shared, “Nonprofits are nimble and innovative. Change is part of the status quo.”

Karen's Five Actions to Thrive

1. Take Bold Action. Instead of laying staff off, Steven Koch, with Big Brothers Big Sisters of Tampa Bay, made two salary cuts. He executed one 5 percent cut at the end of the first quarter income when their income fell below expectations. A second cut of 9 percent was enacted less than a year later. "I wish I had done it sooner and at a higher percentage." Despite this hindsight, he emerged from the recession with his staff intact. While this may not be your action plan, take bold action.

2. Design to Retract. Nonprofits fared better if they cut back on services or reduced expenses. To minimize expenses, most leaders renegotiated all or most of their costs. Others cut ineffective programs. To find your options, run a "fire drill." What is the plan if you lose a significant piece of revenue? What are the essentials? How will you provide them? Fire-drills allows you to consider options without real-time emotional pressure.

3. Reserves. Reserves helped. Several leaders complain to me about being penalized by grant funders for having reserves. Educate your donors, funders, and public agencies about the benefits of and need for nonprofit reserves.

4. Diversify. The nonprofit sector has long proclaimed the value of diverse income streams; leaders pursue them. The two most popular income streams to add are mission income (earned revenue that also provides mission services) and individual donations. Both raise money and educate people about your work.

5. Resist Cutting Your Ability to Make Income. While many nonprofits in the sector cut income-related investments, Southeastern Guide Dogs did the opposite. It invested. At the start of the recession, they were in the middle of a strategic plan. It focused on donors and marketing. They persevered and increased donations.¹²

¹² Of all the recommendations in this paper, this one is your most essential "do" now.

Participants

Thanks to these individuals for sharing their thoughts, insights, and successes in serving the community.

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- Linda Osmundson, Executive Director, Community Action Stops Abuse (CASA), St. Petersburg
- Mary Ruiz, President/CEO, Manatee Glens, Bradenton
- Janet Samuelson, President/CEO, Service Source, Alexandria, Virginia
- Art O'Hara, Executive Director, R'Club, and Lousie Graham, Regeneration Center, St. Petersburg
- David Jezek, President/CEO, Greater St. Petersburg YMCA, St. Petersburg
- Steven Koch, CEO, Big Brothers Big Sisters of Tampa Bay, Tampa
- Pat Mabe, CEO, Community Health Center of Pinellas, St. Petersburg
- Colleen Cuervo, Executive Director, Bright Beginnings, Tampa
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