

Fieldstone Alliance - Cost cutting ideas for nonprofits

Analyze purchasing

- Improve purchasing procedures
- Seek in-kind contributions
- Network to get better prices on supplies
- Seek new competitive bids and new suppliers
- Analyze purchases to see if they are necessary
- Simplify paperwork and forms; use electronic files
- Refurbish and reuse supplies

Adjust payables

- Consolidate or restructure debt
- Negotiate delayed or reduced payments
- Barter for needed services

Evaluate facilities and infrastructure

- Share space or maintenance costs
- Delay maintenance
- Save space by moving, reducing size, using home offices, or using split shifts
- Negotiate a decreased rent with your landlord
- Find a cheaper phone system; eliminate toll-free lines
- Eliminate or consolidate newsletters and brochures
- Eliminate vehicles or shift to less costly vehicles
- Save energy

Modify staffing and related costs

- Reduce hours or work week
- Cut, freeze, or delay wages
- Lay off staff; offer voluntary separation; offer unpaid leave; remove poor performers
- Freeze hiring
- Share jobs, consolidate staff, increase workload
- Use volunteers and graduate interns
- Hire temporary staff or consultants
- Remove management layers; don't funnel high performers into management merely to reward them
- Reduce benefits, staff training, and staff development
- Limit or eliminate travel
- Cancel subscriptions; use the Internet and libraries
- Cancel professional association memberships
- Switch to a direct reimbursement status for unemployment compensation
- Ask board not to submit expenses for reimbursement
- Convert some paid staff to volunteers

- Share staff with other organizations

Reduce services

- Analyze your programs and services against your mission and financial goals
- Reduce or eliminate non-core programs
- Limit eligibility for programs; reduce the number of clients served
- Reduce or eliminate core programs
- Temporarily shut down some or all services
- Plan to go out of business humanely

4. Modify your structural strategies

Modify the mission

- Reexamine the mission and realign the organization accordingly
- Modify the mission to build clients' capacity to solve their own problems
- Change the mission to enable the organization to respond to rapidly changing conditions
- Move out of direct support services and into prevention services
- Be a pilot site for some foundation, academic, or government program

Modify the organization's structure

- Eliminate programs that are redundant with those of other organizations or combine them to improve services
- Position yourself higher in the "food chain" when intense competition accompanies a changing environment
- Respond to a changing environment by changing programs
- Spin off a struggling or "orphan" program to another organization where it has a better chance to thrive
- Merge with or acquire a competitor's or an ally's program
- Relocate with a group of related organizations to form a one-stop shop
- Become a for-profit; add a for-profit subsidiary; be acquired by a for-profit

Modify the organization's culture

- Enlist the support of potential funders as you modify your programs, and then request funds to support changes
- Share resources and expenses with other organizations that have similar needs
- Make your services more culturally sensitive
- Educate the board of directors to make them more effective
- Mobilize everyone in the organization to help market its mission, message, services, and needs
- Tear down bureaucracies that interfere with the creative flow of ideas
- Replicate rather than reinvent
- Link with a complementary but different organization to bring resources into the organization
- Take a more entrepreneurial approach to accomplishing your mission

The Fieldstone Alliance:

http://www.fieldstonealliance.org/client/tools_you_can_use/01-22-09_cost_cutting_ideas.cfm

Idea	Considerations	Your First Step
General Advice		
<p>1. Start by understanding the big picture.</p>	<p>If you're facing a financial crisis, first determine the nature and size of the problem. Is this a cash flow or balance sheet issue? Is it temporary or long term? Are you facing a 10% or 40% budget shortfall?</p>	<p>Assemble a crisis management team. This team should be made up of board, staff, your banker, your auditor, and perhaps a representative of the people you serve. Use them to: strategize your reaction to the crisis, run cash flow projections, and create best-case, medium-case, and worst-case scenarios.</p> <p>From the book <i>Nonprofit Stewardship</i> by Peter Brinckerhoff (Chapter 9: Stewardship in Good Times and Bad).</p>
<p>2. Focus on both long-term and short-term actions.</p>	<p>The most common response from managers is to deal with only <i>tactical</i>, or short-term actions. This is a mistake. You need to first look at strategic or long-term actions.</p> <p>Here are questions to ask yourself that can keep you focused and help you lead:</p> <ul style="list-style-type: none"> • Am I getting adequate food, rest, exercise, and time with my family? • Am I asking the hard questions? • Do I have all the information I can get? • Am I sharing information widely? • If other staff have to take a financial cut, am I taking a bigger one? • Am I leading optimistically? • Am I putting mission first? • Am I listening to everyone? 	<ul style="list-style-type: none"> • Use a "stop, step back, and check the long view" process to help avoid knee-jerk responses that use up energy but don't really advance your cause. Ask yourself the questions listed to the left. • Review your "contingency budget." If you don't have a contingency budget, consider creating one. See the Institute for Conservation Leadership's Advice for Managers in Hard Times (see item 7) which includes a sample contingency budget.
<p>3. Keep people informed.</p>	<p>• Staff will be apprehensive. To manage morale, here are tips for</p>	<p>Develop a communications plan so that board, staff, funders, and others</p>

	<p><u>Leading in a Climate of Fear</u> from Community Wealth Ventures.</p> <ul style="list-style-type: none"> • In times of stress, creating "shared meaning" (where the picture in my head is the same as the picture in your head) is especially important. Here's a helpful process for getting to shared meaning: <u>Communicating Clearly: It's Not What You Say, It's How Others Hear You.</u> 	<p>are kept informed.</p> <p>For ideas, review these <u>tips for communicating with stakeholders in a time of crisis</u> from the Nonprofit Risk Management Center.</p>
4. Practice good financial hygiene.	<p>Wise leaders safeguard organizational assets. Make sure your financial controls are in order and be aware of signs of embezzlement or other fraud.</p> <p>See Blue Avocado's article: <u>Nonprofit Embezzlement-More Common And More Preventable Than You Think.</u></p>	<p>Review your internal controls. These controls are critical and can help you avoid scandals.</p> <p>For guidelines, see:</p> <ul style="list-style-type: none"> • <u>Have You Hugged Your Bookkeeper Lately?</u> • <u>Transparency and accountability resources</u> from the Minnesota Council of Nonprofits.
Purchasing		
5. Seek discounts.	<ul style="list-style-type: none"> • Negotiate with current providers for better prices or terms—especially on the products you use the most. • Get group discounts by combining orders with other organizations. Even simple coordination with companies in the same building can bring better terms or prices. • For free and low cost equipment and furniture, see the <u>Hearts and Minds</u> web site. (Also see ideas <u>13</u> and <u>15.</u>) 	<ul style="list-style-type: none"> • Join a <u>nonprofit association</u> for special membership discounts. If you haven't reviewed your member benefits recently, give them a second look. You may be passing up discounts you already qualify for. • Always ask if there is a nonprofit discount with any purchase. See: <u>Money Saving Tips</u> from the Minnesota Council of Nonprofits for ways to save on banking services, insurance, and more.
6. Seek in-kind contributions and bartering arrangements.	<ul style="list-style-type: none"> • Ask constituents to contribute in-kind, related services. For example, have students provide childcare during adult language classes. • Barter with other nonprofits to conserve cash. For example, trade transportation services for free access to classes for your constituents. 	<ul style="list-style-type: none"> • Brainstorm with your staff about what in-kind resources or bartering it can offer. • Post the list on your web site or on a site such as <u>Craigslist</u> (they have a section just for bartering).
Cash Flow Management		
7. Slow the outflow of	Negotiate payment schedules with	Call your major suppliers to talk

<p>payables.</p>	<p>your suppliers. Offer smaller but regular payments, or offer to be a consistent, loyal customer.</p>	<p>about payment schedules. Don't dodge them if you're having trouble paying the bill. Be proactive and up front.</p> <p>For an example of slowing the outflow of payables see this article from the <i>Nonprofit Quarterly</i>: In Cash There Is Opportunity.</p>
<p>8. Speed the inflow of accounts receivable.</p>	<ul style="list-style-type: none"> • Keep an eye on your receivables. Contact the slow payers. Be persistent and consistent. • Redesign receivables, requiring a down-payment or prepayment of some portion, especially when you are incurring out-of-pocket expenses. • Invoice promptly. • Offer incentives to pay early (e.g. Net 10 receives a 1% discount) • Write or print on bills “payable upon receipt” or “Net 10 Days.” • Charge interest for late payments (e.g. 1% interest charge after 30 days). • Take advantage of Automated Clearing House (ACH) electronic technology. Ask clients to be set up with ACH to speed receipt of cash. 	<p>Contact the following about these opportunities:</p> <ul style="list-style-type: none"> • Your bookkeeper or office manager about invoice procedures. • Your accountant about “incentives” and payment terms. • Your banker about ACH technology to understand if it will help you receive funds more quickly.
<p>9. Be proactive.</p>	<p>Don't wait for circumstances that force you to act. Tackle your expenses and improve your cash management at the first sign of a problem.</p>	<p>Review your budget and strategic plan with your board members and staff. This should be an inclusive process.</p> <p>See Two Guiding Principles for Effective Budgeting for more information.</p>
<p>Facilities and Infrastructure</p>		
<p>10. Reduce the cost of your office space.</p>	<ul style="list-style-type: none"> • Can your lease be renegotiated? Don't just assume that what's done is done. Your landlord may rather give you a better deal than try to rent out an empty space in today's real estate environment. • Can you rent out unused or 	<p>Read How to Renegotiate a Lease. Ask your attorney to review the lease. If you can't afford an attorney, LegalCorps may help. Or, meet with professional property managers to consider re-negotiation options for current or different space. Often their services will be paid for by the</p>

	<p>underutilized space such as your conference room?</p> <ul style="list-style-type: none"> • Can you move to a cheaper space? Can staff work from home? 	landlord.
11. Cohabitate.	<p>Share office space with another organization. There are many benefits of co-locating with other nonprofits.</p>	<p>To see if this is a viable option for your organization, read Human Service Agencies Merge Back-Office Functions.</p> <p>Also, see the Nonprofit Centers Network for information on a Multi-Tenant Nonprofit Center.</p>
12. Reduce building costs.	<ul style="list-style-type: none"> • Share the costs of maintenance activities with others in the same building. • Have a “Project Saturday” where staff volunteers do minor maintenance, office moves, or clean-up. 	<p>Check out Energy Star’s article Businesses Can Save Energy this Winter for energy saving tips.</p>
13. Reduce technology costs.	<p>There are many resources available to help nonprofits reduce Information Technology (IT) costs. Some include free software, hardware, and training.</p>	<ul style="list-style-type: none"> • See Techsoup.org (the technology place for nonprofits) for IT resources. • Read the blog, Can Open Source Software Save Organizations Money? • Also, see the McKinsey Quarterly article, Managing IT Spending.
14. Reduce marketing costs.	<ul style="list-style-type: none"> • Eliminate, condense, or consolidate newsletters and program brochures. Shift most to electronic delivery. • Market only when related to fundraising or when really core to mission. 	<ul style="list-style-type: none"> • For great ideas on how to improve your marketing, go to the Nonprofit Marketing Guide. • Also see 10 Ways for Nonprofits To Cut Costs for helpful suggestions on marketing, fundraising, and other cost saving areas.
15. Reduce capital spending.	<p>Reduce your capital spending by looking for used equipment or donated items, or negotiate lower prices with your suppliers.</p>	<p>See the McKinsey Quarterly article, Freeing Up Cash From Operations.</p>
Staffing		
16. Reduce salary expense.	<p>Cutting staff is often one of the first things organizations do to quickly reduce their expenses. Following are a few options you may not have considered. However, we recommend reading the resources listed to the right first.</p> <ul style="list-style-type: none"> • Ask staff for suggestions. Some 	<p>If your nonprofit is faced with making job cuts, it is critical to get good counsel, plan the process, and articulate a clear message to all concerned. These steps will not make a layoff easy, but they can minimize damage and maximize the likelihood of a solid recovery.</p>

	<p>may move up retirement plans, prefer to work part-time or on a contract basis, or take an extended unpaid leave.</p> <ul style="list-style-type: none"> • Temporarily cut wages and defer payment of the balance to a later date. 	<p>Read:</p> <p><u>When Layoffs Are Necessary, Nonprofits Need to Be Planful</u>, by William Coy of La Piana Associates.</p> <p><u>Reducing Your Nonprofit's Risk During Employee Layoffs</u> from the Minnesota Council of Nonprofits.</p> <p><u>Sustaining Nonprofits During Economic Downturns</u> from the Nonprofit Risk Management Center.</p>
17. Redesign/change job structures.	<ul style="list-style-type: none"> • Encourage employees to office at home and use their own equipment. • Convert to split work shifts, sharing jobs so that each person has at least a part-time position. • Shift from employee to contractor status. • Redesign roles and responsibilities. 	<p>See the McKinsey Quarterly article, <u>Upgrading Talent</u>.</p>
18. Reduce or restructure benefits.	<p>Reduce or restructure benefits, such as vacation and sick leave, medical co-pays, or medical insurance premiums.</p>	<p>If your nonprofit is small, look into joining a health insurance alliance. Many states have offer plans to small businesses. Search online by "health insurance alliance."</p> <p>Also for small groups, get an <u>overview of options and see how your plan stacks up to others</u>.</p> <p>Finally, protect your organization. See: <u>Don't Be a Victim of Unlicensed Insurers</u></p>
19. Reduce or eliminate board expenses.	<ul style="list-style-type: none"> • Ask board not to submit expense reimbursement requests. • Limit or eliminate travel, shifting to conference call meetings. 	<p>See <u>Facing the Financial Crisis: Ten Smart Things Your Board Can Do Now</u> from BoardSource.</p>
Program Services		
20. Analyze the alignment of your programs and services with your mission and financial goals.	<ul style="list-style-type: none"> • Invite senior staff to independently analyze each program, using the cost/mission matrix. • Identify which programs need to be restructured, closed down, or expanded. 	<p>See the <u>MacMillan Matrix</u>, found at the Institute for Conservation Leadership website, to determine how well your programs "fit" with your organization.</p> <p>Identify a team that has the knowledge needed to analyze the programs and the costs.</p>

	<ul style="list-style-type: none"> • Change eligibility of programs, such as to only low income people, or to those able to pay for services. • Sometimes expanding the program is the best option. How a program is delivered and to whom can dramatically change the program's cost structure. 	<p>See these helpful resources: Allocating Indirect Costs to Programs found at the Alliance for Nonprofit Management web site.</p> <p>Rolfe Larson's book <i>Venture Forth!</i> (Pricing Worksheet, pages 98-99).</p> <p>Make sure you aren't hindering your customer service. See Maintaining the Customer Experience.</p>
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My TOP FIVE RULES for Cost Management

1. Preserving the core is "Sacred", all else is "Suspect".
2. Scrutinizing costs (maximizing cost efficiency) should be normal/standard operating procedure.
 - Remember The North Face – Never Stop Exploring....
3. Be proactive – Don't Wait, Cut now!
4. Balance ST requirements with LT reality, viability, success.
5. **Scenario-based budgeting** is important every year and **cash flow forecasting** is important all the time!

Additional resources:

Opportunities in Lean Times: The Fieldstone Alliance

http://www.fieldstonealliance.org/client/focus-opportunities_in_lean_times.cfm#cut

The Bridgespan Group: Managing in Tough Times Resource Center

<http://www.bridgespan.org/LearningCenter/Default.aspx?id=2786>

CRN/CNPA Summit

<http://www.our3.org/Resources.htm>