THE MERCADIEN GROUP

2009 NONPROFIT OUTLOOK SURVEY REPORT

THE MERCADIEN GROUP
2009 NONPROFIT OUTLOOK SURVEY REPORT

© The Mercadien Group
P.O. Box 7648
Princeton, NJ 08543-7648
Phone 609.689.9700 • Fax 609.689.9720
www.mercadien.com • solutions@mercadien.com

Background

In our continuing effort to provide our nonprofit clients with the most relevant information to help them in their strategic planning and to support their success, our Nonprofit Services Group conducted an economic outlook survey in the first quarter of 2009. This survey was designed to gather information for our nonprofit clients for two specific purposes:

1. To better provide our nonprofit clients with market specific information on what their peers are forecasting.
2. For Mercadien's professionals to advise our nonprofit clients who operate in this market environment and identify solutions to their most pressing needs.

While statistical significance is sometimes difficult to gauge, 86 organizations responded to our questions, giving us confidence that the trends we observed can be utilized to support our findings. The most relevant and useful information we identified is summarized in this report.

We take this opportunity to express our sincere appreciation to those organizations who participated in this survey. We would be happy to provide you with the raw data if you would like to do in-depth comparative analysis for your organization. For more information, please contact Kim Kelly, Marketing Manager, at (609) 689-9700 or solutions@mercadien.com.

EXECUTIVE SUMMARY

Survey Highlights

Not surprisingly, as it reflects the national and states' economies, gross revenue projections across the board indicated that nearly 67% of the respondents projected their revenues to decline or stay the same. Indeed, more than a quarter of respondents projected a decline in revenue between 3%-20%.

Paralleling the revenue decline was an even sharper decrease in net revenue (revenue in excess of expenses). Nearly 43% of those surveyed expected a net revenue decline between 3% - 20%. Only 22% expected an increase in net revenue, and more than three quarters of those expected either declining, flat, or less than 10% growth in profits.

It would follow that with a decrease in gross and net revenue that employment would also be adversely affected. Clearly, employment across all sizes of organizations is impacted. One quarter of those surveyed expect a decline in staffing (half of which indicated a decline of 10% or more), whereas nearly 56% expect their employment levels to remain flat, while 19% expect an increase.

The combined impact of declining revenues and expected employment levels impacts capital spending as well. More than 20% of organizations expected a decrease in capital spending of up to 20% from the prior year. Another 64% expected spending to remain the same, while only 14% expected a slight increase.

When we asked nonprofit organizations what goals are the most critical for the upcoming year, 60% indicated "find and retain good people" following closely with "improving financial performance."

The current state of the economy played a significant role in the outcomes from our survey, with respondents generally cautious for growth, surplus, and staffing levels. As with every threat, however, our experience in serving clients for over 45 years demonstrates that organizations have much to gain when the economy ultimately recovers.

Survey respondents indicate they expect marginal to declining growth as a result of downward pressure on revenue sources due to the current economic recession. Fundraising efforts are more challenged now than ever, and nonprofits are looking for creative ways to contain costs while maintaining or growing revenue sources.

Survey respondents indicate they expect generally to cut back or maintain their level of capital investment. Our experience in serving clients through various economic cycles over the years indicates that those organizations who invest in infrastructure during down cycles are generally better positioned to gain operational efficiencies and capitalize on market opportunities when the economy rebounds. These investments are often difficult to make when resources are scarce, but often generate enhanced returns.

Executive Summary

Survey Highlights (continued)

Many organizations anticipate to reduce staff levels to cope with the current economic events and manage financial results, often at the expense of maintaining quality work/life balance for those staff that remain after the rebalancing. Our experience indicates that any staff reduction plan must be thoroughly considered and analyzed to ensure proper alignment with the organizational structure and mission in an effort to maintain both the efficiency and effectiveness of the organization.

Improving financial performance is a heightened goal for nonprofits during 2009. It is important for organizations to use a multidimensional approach to enhancing financial performance. Our experience indicates that successful organizations have critically evaluated all policies and procedures and have eliminated those that do not create value to the end consumer. In addition, successful organizations have refocused from measuring and evaluating inputs to those of outputs, achievements, and level of service metrics.

MERCADIEN INSIGHTS

After evaluating the survey results, we offer the following:

1. Improving financial performance is a high priority for the majority of nonprofits regardless of the size of their organizations. We at Mercadien are advising our clients and contacts that without growth the only way to improve financial performance is through enhanced planning and superior execution. This requires you thinking about how to change your plans and execute, measure, and reward improved performance.
2. There continues to be a global issue of finding and retaining good people. The survey respondents across all organizations regardless of sector, size, or geographic markets noted this as a priority in 2009. If you are having difficulty finding the right people, you will need to shift your emphasis towards developing and retraining internal personnel. Historically, organizational development and training programs that were engineered and developed for large organizations will no doubt need to be emphasized for smaller nonprofits as well.
3. As noted in our Executive Summary, the majority of nonprofits expect employment and capital spending to either remain at current levels or decline. To continue improving financial performance, you must identify ways to leverage your existing infrastructure (e.g., automating manual processes by using existing computer applications, making employee workflow more efficient, or lowering the cost to provide customer service).
4. As we will discuss later, organizations need to manage the issues and challenges of downward pressure on contributions, grants, and similar revenue streams and having costs rising faster than revenues. We are advising our clients that they should begin to consider increasing integration and utilization of financial management tools such as cash flow analysis, financial and management reporting, and cost measurement systems. If you can identify with these noted challenges, please feel free to contact your Mercadien representative to assist you.
5. It is suggested that organizations with more than 100 employees are feeling increased pressure from deteriorating economic conditions and fluctuations in the market.
6. Organizations with more than 100 employees have reported an inability to predict cash flow needs.
7. Organizations with fewer than 100 employees have reported a better ability to predict cash flow needs than their larger counterparts.
8. Further, it is evident that regardless of size of an organization, inadequate financial/management reporting needs to be significantly improved in this current economic environment.
9. Interestingly, medium sized organizations (50-99 employees) have clearly reached a size where they need to establish more standardized cost tracking and management reporting processes. Smaller organizations have relied on less sophisticated systems which provide them adequate security. We advise, however, that until financial reporting systems are implemented, these smaller entities find it difficult to both grow and remain viable.

2009 Growth Expectations

Needless to say, growth expectations for 2009 are poor. We anticipate that most organizations in 2009 will be less focused on generating significant growth and more focused on maintaining their current positions. When we analyzed gross revenue, net revenue, and employment based on industry sector, it was interesting to note that revenues decreased most among social service providers. Indeed, 42% of social service organizations expect a decrease in overall revenues (compared to 36.5% of all respondents), while 41% expect gross revenues to stay the same or increase slightly, as compared to 63.5% of all respondents. Similarly, 48% of social service providers expect a decline in net revenue in 2009 (compared to 43% of all respondents) with a corresponding 70% expecting employment to remain the same or decline, as compared to 81% of all respondents.

Gross Revenues (all respondents)	Response Percent
Decline more than 20%	11.1%
Decline 10 to 20%	12.7%
Decline 3 to 10%	12.7%
Stay about the same	**30.2%**
Increase 3 to 10%	22.2%
Increase 10 to 20%	4.8%
Increase more than 20%	6.3%

Net Revenues (all respondents)	Response Percent
Decline more than 20%	15.9%
Decline 10 to 20%	6.3%
Decline 3 to 10%	20.6%
Stay about the same	**34.9%**
Increase 3 to 10%	12.7%
Increase 10 to 20%	1.6%
Increase more than 20%	7.9%

2009 Growth Expectations (continued)

Large healthcare employers are able to maximize net revenue through reduction in work force. One-third of healthcare employers expect layoffs of up to 20% as compared to 25% for all respondents.

Employment (all respondents)	Response Percent
Decline more than 20%	4.8%
Decline 10 to 20%	4.8%
Decline 3 to 10%	15.9%
Stay about the same	**55.6%**
Increase 3 to 10%	14.3%
Increase 10 to 20%	3.2%
Increase more than 20%	1.6%

In line with 2009 expectations, capital spending over all client sizes, geographic areas, and industry sectors will decline or stay the same among 84% of respondents. Since the majority of respondents expect employment and capital spending to remain at current levels or decline, they may feel that their current infrastructure be further leveraged if opportunity for revenue growth exists. Mercadien's experience in working with nonprofits for more than 45 years has led us to recognize that those organizations who maintain their capital spending programs in lean times are better equipped to accomplish their goals when the economy turns around.

Capital Spending (all respondents)	Response Percent
Decline more than 20%	6.3%
Decline 10 to 20%	7.9%
Decline 3 to 10%	6.3%
Stay about the same	**63.5%**
Increase 3 to 10%	6.3%
Increase 10 to 20%	0.0%
Increase more than 20%	9.5%

MOST IMPORTANT GOALS FOR 2009

Our respondents' top four 2009 goals are as follows:

1. Find and retain good people
2. Improve financial performance
3. Increase numbers served
4. Create a quality workplace

By coupling the importance of traditional financial goals of improving financial performance with more people oriented goals of finding and retaining good people, we see that management is keenly aware that improving traditional financial measures requires placing a similar emphasis on people and culture oriented goals.

Goals:	Not Important	Somewhat Important	Important	Very Important	Rating Average
Find and retain good people:	0.0%	10.9%	29.1%	**60.0%**	3.49
Improve financial performance:	3.6%	5.5%	40.0%	**50.9%**	3.38
Increase numbers served:	3.6%	12.7%	**47.3%**	36.4%	3.16
Create a quality workplace:	5.5%	16.4%	**41.8%**	36.4%	3.09
Grow the organization:	7.3%	18.2%	**43.6%**	30.9%	2.98
Improve management information:	3.6%	25.5%	**45.5%**	25.5%	2.93
Plan for organization's succession:	3.6%	32.7%	**36.4%**	27.3%	2.87

Most Important Challenges/Issues for 2009

Our respondents' most important issues for 2009 are focused on the impact the economy has on revenue sources and operations as indicated below:

1. Downward pressure on contributions, grants, and similar revenue streams
2. Costs rising faster than revenues
3. Lower quality of client service than desired
4. Unstable, insufficient, or outdated technology

In working with nonprofits, we at Mercadien recognize that even in the best of economic environments, nonprofit organizations are continually challenged and often inhibited by the lack of resources available to attract and retain talented management and staff. Furthermore, maintaining and updating technology infrastructure continues to be a battle for these organizations.

Historically, the most successful nonprofits recognize and appreciate the strategic perspective that outside professionals can bring to their organizations. Indeed, over the next few years we believe that many nonprofit organizations and their boards will be faced with extremely difficult challenges including the need to consider either merging or acquiring another nonprofit organization. To that end, in future surveys we will further explore and examine this strategy.

If you would like us to consider additional questions for benchmarking purposes, please feel free to contact us directly.

Most Important Challenges for all Respondents	Rating Average
Downward pressure on contributions, grants, and similar revenue streams:	84%
Costs rising faster than revenues:	67%
Lower quality of client service than desired:	62%
Unstable, insufficient or outdated technology:	56%

The study suggests that challenges facing nonprofits for 2009 are expected to be both external (primarily pressure on revenue sources due to the economy) as well as internal (due to concerns with service levels and technology).

About the Respondents

Number of respondents: 86

Employees:	Response Percent
0 - 10	**36.2%**
11 to 25	23.2%
26 to 50	15.9%
51-100	5.8%
101 or more	18.8%

Annual Gross Revenue:	Response Percent
Under $5 million	**68.1%**
$5 million to $10 million	10.1%
$10 million to $25 million	8.7%
$25 million to $50 million	7.2%
Greater than $50 million	5.8%

Industry:	Response Percent
Social Services	**28%**
Schools	15%
Religious	3%
Foundation	7%
Healthcare	15%
Civic	13%
Professional Association	18%
Other (please specify)	1%

Geographic Area:	Response Percent
Northern New Jersey	20.3%
Central New Jersey	**72.5%**
Southern New Jersey	27.5%
Eastern PA	5.8%
New York	2.9%
Other (please specify)	10.1%