

THE MERCADIEN GROUP

2011 NONPROFIT OUTLOOK SURVEY REPORT



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BACKGROUND

In our continuing effort to provide our nonprofit clients with the most relevant information to help them with their strategic planning and to support their success, we conducted our third annual economic outlook survey in the first quarter of 2011. The survey is 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 experiencing and forecasting;
2. For Mercadien's professionals to better understand the market environment in which our nonprofit clients operate and to identify their most pressing needs.

While statistical significance is sometimes difficult to gauge, 97 organizations (an increase of 43% compared to 2010) 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 believe the significant increase in responses is a result of both an increasingly optimistic near-term economic environment and an understanding that respondents now have a resource on which to base their strategic planning.

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

EXECUTIVE SUMMARY

Survey Highlights

In a complete reversal from 2010, 81% of respondents indicated that their revenue would stay the same or increase. In 2010, in reflection of the national and state economies, gross revenue projections across the board indicated that nearly 75% of respondents projected their revenue to decline or stay the same. Indeed, only 19% of respondents indicated that their revenue would decline more than 3% down from 31% in 2010.

Nearly 81% expect their net revenue to stay the same or increase, and 27% expect an increase in net revenue of more than 3%. This compares favorably to 2010, in which a third of respondents expected a net revenue decline. In 2011, only 28% of all respondents expect net revenue to decrease. Fifty percent of respondents who expect a net revenue decrease were from organizations with gross revenue of less than \$2.5 million.

Health care and social service organizations have the highest growth expectation in net revenue. However, these same organizations share a relatively more unstable view of the future, with some of the largest percentages of organizations expecting both increases and declines in net revenue.

It would follow that with an increase in gross and net revenue that employment would be favorably affected. However, based on the results of the survey, it appears there is little discernable correlation between employment projections and growth expectations of nonprofit organizations. While 25% of organizations surveyed in 2010 expected a decline in staffing, that number was halved in 2011, as only 15% of respondents expect a decrease in staffing. Additionally, nearly 70% of organizations expect their employment levels to remain flat, a modest increase from 2010, and only 17% expect an increase, which is slightly improved from 2010. The greatest decline in employment expectations is from organizations with less than \$5 million in gross revenue.

The combined impact of increasing revenue and employment roles has positively impacted capital spending as well. Nearly a quarter of organizations expect an increase in capital spending, mirroring 2010 levels. Another 62% expect capital spending to remain the same, while 15% expect a decrease, up from 57% expecting spending to remain the same in 2010.

When we asked nonprofit organizations what goals they established for the coming year, more than 90% indicated “find and retain good people,” followed closely by “improving financial performance,” mirroring 2010 results. Although funding and employment levels have stabilized, it is evident that more is expected from current employees following an already stressful 2010. Indeed, organizations should consider outsourcing certain functions or hiring contract employees as a possible means to avoid employee burnout.

The current state of the economy played a significant role in the survey outcomes, with respondents generally cautious for growth, surplus and staffing levels. As with every threat, however, our experience in serving clients for nearly half a century demonstrates that organizations have much to gain as the economy recovers slowly.

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

Additionally, survey respondents indicate they expect to increase slightly 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.

MERCADIEN INSIGHTS

After evaluating the survey results, we offer the following:

1. “Improving financial performance” is a high priority for a majority of nonprofits, regardless of the size of the organization. At Mercadien, we note that when growth is not improving revenue, the only way to improve financial performance is through enhanced planning and superior execution. Improvement means change, and change necessitates external stimuli. This requires you to think about how to change your plans and measures, while executing and rewarding 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 and 2010, and again this year. At Mercadien, we believe that proper incentive pay plans can assist most nonprofits in retaining their employees in this environment. Indeed, as the economy begins to improve, those employees who feel under-rewarded will be the first to leave, taking with them institutional knowledge, which most nonprofits can ill-afford to lose. If you are having difficulty finding the right people, you will need to shift your emphasis toward developing and retraining internal personnel. We reiterate our recommendation that organizations consider outsourcing those functions such as in accounting, technology, and other areas, which can be handled more efficiently and oftentimes more cost effectively.
3. As noted in our Executive Summary, the majority of nonprofits expect employment and capital spending to either remain at current levels or slightly increase. To continue improving financial performance, you must identify ways to leverage your existing infrastructure. For example, automating manual processes by using existing computer applications, making employee workflow more efficient, or lowering the cost to provide customer service.
4. Organizations need to manage the issues and challenges of downward pressure on contributions, grants and similar revenue streams and confront costs that are rising faster than revenue. We at Mercadien note that you should begin to consider increasing your 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. Further, it is evident that regardless of the size of a company, inadequate financial/management reporting needs to be improved significantly, even in this improving economic environment.
6. Interestingly, nearly 70% of organizations under \$5 million in revenue recognize that they have unstable, insufficient or outdated technology. This clearly impedes their ability to serve constituents in an effective and efficient manner. Outsourcing, cloud computing, and remote network monitoring have become affordable for even the most revenue challenged organizations.
7. As we analyze the data, one striking issue caught our attention. Nearly two-thirds of social service sector organizations are at risk of losing their top management talent. We believe that boards need to begin, if they have not already, a succession planning process. Mercadien can assist you in your strategic planning process and work with you to recruit your senior level employees.
8. Not surprisingly, when asked what type of technical assistance would be helpful, 70% of respondents indicated a need for strategic planning. Over the last half decade, our research

indicates that those boards who implement strategic planning have done markedly better than their peers.

9. We also note that 42% of respondents now recognize that a financial situation analysis would be of benefit to the organization. If you are interested in discussing this type of benchmarking analysis, please contact your Mercadien representative.
10. For the third consecutive year, the number of organizations indicating they would be able to meet demand has declined from a high of 90% in 2009, to 81% in 2010, and finally to a new low of 72% in 2011.
11. As noted in the Executive Summary, nonprofit organizations are seeing stabilization in revenue from all sources. Thirty-two percent, compared to 38% in 2010, of respondents receiving government assistance are expecting a decline. Nineteen percent, down from 28% in 2010, of those receiving federation, foundation and/or United Way revenue expect a decrease. Seventeen percent of respondents expect individual contributions to decline as compared to 23% in 2010. Among those receiving corporate giving and sponsorship revenue, 21% expect an increase compared to 2010. Those organizations who are dependent on event revenue expect a 32% event revenue decline, as compared to a 22% event revenue decline in 2010.
12. Stimulus funding appears to be making its way to New Jersey nonprofits as 18% of respondents reported receiving government stimulus monies, nearly a 100% increase from 2010.
13. We asked a number of health care related questions. As it relates to health care rates, whereas two-thirds of respondents expected rates to increase in 2010, 73% are expecting rate increases in 2011. This mirrors the private sector as well. Only 6% of organizations who are not currently providing health care indicate that they will now offer health care to their employees.

These are indeed challenging times for nonprofit organizations in all sectors and service areas. Nonetheless, those entities that can focus their efforts and harness their resources will be able to sustain, and even grow, their operations. Many organizational leaders are simply content and relieved that funding will stay about the same in 2011. However, the most successful entities will identify and move on opportunities that affect our current market conditions.

For nearly half a century, we at Mercadien have been supporting the nonprofit sector through educational programming, insight and financial acumen. When we say, "Nonprofit is a tax status, not a business plan," we mean it. We have worked successfully with some of the most progressive and respected organizations in the sector and would value the opportunity to meet with you to discuss your needs. If you would like to learn more about the services we provide, please contact Kim Vecchia at (609) 689-9700.