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Guest column: Mergers can help struggling nonprofits survive the pandemic

By Frank Williamson
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Nonprofits lend a helping hand to many vulnerable Americans by offering food, emergency medical care, shelter, social services, and a variety of other essential resources. Yet, as the pandemic continues to batter the economy, nonprofits are being hit with the crippling reality that their long-term survival might be in question.

With 30% of nonprofits failing within their first 10 years in existence during normal times, many organizations already have a hard enough time securing funding. The coronavirus has made that job more difficult, with the unstable economy leading to a sharp decrease in donations.

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Twenty percent of donors have halted donations completely, and another 53% are cutting back, according to a survey by Dunham and Co.

On top of that, with store closings cutting off regular sources of revenue, government funding being cut, and events being canceled, it's no surprise nonprofits are facing increases in employee furloughs and layoffs. According to Candid, tens of thousands of nonprofits are likely to close if there is no federal rescue package.

Nonprofit executives might be wondering what options are available to them, knowing that a decision will need to be made quickly. Although budget cuts might help in the short term, a more practical and lasting solution might be a merger with or acquisition of another like-minded organization. The perfect match could be another nonprofit, or even a for-profit company that shares some of your goals or does similar work.

A merger or acquisition is no casual thing. It requires months of planning and involves working through numerous knotty questions.

Some of these questions will be financial in nature. Will aligning with another company allow you to spend money more efficiently – such as on office space, accounting systems, or other overhead costs? Will the specialities of the partner organization complement the services you offer? Will a merger increase your nonprofit's access to resources, such as educational and training tools?

Finding a cultural fit is equally important. You should take a serious look at how your organizations would mesh. Does the other nonprofit's mission align with yours? If so, can both of you become more successful by combining?

Nonprofits are often led by a charismatic person with a public role related to the organization's mission. For certain personalities, it may not be appealing to become a subordinate to another highly driven leader. In a merger or acquisition, it might be possible to avoid conflict by giving the two leaders complementary roles, or for one to choose to leave the organization.

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Questions about the real benefits of a partnership become especially important when discussions of a merger or acquisition begin in earnest. Unlike for-profit businesses, charitable organizations don't have a single owner or ownership group to pay money to as part of a transaction. The success of a deal ultimately comes down to convincing the other nonprofit's leaders and trustees that it's the right thing to do to further the organization's mission.

My company recently assisted an educational nonprofit that was interested in a partnership with a small for-profit company that did the same work as one of the nonprofit's divisions. The for-profit company was owned by an entrepreneur who was seeking a new career challenge. To satisfy this request, the nonprofit offered the owner a reasonable amount of money and an important role in the merged company.

The merger made sense to the smaller company for other reasons – primarily, the opportunity to become more prominent in their industry and compete more effectively for government contracts. The merger ended up benefiting both organizations, and, more importantly, it also benefited the people the nonprofit helps.

In challenging economic times like these, the importance of your mission and the dedication of your staff can only help so much. If you want your organization to continue making a difference in the years to come, you should open yourself to the possibility of combining with another nonprofit.

Making the right strategic choice will allow you to weather the current storm of the pandemic, and maybe even thrive afterward, as well.

Frank Williamson is the founder of Oaklyn Consulting, a Tennessee-based consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession, and other strategic corporate finance decisions.