BOSS MAGAZINE

How a Merger or Acquisition Can Provide a Lifeline to Nonprofits During the Pandemic

By Frank Williamson

Many nonprofits face the challenge of securing funding, which has only been magnified by the COVID-19 pandemic and unstable economy. For struggling nonprofits, a merger or acquisition with a like-minded organization may be the lifeline they need to survive and emerge from the pandemic stronger.

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The twin crises of the coronavirus pandemic and resulting recession have financially strained nonprofits and charitable organizations, leaving many to question their long-term survival. The three main sources of income for nonprofits — grants, donations and the sale of goods or services — have also been negatively affected by the battered economy. According to Candid, tens of thousands of nonprofits are likely to close if there is no federal rescue package.

Nonprofits are the safety net of communities, providing essential resources and important social and cultural services not supplied by the government and business sectors. They are often founded to serve a narrow mission by social entrepreneurs—individuals or a small group of people with the vision and energy to create social change. While many of these organizations grow in scale and influence, a full 30% fail within their first 10 years of existence.

With business as usual on pause, nonprofit founders and executives might be wondering what they can do to maintain their organization's financial health and stability. Although budget cuts might help in the short term, a more realistic and lasting solution might be a merger with or acquisition of another like-minded organization. The ideal match could be another nonprofit, but it might also be a for-profit business that shares some of the same goals or does similar work.

How to approach the merger discussion

A merger is no casual process. It is complex, requiring months of strategic planning and clearing various hurdles. Nonprofit leaders should take an unbiased look at their mission, financial condition and overall impact before turning to a merger as an option to survive and thrive.

Here are key questions that nonprofits should explore when approaching the merger discussion:

- Are we the best entity to be doing what we do?
- Who are our competitors in this space?
- Could we expand our impact and improve operational efficiencies by merging?
- Would our stakeholders be better served by such a collaborative and strategic arrangement?
- Will our major donors support a merger?

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When a pandemic-driven merger is the right step forward

With America's nonprofits under enormous pressure, it's a natural response for them to be turning toward short-term solutions to address financial strains. However, a merger shouldn't be viewed as a short-term savings solution, as it requires upfront costs. Leaders should be thinking of long-term benefits when considering if a merger is the right step forward.

The organizations most likely to benefit from a pandemic-driven merger are those that:

- Overlap with or complement other organizations serving the same community or purpose
- Have barriers to organic growth, including asset-intensive missions and highly regulated markets
- Can identify opportunities to operate more efficiently with greater scale

Key metrics to consider when contemplating a merger

The most successful nonprofit mergers are the result of a strategic, forward-thinking planning process to determine how the merging organizations will align missions, cultures and operations. Ultimately, the merging organizations should will need to agree on how to become more effective by combining into one entity.

Here are a few key metrics nonprofits should consider when contemplating a merger:

- **Mission and culture alignment.** The mission and vision for both organizations should align and stay the same post-merger. Not doing so can add unneeded stress and disruption that can make the merger less successful.
- **Real costs.** Mergers typically cost more than anticipated due to upfront expenses and significant realignment expenditures. However, the combined organizations should be able to spend money more efficiently in the long term by integrating and reducing certain overhead costs, such as accounting systems, human resources, technology platforms and office space.

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- **Strengths and weaknesses.** Ideally, the two organizations in a merger should map their strengths and weaknesses oppositely in order to add value and capacity where there are gaps. The goal is to expand the organization's current offerings and value, so the skills and aptitudes gained from the merger should be more beneficial than hiring one or two experts in a certain field.

Complexities of a merger

As with every business transaction, there are complexities that come with merging two organizations. Being aware of these obstacles on the front end will allow leaders to proactively avoid or address the issues before they become problems.

Here are a couple of challenges to be mindful of before and during a merger:

Passionate leaders: As with entrepreneurial businesses, nonprofits are often built by a charismatic people who care deeply about their cause. They may feel displaced in a new configuration, making it challenging to combine two organizations with highly driven leaders. To alleviate some of the stress and pain, explicitly define and agree on the functions and roles of leaders in both organizations. They may be able to work in complementary roles in the new merged organization, or one may decide that it's time to step out. Both leaders must agree that their impact to society would be greater together than it would be separate.

No outside owner to make decisions: Unlike for-profit businesses, nonprofits don't have a single owner or ownership group to pay money to in exchange for control of the organization. The success of a deal ultimately comes down to convincing both organizations' leaders, staff and trustees that the transaction is in the best interest of the organization's mission.

An example of a successful merger

My company recently assisted a workforce nonprofit seeking to acquire a small, for-profit company that did the same work as one of the nonprofit's divisions. The nonprofit was looking to grow but winning new state government contracts in its industry was difficult for out-of-state companies. The for-profit company was

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owned by an entrepreneur looking to embark on the next chapter in her career, so the nonprofit offered her a reasonable sum of money and an important new role in the merged company.

The two organizations became a much bigger player in their industry by merging, allowing them to compete more effectively for government contracts and accelerate their mission. The partnership ended up benefiting both organizations and, more importantly, the people that the nonprofit supports.

The need for nonprofit services will not go away. In challenging economic times like these, organizations need to open themselves to the possibility of combining with another nonprofit in order to continue making a difference. Their mission, people and communities that they serve depend on it.

Frank Williamson is the founder of Oaklyn Consulting, a 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. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.