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In These Uncertain Times, Charities Need a Survival Plan

By David Fetterman

As the federal government faces the possibility of a shutdown later this month, it's increasingly clear that at some point Congress and the Obama administration will be forced to get serious about increasing taxes and making stiff cuts in programs that finance nonprofits and the people they serve.

No matter what political jockeying happens in the next few weeks, nonprofits need to realize that cuts will be coming eventually and it's time to develop a survival plan suited to new fiscal realities.

All organizations, whether they get direct government aid or not, are affected by the seismic changes in what taxpayers support and what donors will pay for. That's why it's crucial for nonprofits to reassess how they deliver services, what opportunities are most likely to shrink and expand, and how they demonstrate to their supporters whether they make a difference.

Here's what nonprofit leaders should do:

Keep in mind that survival requires smart and nimble action. Nonprofits that reassess how much it costs them to serve their community and stay in business are most likely to survive. They will also make calculated guesses and projections about:

- How much revenue will increase or decrease as a direct result of government contracts (or the reduction or elimination of government contracts).
- What working capital they will have available, especially if they receive direct government contracts and might see that money cut.
- How demand will change for services the group provides.

This reassessment will probably make clear to many nonprofits that they need to redouble their efforts to seek private aid.

But as they reach out to corporate and foundation grant makers, as well as individual donors, nonprofits must show a sense of respect and understanding about their own economic concerns.

The decisions Congress made in January are already affecting the checkbooks of many charity supporters. Middle-income donors have already faced the increase of 2 percent in the payroll tax, while people with incomes of \$400,000 or more are coming to grips with their new 2013 income-



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tax rate of 39.6 percent and a capital-gains tax increase from 15 to 23.8 percent.

Nonprofits must be sensitive to these new market conditions and should consider approaching donors for long-term planned gifts instead of making short-term requests for cash.

It is also time to abandon the mistakes many charities keep making: asking for money too soon, not asking for enough, or not asking at all.

The psychological impact of the Washington budget debacle has already influenced prospective donors who are worried about what will happen to their tax rates next.

That's why nobody can conduct business as usual. The groups that know this will not only survive, they will absorb the smaller, less efficient, and poorly prepared nonprofits.

Stop focusing on the charitable deduction. Nonprofits have spent a great deal of energy fighting proposals to limit charitable deductions as part of the federal effort to close the deficit. Charitable deductions are critical for high-net-worth donors. However, the debate is misleading and may be a disservice to many nonprofits if it is not placed in perspective

Charitable deductions are not the holy grail. Many donors never take the deduction because they earn too little to itemize on their tax returns. And even people who do take deductions don't give just for tax reasons. They give to causes they believe in. Make your mission as irresistible as the iPad so your appeals don't have to focus on tax motivations.

Give accountability and self-evaluation high priority. As government is forced to cut back, federal agencies and donors alike will be putting more pressure on nonprofits to provide services, and they will have higher expectations than ever.

In a time of scarce resources, demands for accountability increase: Programs will come under greater scrutiny to determine how efficient they are in spending and what results they achieve.

What's more, donors like to be associated with successful ventures that produce a measurable return on their investment.

So to survive in a more competitive environment for donations and government grants, nonprofits must show the value of their services. Nonprofits that fail to do so will lose credibility with clients and ultimately donor support.

However, higher expectations are not limited to traditional forms of accountability. Invite the people you serve, community representatives, and nonprofit staff members to participate in evaluations. Organizations that learn from their successes and failures continue to grow and innovate and will survive the economic and environmental challenges around them.

Come to grips with the nonprofit life cycle. The budget-cutting at the federal level should be an eye opener for nonprofits, because it is only an amplification of the normal bust-and-boom cycle of capitalism.

Nonprofits should always operate with this cycle in mind and think about their operations just like a diversified investment portfolio. They will need to view some services as loss leaders, others as cash cows, and still others as investments in new markets.

It's also important to think of the life cycle of a nonprofit's work.

For example, let's look at a group that offers child and family counseling services to a wide range of clients. It might decide that the services it provides to people in long-term-care facilities are no longer likely to be as financially viable because of changes both families and governments are making about their spending patterns.

But the nonprofit might decide it's time to expand programs to counsel people who are gay or transgender because the change in society's attitudes about gay rights means more people than ever are dealing with a whole new set of issues that are different from a decade ago, such as deciding whether to get married or adopt a child.

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Making this transition might take a shifting of funds from one program to the other and a shuffling of staff members. But nonprofits that begin to engage in this type of thinking, that focus both on the bottom line and changing community needs, are most likely to survive the shifts that will soon affect all nonprofits.

David Fetterman is a consultant on evaluation and director of the Arkansas Evaluation Center at the University of Arkansas at Pine Bluff. His new book is [Empowerment Evaluation in the Digital Villages](#) (Stanford Business Books).