

Some Thoughts on Start Ups and Mergers by Mike Sand, Sand Associates

Startups

As you know, this is not a good time to be running a nonprofit agency. Contributions from the four main sources of funds—government agencies, foundations, businesses, and individuals—are all decreasing. This is true while the needs of individuals in the community for services are increasing dramatically.

So what should an individual do who has no money but a “great idea” for helping the community?

How much money are we talking about? No matter what your idea, you will need start-up costs—development of by-laws, filing 501(c)(3) applications, incorporating, opening an office, hiring a program director and half-time secretary, purchasing computers, and arranging for telephone services. Very rarely will a new agency succeed without a start-up fund of less than \$50,000.

So my first advice is that no matter what your ideas for helping the community, do not even think of starting a new nonprofit unless you have \$50,000 in the bank.

But are there any alternatives? One viable alternative is to look for an agency sponsor. Find an existing nonprofit that already has an office and a staff. Look for one with a mission similar to yours. Meet with their executive director and board chair to discuss how you can work together.

Once you have a potential agreement, meet with the sponsoring agency’s board to discuss further how the two agencies can cooperate. Then put the agreement in writing. Include a specific time (perhaps a year) when the agreement will be reviewed.

You can then solicit funds and provide services. Donors will write the checks to the sponsoring agency with a note that they want the funds to be used for your program.

Mergers

Six agencies in one community serve individuals with AIDS/HIV. Does this make sense in this double-whammy time of limited resources and increasing community needs?

Let us even assume that these agencies serve different clients- perhaps one serves the Hispanic population and has a bi-lingual board and staff. while another serves the African-American population.

Consider a merger. Form a “merger review committee” consisting of the executive director and a board member of agencies considering a merger as well as an attorney. Discuss the advantages and disadvantages of a merger. The goal is to decrease administrative costs without diminishing services.

Think outside the box. Perhaps the board serving Hispanics could be renamed the “Hispanic services committee” and would have a representative on a newly-constituted board. Surely, funds could be saved since the new agency would have one executive director. Calculate potential savings in rent, utilities, equipment costs, and other expenditures.

Before any merger, make sure a draft merger plan is submitted to all staff and board members for their review. Make sure all agreements are in writing and are approved by all the boards involved. An attorney must be prepared to revise the necessary legal documents.

Once the merger has been approved, make certain the “merger review committee” continues to meet. Have the committee keep excellent records of how much money is saved by the merger. Make certain that client services do not diminish.

Board and staff members of many nonprofits which have merged say, “why didn’t we do this long ago?”

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