Use a Merger or Acquisition to Further Your Mission

Can a merger help you reach your goals? Ask yourself these questions to find out.

By Frank Williamson

Nonprofits are often founded with a single-minded mission by an individual or a small, well-intentioned group of people. Some of these organizations grow in scale and influence, many others start out modest and stay that way — and a full 30% fail within the first 10 years (nanoe.org/nonprofits-fail).

In today's chaotic world, what used to look certain about future levels of revenue is no longer guaranteed. For many nonprofits, their three main sources of income – donations, grants, and the sale of goods or services – have been diminished or cut off entirely. As a result, many nonprofit leaders are concerned about how to plan long-term.

So, how do you maintain your organization's financial health and sustainability in these worrisome times? The first step is taking a deep dive into your expenses and analyzing where you can make cuts.

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How much revenue do you expect to bring in this quarter and this year, and how can you ensure your operational costs don't exceed that number? Every area of an organization should be flexible in how it operates and be open to the idea of altering and improving its offerings.

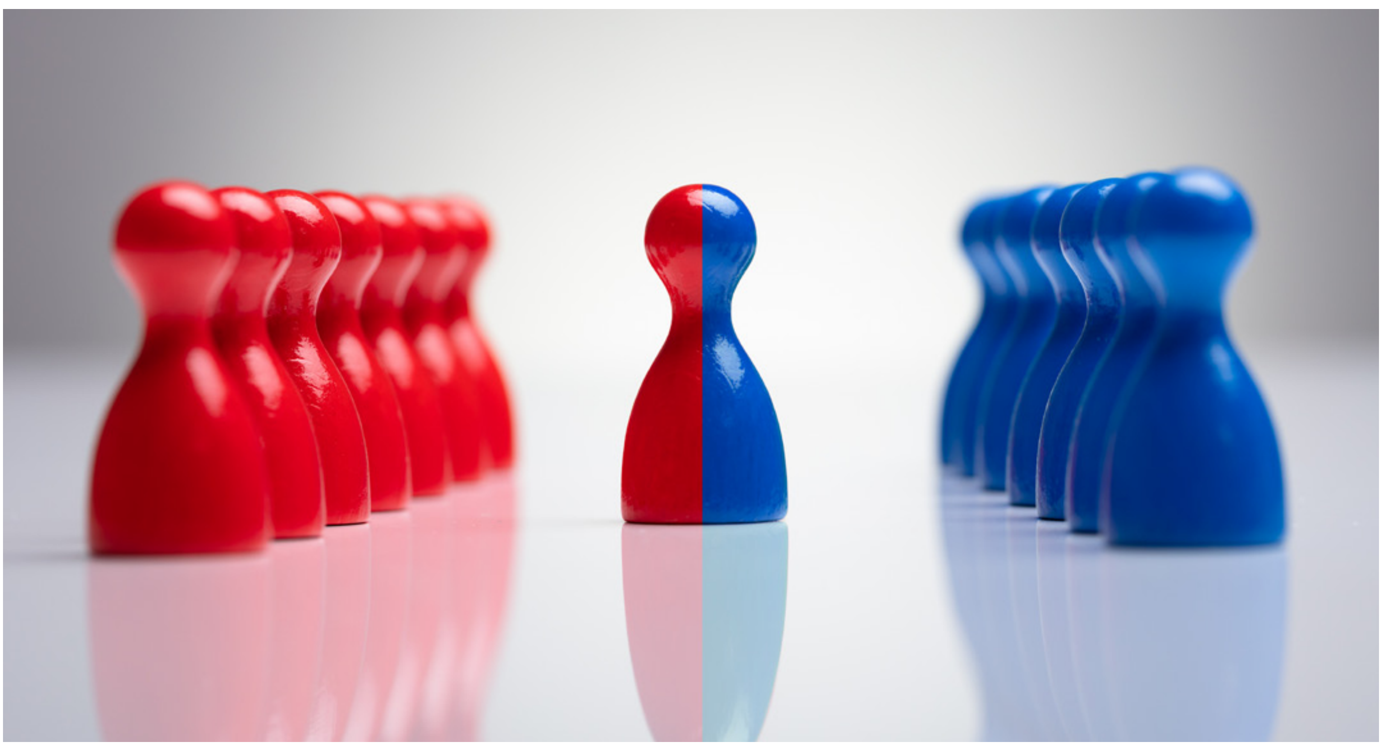
Sometimes, though, operating sustainably isn't possible with budget cuts alone, and that's when leadership should consider merging with another like-minded, purpose-driven organization. That could mean a fellow nonprofit, but it could also mean a for-profit company that does (or has a division that does) similar work to your organization.

What Can You Gain from a Merger?

Once you've identified a partner whose mission and culture align with yours, ask yourself this question: Can our two organizations be more effective by combining?

"More effective" isn't necessarily quantifiable, so use these metrics to determine whether a merger is the right step forward:

Will you spend money more efficiently? When cash flowing into an organization is low, it's imperative to decrease the amount flowing out. There are certain overhead costs –



accounting systems, human resources, office space, etc. – that can be easily reduced by combining two organizations into one.

Will you add new skills or aptitudes in a more effective way by merging than you could through hiring? Sometimes adding new skills to your organization can be achieved by hiring one or two experts in a certain field. However, it's an entirely different upgrade when you bring in a whole organization that complements and improves the work you're already doing. By expanding your skillset, you're ultimately expanding the organization's offerings and value.

Will a merger magnify your social impact? Charitable organizations exist to further a specific cause, so it's important that your merger is completed with that goal in mind.

What Are the Potential Problems?

There are complexities that come with merging two organizations. Being aware of them on the front end will help you address the issues before they become problems. Here are some challenges to keep in mind before and during a merger:

PASSIONATE LEADERS

Often, charitable organizations are built around the vision of a single, charismatic person who cares deeply about a particular cause. It's part of what makes those nonprofits successful, but it can also make it challenging to combine two organizations with highly driven leaders.

In the end, both leaders need to agree that their impact to society would be greater together than separately. To avoid conflict, the two leaders can work in complementary roles in the new combined organization, or one may decide it's time to step down.

NO OUTSIDE OWNER TO MAKE DECISIONS

Unlike for-profit businesses, charitable organizations aren't owned by any person or group of people, so there's no one to pay money to in exchange for control of the organization. With that in mind, each organization must convince the other's leaders and trustees – those with the legal and fiduciary responsibilities of the organization – that the transaction is a good idea.

Because there's typically no exchange of money during a nonprofit merger, using "a higher price for the seller" as a persuasion tool is off the table. Instead, the organizations must convince each other that the transaction will enable both parties to advance their missions more effectively than they could independently.

Example of a Favorable Merger

My company recently assisted a nonprofit organization seeking to acquire a small, for-profit company that did the same work as one of its divisions. The nonprofit was looking to grow, but in its particular industry, winning a new government contract is relatively challenging. The small company was owned by an entrepreneur who wanted to move to the next chapter in her career, so the nonprofit offered her a reasonable sum of money and created a prominent role for her in the combined organization.

By merging, the two organizations became a much bigger player in their industry, allowing them to apply more effectively for contracts and accelerating their mission. The entrepreneur was persuaded by the satisfactory, ongoing relationship to combine her company with the nonprofit.

Keep the Goal in Mind

In the end, charitable organizations operate like for-profit businesses in many ways: In good times and bad, the goal for both is to keep revenue higher than expenses. If your organization is struggling to make ends meet with internal budget cuts, consider a merger or acquisition to continue achieving your mission with more tools in your belt.

Frank Williamson is the founder of Oaklyn Consulting (oaklynconsulting.com), a consulting firm that helps with mergers, acquisitions, capital-raising, investor relations, succession, and other strategic 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.

Gain Financial Health

Whether you're seeking financial stability through merger, collaboration, or better budgeting, there are resources to help you at NonprofitWorld.org: