Resource/Cost Management Strategies to Support Sustainability

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Nonprofit and public organizations working toward long-term sustainability of health, education, social service and other community service programs often focus on cultivating new sources of revenues. However, following the old adage that "a penny saved is a penny earned," it is just as important to manage resources so as to control costs and stretch dollars as far as possible. This research brief presents nine proven strategies that have been used successfully by education and human service agencies around the country to manage resources and costs.

Cost Management Strategies

1. Convert fixed costs to variable costs
2. Change policies for expense line items
3. Change suppliers or ordering patterns
4. Streamline operations
5. Obtain in-kind support
6. Collaborate for cost sharing
7. Outsource organizational functions or activities
8. Re-design the organization or components
9. Defer or eliminate discretionary costs

Strategy #1: Convert fixed costs to variable costs

The key to this strategy is structuring costs so that they go up or down according to the extent to which a resource is needed and used, rather than having to pay a constant amount regardless of the usage. Following are examples of this strategy in action.

HelpSource, the largest family services agency in the Ann Arbor, Michigan area, uses independent contractors to provide family counseling services and outpatient substance abuse treatment services. Counselors are paid an hourly rate for each hour of service delivered that is less than the average revenue per hour generated from these services. In this way, if client volume slows down, the agency is not locked into paying a fixed salary and costs remain in line with revenues. They use a similar approach to manage group events like community education events that are done infrequently.

A family resource center in Santa Barbara County had training/meeting space that was used infrequently. To reduce fixed costs, they subleased the space to another organization that converted it into small offices and then rented space on an as-needed basis from other local community facilities to conduct larger group events. This reduced ongoing costs for the FRC and had the added benefit of increased partnership with other community groups.

Leasing rather than buying equipment that is used in varying volume levels is another form of this strategy. Leasing of copiers is a common example. Some copiers can be leased at a low monthly rate (with maintenance and supplies included) plus a per-copy charge for copies made above a set threshold. This enables the monthly costs to remain low when copier use is limited, with higher costs only paid in months where extra printing is needed, and can help produce a more sustainable cost structure. The same concept can work for other types of equipment.

Strategy #2: Change policies for expense line items

The typical way in which this strategy is employed is to simply add more restrictions – for example, more requirements or approval steps – to make it harder to spend money. The most common example is imposing restrictions on training and travel activities. While this can help control costs, it can also introduce inefficiencies into operations that outweigh the benefits of the cost savings. Following are more creative and effective ways to apply this strategy.

Employee benefit plans, especially medical insurance, are notorious for imposing double-digit annual cost increases. Many organizations have regained control over these costs by changing benefit policies in one or more of the following ways:

1. Change insurance benefit plans to use a higher deductible and/or co-pay to reduce costs.

2. Change the percentage of insurance premiums paid by the organization.

3. Change policies to motivate staff to take lower cost benefit options, such as paying a higher percentage of premiums for lower-cost HMO plans than for other plans.

4. Move to benefit plan structures and policies that allow the employer to contribute pre-determined fixed amounts to the benefit plan while allowing the employees a significant amount of flexibility in using those dollars to their maximum effect. These are known as "defined contribution plans." One approach is using Health Reimbursement Arrangements (HRA), also known as Section 105 plans (after the IRS code section that authorizes this type of plan). Under an HRA, the employer sets aside a pool of dollars for each qualifying employee to use in paying health insurance premiums and out-of-pocket medical costs. The employer can set the policies to determine who qualifies for an HRA, the dollar amount to contribute (which can vary by staff level or other criteria) and other parameters.

5. A variation on the previous approach is for employers to use an HRA together with paying for major medical insurance with a high deductible. This allows the insurance premiums – and annual cost increases in the premiums – to be minimized while giving employees some resources to cover out-of-pocket medical costs up to the point that the deductible is reached.

Rather than simply slashing staff access to training, make greater use of online training programs, including web conferences, for staff development in order to cut associated travel expenses.

Loan guarantees can be used to lower interest costs on facility development/improvement. One option is the California Mortgage Loan Guarantee Plan, known as the Cal-Mortgage Program, which helps health care facilities obtain private capital to expand health care services in communities across the state. The state office of statewide health planning and development runs the program, which guarantees up to 100 percent of the cost of constructing, acquiring, or renovating health care facilities. Cal-Mortgage also offers insurance instruments to help secure financing for equipment. It defines "health care facilities" broadly, and eligible institutions include hospitals, laboratories, health clinics, nursing homes, public health centers, mental health centers, adult day health centers, and drug treatment centers. All applicants must demonstrate that they are filling a community need. The program backs these loans with the "full faith and credit" of the state, a guarantee that permits borrowers to obtain lower interest rates. More information is available online at http://www.oshpd.cahwnet.gov/calmort/. The Low Income Investment Fund (www.liifund.org) provides similar assistance for child care, education and other community facilities.

Strategy #3: Change suppliers or ordering patterns

Some examples of this strategy in action are:

- Go out to bid on employee benefit plans on a regular basis rather than being bound to staying with one health plan or insurance carrier. While many employers are hit with 15-25% annual increases in their insurance premiums, Social Entrepreneurs Inc. has kept its total cost increase over the past nine years combined to about 50% while maintaining a comparable level of coverage by going out to bid for medical and dental insurance coverage every two years.

- Public and non-governmental agencies alike have been successful in controlling costs by getting annual bids for phone service, office and general liability insurance, printing, audit and accounting services, website hosting and other key services, and changing vendors when comparable services are found at a lower cost.

- Bulk purchases can make a big difference in reducing the cost of supplies and materials, especially when an organization has some storage space available to store excess supplies. With Internet ordering now available for almost any commodity from suppliers with large warehouses and low overhead, purchasing in volume (e.g. quantities to last six months) and obtaining multiple quotes can often save 25% or more compared to purchasing month-by-month.

Strategy #4: Streamline operations

Streamlining can be highly effective in producing lower costs that are sustainable year after year. Some examples of approaches that are being used successfully are:

- Tap into Corporation for National and Community Service resources. The AmeriCorps, Volunteers in Service to America (VISTA) and Learn and Serve America programs provide a relatively low cost way to augment staff resources for conducting and sustaining services for children and families. The AmeriCorps and VISTA programs, along with the Community Service Employment for Older Americans program, have been significantly expanded in 2009 and may offer especially attractive opportunities to cut personnel costs without completely losing critical staff positions.

- Heads Up in Washington, D.C., seeks to advance the leadership and community service skills of the young people who serve as program tutors and mentors. The initiative provides children from low income neighborhoods with afterschool tutoring and mentoring and a summer learning program. A valuable cost-saving strategy used by this organization has been to tap into youth employment funds, such as the federal Work-Study program and the summer youth employment program (recently expanded as part of the 2009 federal stimulus package), to help subsidize tutor wages. The program was also able to earn subsidies for eligible students in the process.

- Install more energy saving devices to lights, cooling-heating systems, etc.

A further step is to explore substitutions between a costly input and other inputs that could serve the same function. Economists call this “factor substitution.” For example, consider whether computer technology can substitute for physical space by storing records electronically and destroying paper records or moving them to a remote location. Some agencies have allowed staff to telecommute rather than work regularly in an office in order to reduce office costs and, in the case of personnel conducting home visits or other types of community outreach, even reducing costs for mileage reimbursements by cutting the number of miles that a staff person must travel.

Strategy #5: Obtain in-kind support

In-kind contributions can play a major role in cost containment, providing much needed resources from supplies to staff time to facilities. One way to identify potential in-kind contributions is to map your community's assets and then examine how they can apply to your program's needs. In-kind contributions can come in the form of donated supplies from local stationary stores, donated time and expertise from community members, evaluation support provided by university students and a variety of other ways. Not only will such in-kind contributions decrease your program's direct expenditures, but they can be considered as matching funds for programs and grants that require a local contribution. A few examples of the effective use of in-kind contributions are:

- Many school districts around California, and indeed around the country, provide other community-based programs with access to staff, facilities, and transportation resources for activities that support the ability of children to succeed in school. One example is a private preschool in Lone Pine, CA that operates on a school campus.
- Heads Up in Washington, D.C., noted earlier in this brief, has been able to operate in unused or underused classrooms in neighborhood schools, enabling the program to reduce overhead costs.
- Girls, Inc. of New Hampshire has been able to use a local Veteran's building for years without paying rent; the agency is only responsible for paying utilities.

Strategy #6: Collaborate for cost sharing

Opportunities to reduce costs by collaborating with other agencies are limited only by the imagination and willingness of local organizations.

One option is to compare the cost of purchasing frequently used supplies and materials with community partners, and set up purchasing pools with low-cost vendors that enable a consortium of agencies to obtain quantity discounts by agreeing to order from the same vendors.

Another highly effective option is to share space, equipment or staff. In Sierra County, California, a library and children's center agreed to co-locate in a building that is housed on a school campus. The different organizations share building and maintenance costs, producing better facilities at a much lower cost than any of the participating agencies could afford on their own. As another example, the Kaleidoscope after-school program in Monongalia County, West Virginia set up a public/private partnership where the school district provides transportation and administrative support (utilizing existing infrastructure with a minimum of additional costs required) and local nonprofit organizations provide services for children using sources of funding that are not available to the school district.

In general, this approach raises the question of whether an organization can become more efficient by expanding or by combining its operations with other organizations in order to create what economists call economies of scale. Savings are created by spreading the fixed costs of infrastructure over greater levels of production or output activity. For example, two or more organizations may find they can operate more efficiently if they share office functions such as receptionists, copying, telephone service, libraries, rather than functioning separately at smaller scales. Possibilities under this approach range from cooperative agreements or contracts among completely autonomous organizations, to formal partnership agreements, to full consolidations or mergers of organizations.

The emergence of Proposition 49 After School Education and Safety (ASES) programs in California offers a new opportunity to collaborate. The ASES Program funds after school education and enrichment programs throughout the state. Aimed at providing academic assistance and safe, constructive activities for students in kindergarten through grade nine, these programs are created through partnerships between schools and community-based organizations. Although ASES funds cannot be used to serve pre-kindergarten age children, early childhood development programs and family support programs can coordinate with ASES programs to share resources – helping the ASES program meet their requirements for local cash and in-kind matching resources – while leveraging these after-school programs as a means of reaching families. Further, ASES programs are one of the few school-linked programs not facing imminent budget cuts in California's current state budget crisis.

Strategy #7: Outsource organizational functions or activities

Outsourcing is a strategy to manage costs by shifting specific functions – generally, administrative functions – to an outside entity that is able to provide the function more cost effectively. It is most common to outsource payroll, accounting, program evaluation and information technology (IT) support. Some agencies outsource human resource administration, including employee benefits administration.

A specific example of outsourcing is found at the California Family Resource Association, based in Sacramento. This statewide association for Family Resource Centers and the field of family support in general, outsourced many of its administrative functions (accounting, investments, human resources, legal support, insurance and others) to the San Francisco Foundation through the Foundation's Community Initiative Funds project. Doing so enabled the association to get a comprehensive set of management support services at a fixed percentage of revenues, with access to experts in the fields of finance, human resources, nonprofit law and so on.

A similar type of arrangement is available through Tides Center (www.tidescenter.org), which provides management support services to over 100 organizations around the country, primarily in California.

Strategy #8: Re-design the organization or components

Re-design involves more extensive restructuring of an organization in order to produce a more effective collection of program and services at a cost structure that is sustainable. An example of this comes from the North Carolina Northwest Three Afterschool Consortium (NC NW 3), which provides comprehensive afterschool programs for low-income and rurally isolated youth. Acting as a local intermediary for three Appalachian school systems in Alexander County, Alleghany County, and Caldwell County and for other local partners, NC NW 3 supports afterschool programs that integrate academic enrichment, diversity appreciation, cultural arts opportunities, fitness-focused resiliency building, and family involvement services for third through eighth graders. The consortium was initially established as a way for seven rural Appalachian counties to pool their resources and successfully apply for a federal 21st Century Community Learning Centers grant in 1999. Since then, NC NW 3 has worked to consolidate the management of afterschool programming so all three counties can make more efficient use of limited resources. The consortium, for example, helps the counties prioritize program areas for which they will seek funding, and it helps the counties prepare grant applications. For each grant application, consortium staff members determine which partner is most appropriate to act as a fiscal agent. The consortium also pools local resources and talents, and it arranges for the counties to share management, administration, staff development, and evaluation tasks required by each grant.

Another form of this strategy is to scale back or eliminate programs with costs that exceed available revenue sources by a significant enough degree as to not be sustainable for the organization. In some cases, it is possible to transition programs to or consolidate programs with another agency better suited to provide those services in the most cost-effective manner. In other cases, it may be necessary to make the difficult decision to eliminate those services entirely in order to concentrate limited resources on other services that can be sustainable.

The most extensive version of this strategy is a merger, where two or more organizations combine together and restructure operations to form one consolidated organization. National organizations have been the most active in using this approach by consolidating many of their local affiliates into larger entities; for example, the Alzheimer's Association went from more than 300 affiliates to less than 90 from 2001 to 2006, and the Girl Scouts of America and several other national organizations are going through similar restructuring. As noted in an April 2009 report by the Foundation Center, "although a merger can be a long, complicated, and emotional process for a nonprofit resulting in the loss of leadership from one or both of the original groups, in the long run they can result in financial stability and save organizations from having to close outright.

Mergers are becoming an increasingly attractive option for many nonprofits that are struggling with reduced staffing and resources as a result of the economic crisis. According to a recent Bridgespan Group report, 20 percent of responding nonprofits said mergers could be a solution to their financial difficulties." Further evidence that this is not a new or untested strategy is found in a more in-depth Bridgespan Group study of 3,300 nonprofit mergers which revealed that mergers in the nonprofit sector have historically occurred at the same rate as business mergers.

Public agencies have similar options to perform "internal mergers" by consolidating programs or entire departments within a County or State government structure.

Strategy #9: Defer or eliminate discretionary costs

The strategy of "do without" should be a last line of defense to keep costs under control but remains an option that must be considered. A couple of examples of less painful ways to "do without" that can be considered include:

- If the organization sends out printed materials such as newsletters, resource guides or other publications, scrutinize mailing lists to limit distribution to the most important stakeholders in order to cut printing, mailing and related staff costs. A caveat here is to not be too short-sighted about such cutbacks; for example, be sure to maintain strong communications with major donors and partners. An alternative may be to switch to online publications and electronic distribution of materials.

- Reduce or eliminate use paper/plastic plates, cups and utensils; ask staff to provide their own such items (e.g. to bring washable plates and cups).

With creative thinking and scrutiny of every expense line item, more opportunities to cut discretionary costs are likely to be identified. At the same time, the other strategies presented in this brief, used consistently and effectively, will often eliminate or at least reduce the need to simply do without.

This brief was developed by Social Entrepreneurs, Inc. (SEI). The mission of SEI is to improve the lives of people by helping organizations realize their potential. To learn more SEI and our many services, please contact us at:
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