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The merger wave that never broke

By Christina Le Beau
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When the economy began tanking, a buzz of merger predictions ran through the non-profit world. With resources shrinking and too many organizations competing with each other, the time seemed ripe for consolidation.

But nationally that hasn't happened, at least on the scale predicted.

Many non-profits are "intrigued" by mergers, says Jean Butzen, 52, president of Mission Plus Strategy Inc., an Evanston consultancy that advises on such deals. That's supported by data from the Boston-based Bridgespan Group, which in both November and May found that about 20% of non-profit leaders were considering mergers or acquisitions to weather the recession.

Yet a March survey by the New York-based Nonprofit Finance Fund found that only 5% of the 986 organizations asked had actually merged or intended to merge.

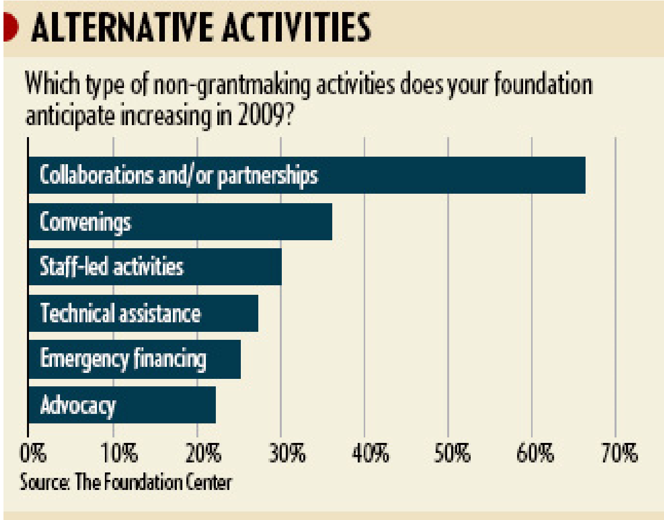
Many are daunted by logistics. And cost: A merger can cost $250,000, depending on the size of the non-profits and what's involved.

One problem, Ms. Butzen says, is there isn't enough foundation money available for mergers, even though funders clearly have an interest in tightening operations. (The IRS reports there are almost 1.2 million charities and foundations in the U.S.)

"There's definitely a sense among donors that there are far too many kinds of organizations doing the same kinds of things," she says. "This could be an opportunity to clear the slate and ask, 'If we had the chance to start over, would we really re-create what exists today?' I doubt it."

The Chicago Community Trust is among those groups that do offer merger funding, but interest in the grants hasn't been as high as expected, CEO Terry Mazany, 53, says. "I suspect that the burdens on non-profit leaders are so great that they can only focus on immediate needs."

There are notable exceptions locally. The United Way of Suburban Chicago and the United Way of Chicago merged in 2004 to create the regional organization United Way of Metro Chicago, consolidating 54 entities and saving more than $3 million annually, it says.



For such groups, thinking strategically has been more effective than viewing consolidation as a fallback in a financial crisis.

"There's an old joke that nobody wants to do a merger until they can't make their second payroll," says David McConnell, 61, executive vice-president and chief financial officer of Kids Hope United, a Chicago youth-services group that has more than doubled its revenue through several acquisitions in the last decade. "But by then, organizations are so damaged that others don't want to acquire them."

When Bethel New Life Inc., a Chicago community-development group, wanted to divest its supportive-housing operation (which was losing $50,000 a month and missing occupancy goals), it found a partner in the Chicago Christian Industrial League, which serves the homeless. Planning ahead made the June transition go smoothly, says Richard Townsell, Bethel's executive vice-president and chief operating officer.

"Work on your board of directors as early as possible. Show how families will continue to be served," he says. And "have a transition team from each agency meet weekly to iron out any issues."