

**Nonprofit Outsourcing Workshop**  
**Westchester Nonprofit Summit**  
**May 10, 2010**

- ❖ Nonprofits' service demands are rising, management complexity is increasing, revenues are shrinking
- ❖ Focus on fundraising only partial answer: cost savings & more efficient management are crucial
- ❖ Mergers, Shared Services & Strategic Alliances are frequently cited strategies for cost savings
- ❖ City of NY Task Force on Strengthening Nonprofits under Deputy Mayor Linda Gibbs is identifying cost-savings strategies
- ❖ Growing interest in **OUTSOURCING: Delegating key management areas, especially "back office" services,\* to outside contractors/vendors for a relatively long term, in order to lower costs and improve quality**

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\*E.g., IT, Bookkeeping & Financial Management, Communications & Marketing, Purchasing, Real Estate Management, Fundraising, Risk Management, Legal Services, Employment & HR

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❖ **2009 Meyer Foundation-Management Assistance Group  
Report on Outsourcing\***

- Can reduce operating and capital costs
- Can increase organizational impact
- Can improve management effectiveness and flexibility
- Offers access to technology, skills and insights not otherwise available or affordable
- Especially promising for small and mid-sized nonprofits
- Not easy: providers sometimes hard to find & vet
- May cost more in short-run, but can save in long run

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\*Leach, Mark, *Outsourcing Back Office Services in Small Nonprofits: Pitfalls and Possibilities. A Study Conducted by the Management Assistance Group in Partnership with the Eugene and Agnes E. Meyer Foundation*, Washington, D.C. (September 2009): PDF file available at [www.meyerfoundation.org/outsourcing09](http://www.meyerfoundation.org/outsourcing09)

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❖ **Advantages**

- Tap expertise, experience and economies of specialized providers
- Reduce (not eliminate) scarce time, money, attention devoted to back office administration
- Focus more attention on mission-related activities & results

❖ **Caveats**

- Providers must be selected – & services performed – well & within legal and regulatory requirements
- Due diligence required to monitor providers' cost-effectiveness, quality & efficiency throughout service contracts
- Boards & senior management must be involved in oversight & retain legal, fiduciary and program responsibilities
- Periodic evaluation advised

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❖ **NONPROFIT OUTSOURCING CLEARINGHOUSE:**  
NPCC-Sponsored Program to Help NYC-area Nonprofits  
(NYC, Long Island & Westchester). **Goals:**

1. **Assess nonprofits' needs & capacity** to outsource key back office operations
2. **Vet outsourced services providers/vendors**
  - Contact information
  - Delivery capacity/sustainability
  - Pricing (including discounts, sliding scales, etc.) & comparable costs
  - Quality indicators (including customer satisfaction history)
  - Track results metrics
3. **Market / Help Create outsourced services**
4. **Stimulate Greater Use of Outsourcing by Nonprofits**

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❖ **WORKPLAN & RESULTS**

**1. Survey nonprofits**

- Interest
- Need
- Potential demand
- Prior experience

**2. Survey providers**

- Contact information
- Delivery capacity & track record
- Pricing/discounts
- Quality indicators
- Results metrics
- Customer satisfaction

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- 3. Build free, publicly-searchable database of NYC-area outsourcing providers**
- 4. Select 50 NPs for customized assessment & support**
  - RFP to all area nonprofits
  - Size, mission & geographic diversity
  - Hands-on help assessing needs, capacity, costs, quality
- 5. Match at least 25 NPs with providers**
- 6. Track 12-month results (savings, management improvements, etc.)**

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**7. Create Nonprofit Guide to Outsourcing Services**

- Key steps
- Assessment, vetting & monitoring criteria
- Tracking results data
- Reporting

**8. Build critical mass of experience & information**

- User groups
- Information sharing
- Stimulate greater demand

**9. Publish *Report* with recommendations**

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❖ **Tips on Outsourcing for Nonprofits**

- Become better consumers by getting educated about outsourcing
- Investigate outsourcing options thoroughly
- Be realistic about what it really takes to manage your organization well and fund your mission
- Calculate current management costs for back-office services and the cost of not doing them or not doing them well
- Discuss possible outsourcing arrangements with providers
- Discuss these costs and possible funding for outsourced services internally, with your Board and with funders

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❖ **Questions to Ask Yourself: Why Are We Outsourcing?**

- Do we lack appropriately trained staff?
- Do we lack time, money, or a qualified person to adequately train existing staff or hire the right person?
- Are we looking for a way to save money? Will hiring a payroll specialist cost more than outsourcing to Paychex?
- Do we know our current management costs for back-office services and the cost of not doing some of them or not doing them well?
- Is this a way to gain expertise that doesn't now exist in our organization?
- Is this a way to shift some of the liability on responsibilities we don't understand?
- Are we looking for economies of scale: joining with a larger entity to receive better and enriched benefits?

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❖ **Vetting Outsourcing Providers: Questions for a Potential Outsourcing Provider**

- Exactly what are you providing? What is the scope of your service -- in detail?
- How long have you been in business?
- Where are you based: NYC, Westchester or elsewhere?
- How many nonprofit clients do you serve in my city, sector, and organizational size?
- Who are some nonprofit clients of similar size and complexity to my organization? May we have their contact information?
- How many employees do you have?

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❖ **Vetting Outsourcing Providers: Questions for a Potential Outsourcing Provider**

- How many of your employees are available to serve my organization? For example, is there a “pod” of payroll clerks working as a team, all of whom can service our account? Or is there one person alone?
- What’s the turnover rate for employees?
- What’s the “food chain” -- if you have a problem how does it get resolved (in detail)?
- When was last price increase for services?
- When is the next one anticipated?
- Can we see your company’s financial statements?
- How sustainable is your organization? Will you be here in 5 years?

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❖ **Vetting Outsourcing Providers: Questions for a Potential Outsourcing Provider**

- Where does liability fall? For example, if there is a mistake in the payroll taxes filed and remitted by Paychex, who pays the penalty?
- What is the company's billing policy? (30 days net, funds pulled from checking, etc.)
- How are problems resolved?
- Who are your company's competitors?
- Does service require a long term contract or does it allow month-to-month service?
- If a contract is required, what's the typical length of service? What's the termination process?

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