Guide to Better Communication about Full Cost

One conversation at a time, funders and nonprofit leaders can deepen everyone’s understanding of what it takes to align resources with the results we all want to see. This guide offers tips on how to better communicate about covering the full cost of creating positive change in our communities. Following are four scenarios with examples for how to have better conversations.

Advice for Every Conversation

**FUNDER**

- Create a safe space by listening and building trust – and remember that trust is built slowly over time
- Set the tone for open dialogue and honest conversation
- Avoid making assumptions
- Remember that both debt and deficits can be a result of strategy
- Be transparent about your strategy, values, and internal processes
- Know that we are all on the same team in our desire to benefit and positively impact the community

**NONPROFIT**

- Be open to questions – they help build deeper understanding
- Avoid making assumptions
- Have a strong organizational strategy and communicate it clearly
- Own your financial story and tell it with confidence
- Don’t be afraid to ask for something different or reject something that doesn’t work
- Know that we are all on the same team in our desire to benefit and positively impact the community
Scenario 1: “Why did you run a deficit in the last two years?”

Funder wants to ...
- Understand the organization’s challenges/opportunities
- Elevate any issues that haven’t yet been disclosed

Nonprofit leader worries about ...
- Sharing challenges faced
- Whether the inquiry may prohibit funding

NEW APPROACH

**FUNDER**
- Create a safe space and withhold judgment
- Rephrase question to demonstrate concern for the organization
- Communicate awareness of difficult sector dynamics the organization may face

**NONPROFIT**
- Clearly articulate challenges and plans to address them
- Ask how funder views deficits

“I have a number of grantees who had deficits in recent years – some because of a tough fund-raising environment, some because of a strategic choice. I’d like to hear more about your last two years of deficits. What was their cause? How have they impacted your organization?”

“We lost two key funders when they changed their strategies. We cut expenses in the following ways… and we are seeking new funding in the following ways… Thankfully, we have been able to draw down our reserves as we develop new funder relationships. When your foundation sees a potential grantee with a history of deficits, how does that impact your thinking and decision-making?”
Scenario 2: “We reviewed your proposal and would like to offer you funding; please cut your budget from $100,000 to $50,000.”

Funder wants to ...
- Support organizations having community impact
- Spread funding to more organizations
- Set realistic expectations for funding within the foundation’s available budget and priorities
- Avoid being sole funder

Nonprofit leader worries about ...
- Damaging the funding relationship and future opportunities by rejecting funding
- Compromising the viability of the work by accepting less funding, resulting in unfunded expenses and/or programmatic or organizational failure

NEW APPROACH

FUNDER
- Explain why a budget reduction is being requested
- Allow organizations to adjust their deliverables to meet funding available

NONPROFIT
- Adjust committed outputs to reflect offer
- Consider rejecting funding that doesn’t cover full costs

“We won’t be able to fund your full ask because of our internal budget constraints. We can probably fund $50,000, and of course we would only expect $50,000 of work. Would you be interested in putting together a revised budget and deliverables based on a $50,000 award?”

“Yes, let me talk with my team about how we might adjust. There are some upfront costs that remain the same no matter how many [units of service] we deliver, so you will likely see deliverables reduced by more than 50% in the revised proposal.”
Scenario 3: “You have surpluses and over $100,000 in unrestricted cash. Why do you need additional funding?”

**Funder wants to ...**
- Get clarity about current financial practices
- Understand value-add of the grant

**Nonprofit leader worries about ...**
- Organizational needs going unmet

**NEW APPROACH**

**FUNDER**
- Acknowledge of the benefit of surpluses, unrestricted cash, reserves, working capital, etc.
- Attempt to identify a purpose or need for the unrestricted cash

“I was really impressed that you have been able to generate surpluses, and I noticed you have built up your unrestricted cash. I’d love to hear more about how you are thinking about this cash and how it supports your mission.”

**NONPROFIT**
- Provide a definitive explanation for purpose of unrestricted cash (working capital, reserves, etc.)
- Share strategy for using surplus/unrestricted cash (working capital, reserves, etc.)

“Thanks! It has taken lots of work by staff and board to build up that safety net. $60,000 is used to manage our receivables. We have many reimbursement-based contracts that require we do the work upfront before being paid. $40,000 is a board designated reserve for facility repairs and upgrades. Our goals to save another $200,000 over the next 5 years to replace our roof and HVAC system.”
Scenario 4: “Why should we change the way we structure this grant for your organization? Other organizations have been able to comply with the terms offered.”

**Funder wants to ...**
- Be able to answer to foundation trustees regarding success of grants
- Maintain program integrity
- Assess desired outputs/outcomes

**Nonprofit leader worries about ...**
- Losing funding and/or damaging funding relationship
- Not being able to meet terms and/or properly serve the community

**NEW APPROACH**

**FUNDER**
- Remember organizations doing direct delivery may offer substantial insight into helpful restructuring
- Be open to new ideas
- Emphasize the need to meet own philanthropic mission and answer to trustees

**NONPROFIT**
- Offer strong evidence of desired outcomes
- Be prepared to walk away/seek other funding

“I want to hear about your needs and how we can better structure the grant to meet them. I’d like to do what I can. I also want to be clear that I can’t make that decision unilaterally, and would need to get buy-in from our CEO, the board of trustees, and …”

“We appreciate your willingness to hear our proposal and recognize that what we are asking may not fall in line with this particular grant; however, we believe that we can provide greater outcomes with the following adjustments: X, Y, and Z. Here’s why …”