

## ***Navigating a Nonprofit through Turbulent Economic Waters***

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### *Remarks as Prepared for Delivery*

A little over a year ago, when I accepted the position of President and CEO of the American Red Cross, I was hoping to work in an organization that makes a difference. And I was seeking a leadership challenge:

Boy.... Have I been challenged!

Eight named hurricanes and tropical storms in my first few months, a record tornado season, the worst wildfires in California history and the worst flooding in the Midwest in 15 years.

We also had an operating deficit of \$209 million and a mandate from our Board of Governors to eliminate it in 2 years. And last but not least, I joined the Red Cross shortly before our country entered into a recession, which is causing more and more people to seek help from non-profits at a time when it's more and more difficult to raise funds.

Please don't get me wrong; I'm not complaining. I believe that I have the best job in the world and I'm truly humbled by it. I pinch myself every day because I feel so fortunate to be able to serve in this remarkable institution.

And let's face it; the Red Cross is not alone: these are very challenging times for the entire country and for all of America's non-profits.

- *Giving USA*, a philanthropy research organization, reported that donations to nonprofits are down by 5.7% in 2008
- That's the biggest decline in more than 50 years, down more than \$6B from '07
  - Corporate donations are down 8%
  - Foundation grants are down less than 1%
  - Individual giving is down 6.3%
- The Chronicle of Philanthropy reported last month that the problem is getting worse in 2009

These are certainly interesting times in which we live!

A few months ago, the Washington Post asked a group of economists, politicians, labor leaders, CEOs and non-profit leaders to share suggestions for books to read that are relevant for these times. When I was asked this question, I thought about it for a while. I

gave serious consideration to the usual suspects: business books, philosophy books, history books.

I wound up suggesting 2 classics by Louis Carroll: *Alice's Adventures in Wonderland* and *Thru the Looking Glass*.

In the first, Alice finds herself in all kinds of curious predicaments; in her own words, "curiouser and curiouser". It's a world where your sense of reality fails and nonsense becomes the norm. In *Through the Looking Glass*, she finds herself in a place where she has to go in the opposite direction to get anywhere.

Here's why I picked these books. In these times, it's often wise to consider moving in the opposite direction away from the herd. And, as strange as the world has become, even falling down the rabbit hole can offer unexpected delights. As with the economy, sometimes you just have to go where gravity takes you!

The fact is, this economy is presenting many challenges for non-profits, but it's also providing the impetus for the Red Cross and other non-profits to make needed and sometimes overdue changes. Simply put, there's a greater acceptance to change in a crisis. And, when the economy is roaring, problems can be glossed over: prosperity can actually cover a multitude of sins.

We need to leverage the economy and the force of gravity to effect change. Let me suggest 5 ways that can help non-profits successfully navigate these waters:

**First, have a monomaniacal focus on your mission and on the people you serve.** More and more people are hurting because of the economy. They've put their trust in the American Red Cross to be there in times of emergency; in times of need, and many people think of us in terms of catastrophic disaster or when they need or donate blood.

But consider this:

- *200 times a day*, American Red Cross volunteers help a family who lost everything in a house fire or other disaster.
- *475 times a day*, the Red Cross connects men and women who serve in the armed forces with their families.
- *21,000 times a day*, someone receives a blood transfusion from a Red Cross donor.
- *43,000 times a day*, a person receives life-saving Red Cross health, safety and preparedness training.
- *290,000 times a day*, a child receives a measles vaccination from the Red Cross and our partners.
- In less time than it took to read these statements, *150 lives* were saved or served by the Red Cross.

When I think of the spirits we lift for the men and women in the armed forces, the remarkable act of our donors who open their veins to provide the gift of blood, the millions of people we train to save lives, the people we help in their darkest hour – when they've lost everything, and we're providing them with their most basic needs, I'm awestruck by the responsibility we have to our citizens and to our country.

Despite the growing bills from the storms, wildfires, floods and other disasters we could not and did not walk away. Then and now, the Red Cross will not pack up and go home as long as there is a single person in our shelters.

As leaders of non-profits we must make every single decision thru the lens of our respective missions. The country depends on us to do so. We need to look at everything we do and every dime we spend, and eliminate all extraneous activities that don't support the people we serve.

**That brings me to the second key to successfully navigating through these rough waters. We must be even better stewards of our donors' dollars.** We must be relentless in demonstrating that their hard-earned money is well spent.

Since donors are finding it harder to give, we have to show them that we are as efficient as humanly possible. We're proud that 90 cents of every dollar goes to the people we serve but we have to find even smarter ways to run the organization.

This has been one of my main areas of focus. We have 33 thousand employees, 722 local chapters, 36 blood services regions and over half-a-million volunteers. To ensure we can streamline all of our operations, we've made some governance changes to consolidate our chapters' back office operations, share best practices and promote teamwork. Our thinking behind these changes is simple: we just can't do the same things 722 different ways.

Our local chapters are the heart and soul of this organization. We need to free them up to focus on the mission and avoid each local leader worrying about finance, payroll, and accounting systems. We're reducing expenses in various other ways to address our \$209 million deficit like reducing travel expenses, telecom expenses, and vendor costs, and we're even renting out floors in our Headquarters building.

We've laid off over one thousand people in Headquarters, and over 350 in the field while ensuring that it had no impact on our ability to deliver on our mission. I know that given the economy, you're all used to hearing about cost cutting measures like these and headcount reductions like these, but pause for a second and consider the implications in a non-profit world.

Employees join nonprofits because they're attracted to the mission and they want to make a difference in the world. They want to give back. In short, they're humanitarians.

Imagine in that environment, how painful it is to see your fellow employees lose their jobs. This was very difficult, and it's my fervent hope that we won't need to make these sorts of massive cuts again.

We also made some tough decisions that caused our employees to make individual sacrifices, like:

- Freezing merit increases for non-union employees
- Suspending our 401K match
- Closing off our pension plan for employees who join after July first

I haven't heard a single complaint about these changes; employees have in fact reached out to actually thank me. The feeling is that people would willingly sacrifice a pay increase to avoid additional layoffs. This was one of those unexpected surprises that come from falling down the rabbit hole, I suppose!

I'm proud to say that because of the collective effort of the organization, we drove down our deficit from \$209 million a year ago to \$50 million today – a 75% cut. That's actually \$86 million better than we expected at this point, and we're working hard to try to balance the budget next year.

**And that brings me to the third key factor: Nonprofits have to find new ways to raise money and engage donors.** We've been working very hard to do just that at the American Red Cross.

In September, in the heart of hurricane season, we launched a one hundred million dollar campaign to replenish our depleted disaster relief fund. This was certainly an audacious goal, given that the fund was empty when we started.

I'm delighted to report that in just nine months, we raised surpassed our \$100 million goal and raised \$95 million in cash and \$15 million in in-kind donations, in the most challenging economic times in the last quarter-century.

How?

The field and headquarters are teaming together to approach our largest donors, and the field is also using state coordinators to share best practices throughout the state. We're using Blue State Digital, the digital media agency who worked to raise funds for the Obama campaign in order to make a stronger push on-line. We were able to raise \$1 million in just 3 weeks with the average size gift less than one hundred dollars.

We're using grass roots techniques like the National Day of Giving, during which we sent our employees and volunteers into the communities doing everything from bake sales to public service announcements at sporting events. We raised \$850 thousand dollars on that day. In other words, we used a combination of tactics from good old

fashioned community outreach to digital media. We learned that the key was to set our sights high and try lots of different approaches.

We're thankful for every dollar that was donated and sorely needed to assist victims of the 2008 disasters: the generosity of the American public never ceases to amaze me!

I must also thank the members of Congress, who allocated up to \$100 million to the Red Cross to cover the unusually heavy costs in 2008. We're not a government agency; our funding comes from private donations. But in this crazy year, we needed help from our government and we're grateful for their response.

We're heading into this next fiscal year with limited funds, although we're absolutely in much better shape than we were a year ago. We're now raising money to respond to disasters in the months ahead. Our goal is to not only raise money episodically during a disaster, but to ensure we have the funds to respond before a disaster strikes. We respond to 70,000 disasters every year and we spend on average \$500 million annually to do so.

By the way, the national weather service is predicting a "normal" hurricane season this year, which in their terms is four to seven hurricanes with one to three major ones.

Regarding major disasters, a big lesson that we learned during Katrina was that building relationships with other non-profits in the community is essential to serve those in need, so

- We've built relationships with local churches, synagogues, and mosques
- We've partnered with community organizations like 100 Black Men, the NAACP, and other agencies like Salvation Army, Southern Baptist convention, and Catholic Charities

Our model is to be collaborative, diverse, and inclusive – it takes an entire community to respond. We need the support of our partners and the American public now more than ever. Our donors tell us it's harder than ever to give, but it also feels better than ever.

**The fourth way for non-profits to survive these turbulent times is to embrace new tools.** Disaster victims, volunteers, financial and blood donors want information quickly and they rely on new forms of communications to get it. While the nightly news and newspapers are important ways for people to get information, more and more people of all ages are getting immediate information from the web and their phones. Nonprofits have to embrace new forms of media. This may seem like such a statement of the obvious, but pause for a moment:

We're a 128 year old, big institution -- don't underestimate the massive change in mindset that this requires: we're not Google or Apple!

But we realize that it's essential to embrace new technology and we're leveraging it each and every day:

- We're tweeting
- We're all over Facebook
- I'm personally blogging

These tools can carry multiple messages to a firm's or institution's constituents effectively, and more importantly they can connect constituents to each other.

When I got my MBA, I was taught in marketing that there are two types of firms: Business to Business and Business to Consumer. I was taught that marketers need to follow certain conventions for each.

While teaching marketing at Harvard, I learned the most important communications are consumer to consumer because they trust each other when it comes to recommendations for things like books, movies and restaurants. Consumers want to talk behind your backs about your brand! And we have to facilitate that conversation.

I mentioned earlier that Blue State Digital helped us raise one million dollars online. They've also helped us connect donors and volunteers to each other through essay contests and donors matching donors.

Then there's Facebook, where earlier this year, there was a mad frenzy of viral marketing to vote for the Red Cross in a charity giveaway. We won 794 thousand dollars!

We've also sent emails with tips to prevent the spread of the H1N1 virus, and we had fun sending emails from runway model Heidi Klum, and second basemen Robinson Cano, about CPR training. These activities have brought us 9,000 new donors; six percent committed to sustained giving with a gift of at least twenty dollars per month. But just as importantly, it shows that despite many challenges, a 128 year old institution can participate in the digital age.

**This brings me to the final key to success in these times: keep looking to the horizon!**

Cost consciousness is a critical element for success for nonprofits, but it can only take you so far. We all need to ensure that we look toward the future to stay relevant and to grow.

Two weeks ago, I met with the senior leaders from our major chapters across the country. We conducted a series of brainstorming sessions where I provided the groups with a picture of the future in 2020. I tend to be an optimist so my 2020 vision was very rosy.

Population shifts will continue to re-shape our landscape, and America will be more diverse than ever. Most schools and biz's have a requirement for volunteerism, Detroit

develops a smoking hot electric car, jobs are created in the alternative energy sector, and the Dow is at 17,000.

You get my drift...

I asked the groups to generate ideas that would enable the Red Cross to prosper and grow. The ideas were creative, exciting, wacky and truly showed out of the box thinking. The exercise has me thinking about forming a futurist think tank composed of volunteers.

You can easily imagine a world where the Obama administration's United we Serve initiative is the beginning of a new era of volunteerism and service where a culture of service extends from retired baby boomers to tomorrow's teens. The power of volunteerism is incredible, because through volunteerism, you can change the lives of others, starting with your own.

As Ralph Waldo Emerson once said, "It is one of the most beautiful compensations of this life that no man can help another without helping himself."

In the last year, I've seen example after example at the Red Cross of people doing extraordinary things to help others:

(Here Ms. McGovern will relate stories about):

- Blood donors (leukemia, accident, 49 gallons)
- mother
- WalMart
- Ike and Gustav

These are extraordinarily difficult times for nonprofits, businesses and families across the nation. I believe that if we:

- Focus on our mission
- Are outstanding stewards of our donor's dollars
- Seek new ways to engage donors
- Leverage new tools and
- Look towards the horizon

We'll weather the storm. When times are tough, the country needs us even more, and we're committed to be at our very best.

Thank You.