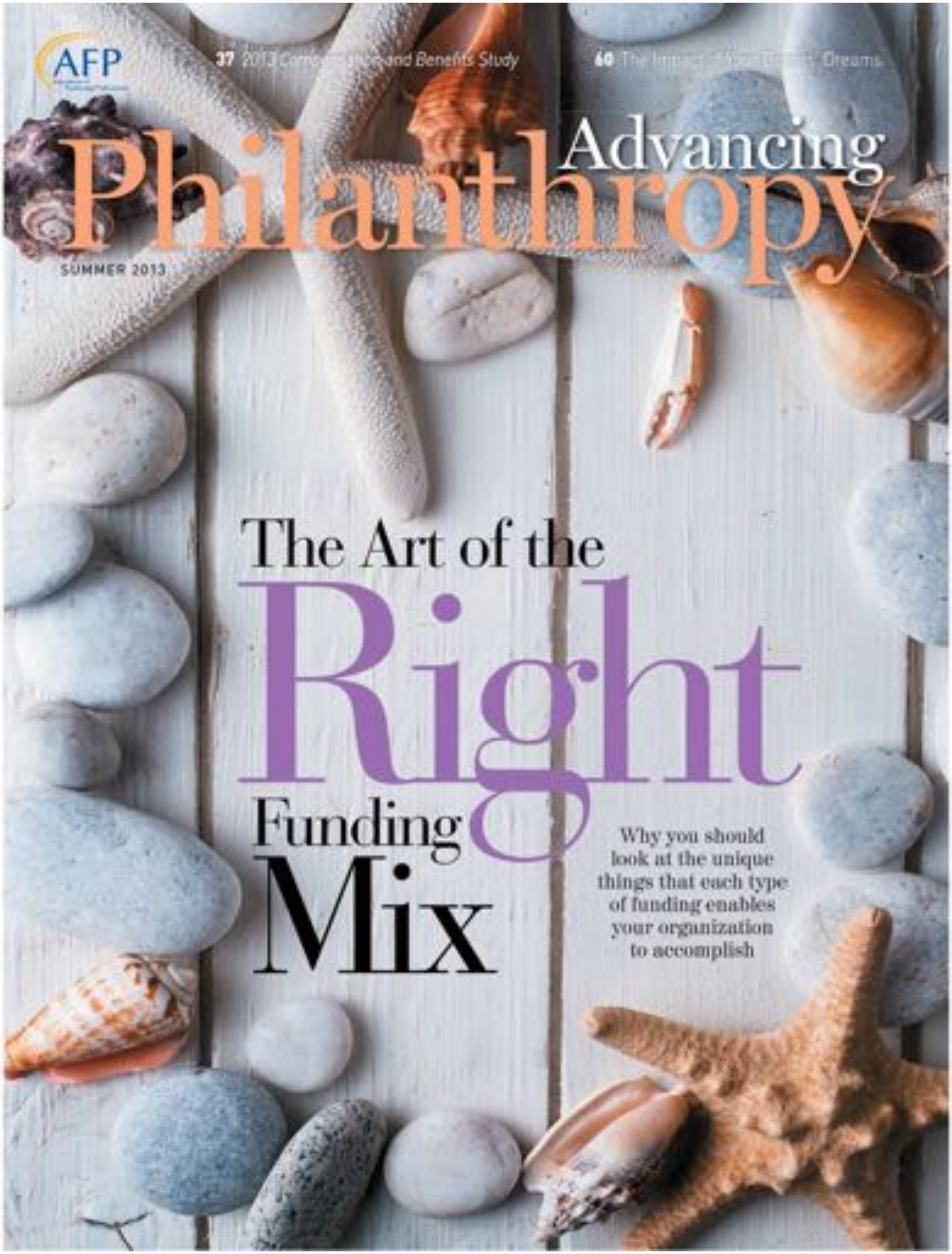

AFP
37 2013 and Benefits Study
60 The Dreams
Advancing Philanthropy
SUMMER 2013
The Art of the Right Funding Mix
Why you should look at the unique things that each type of funding enables your organization to accomplish

Advancing Philanthropy

CONTENTS

SUMMER 2013

32

features

26 **Change Ahead!**
How different nonprofits have successfully diversified their funding and strengthened their organizations

32 **America's Largest Donor**
How to take advantage of federal dollars

37 **Just Deserts**
Highlights of the AFP *2013 Compensation and Benefits Study*

44 **Nonprofit Finance**
Read how nonprofits must innovate and adapt to a new financial reality, learn how your organization can leverage accountability and enhance value to donors and discover how moving from fundraising to financing allows nonprofits to stay relevant to donors, be sustainable and achieve their missions.

37

ON THE COVER

20 **The Right Mix**
Finding the right mix of revenue diversification for a particular organization can be tricky. How can you tell if your nonprofit funding base is sufficiently diversified to withstand various financial tremors, and what should you do if it isn't?

Cover Photo: Food style and photography/Getty Images

departments

4 **Chair's Message**
The Freedom of Philanthropy

6 **Worth a Look**

14 **Your Career**
Moving On—and Avoiding Ethical Potholes

49 **Technology**
Social Media Use and Ethics

52 **Management Trends**
Not So!

54 **Prospect Development**
Prospect Research—Even With Limited Resources

57 **Communications**
Mission-Driven Design: Insights for Enhancing the Donor Experience

60 **Philanthropic Planning**
The Impact of Your Donors' Dreams

63 **What's Working**
Memories Are Made of This

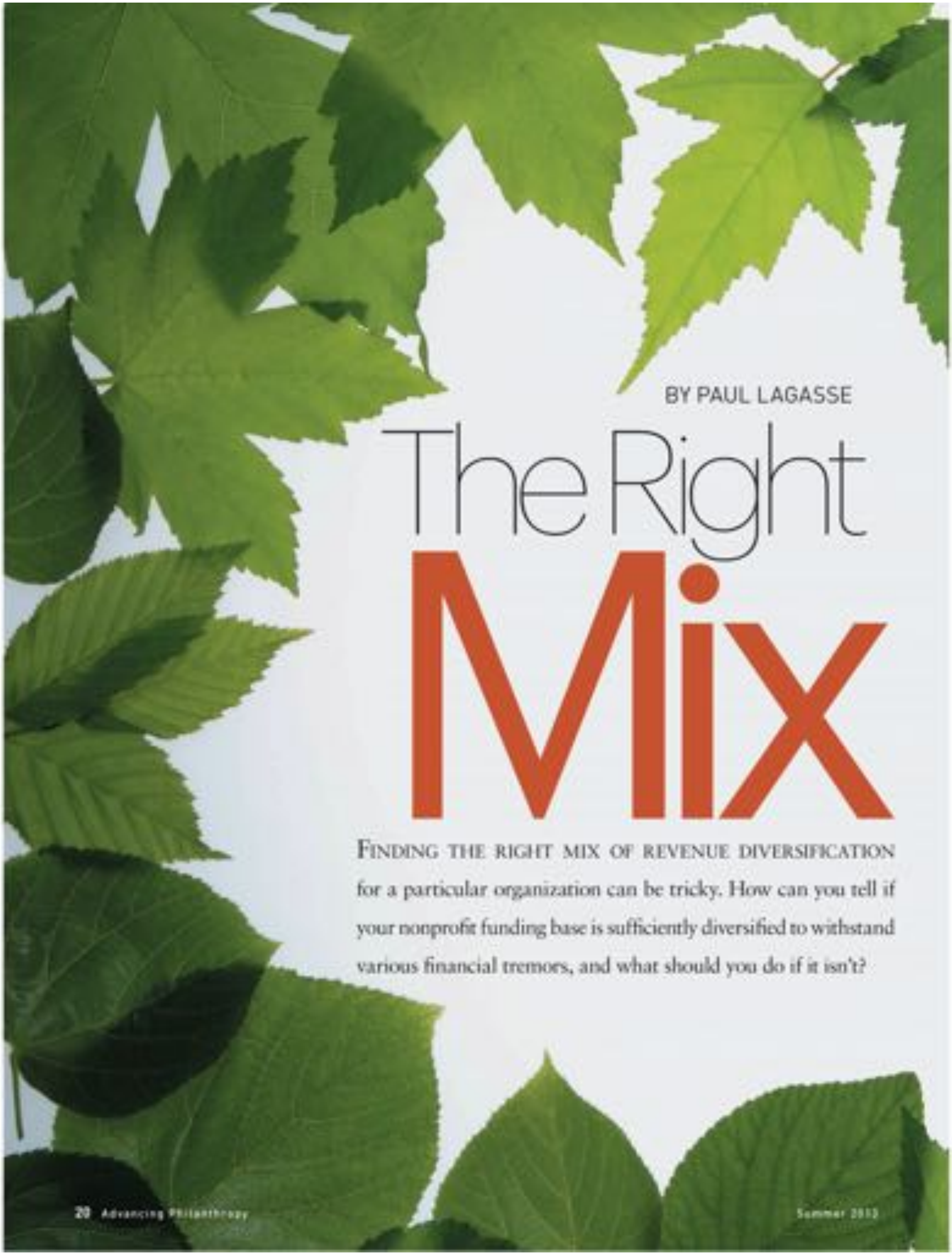
65 **Donor Relations**
Celebrate the Little Successes Along the Way

69 **AP Resources**
Your Fundraising Resource Marketplace

70 **AFP Central**
Doings-on at AFP

72 **One-on-One**
Anita Crothers

52



BY PAUL LAGASSE

The Right Mix

FINDING THE RIGHT MIX OF REVENUE DIVERSIFICATION for a particular organization can be tricky. How can you tell if your nonprofit funding base is sufficiently diversified to withstand various financial tremors, and what should you do if it isn't?

Many nonprofits are already on shaky ground. According to the *2013 State of the Nonprofit Sector Survey* by the Nonprofit Finance Fund, 42 percent of the nearly 6,000 respondents admitted that they "do not have the right mix of financial resources to thrive and be effective in the next three years." However, only 23 percent reported that they will be seeking alternate sources of revenue, including loans and investments. This finding is even more troubling when you consider that a little more than half of the survey respondents reported that they were unable to meet all of the demands for their services in 2012, and even more anticipate not being able to fulfill the demand this year. (Also see the article on page 44.)

Why the disconnect? Larry C. Johnson, CFRE, a principal at M.E. Grace & Associates (**www.TheEightPrinciples.com**) in Caldwell, Idaho, argues that it is the result of looking at money the wrong way. "Philanthropy is not really about money," he says. "It's about people and the relationships. Money is the glue."

Johnson believes that too many nonprofits, particularly small ones, think about fundraising in a strictly linear fashion—"cash in, cash out," as he characterizes it. Instead, he counsels people to see money as a strategic resource. In the linear approach, fundraisers see donors primarily as a source of money and focus on what they need from them. Fundraisers who take a strategic approach, on the other hand, see donors as potential partners and focus their approach on how the organization can fulfill the donors' needs. Philanthropy, Johnson argues, offers people a chance to fulfill their deepest-held values. "You're inviting them to share your vision, promising them an opportunity to experience a kind of self-fulfillment," he says. "They become your investors, not your funders." >>

How to strengthen your organization's sustainability through a *well-thought-out* plan that sees money as a strategic asset

Tell Me a Story

Relationships with the community are as important for sustaining and growing an appropriately diversified funding base as they are for creating them. And one of the most effective ways to appeal to people who are passionate about your mission is to share your story. Terry Axelrod, founder and CEO of the fundraising training and education firm Benevon (**www.benevon.com**) in Seattle, advocates this approach to her clients as a matter of survival. "If nonprofits don't engage potential donors before asking them for money," she says, "they're going to become extinct." Instead, she suggests, nonprofits should "open their doors" and give what she calls "a tour of the mission."

She advises holding twice-monthly tours that highlight different aspects of the organization's work in order to appeal to as broad a range of prospective donors as possible. Then, follow up with those people who expressed an interest in what they saw on the tour. "Think of it as a customized cultivation process," she says. Storytelling is also a valuable exercise for leaders, staff and volunteers, Axelrod adds. By talking with guests about the value of the mission, they reinforce their own commitment to it as well.

High-touch activities such as tours may be time-consuming, but they help you stand out in an increasingly crowded field. When employed as part of a sound fundraising diversification strategy, they can also help an organization jump off the budget treadmill. "Many small nonprofits have difficulty getting past the annual budget pressure for cash," says fundraising management consultant James M. Greenfield, ACFRE, FAHP, president and CEO of J.M. Greenfield & Associates (**www.fundrazer.com**) in Newport Beach, Calif. "When you don't have any sense of a plan beyond survival, it's hard for fundraisers to come up with something that suits the mission."

That is where the storytelling comes in, Greenfield says. Any story—and, by extension, any plan—that serves the strategic goal of cultivating new sources of revenue must be able to answer five questions:

1. Why do you exist?
2. What do you do?
3. What have you done?
4. Where are you going?
5. What's the money for?

Greenfield, who has been in the fundraising field for 40 years, says that the traditional "giving pyramid" model that has served the field for many years is a useful tool for developing a soundly diversified funding base. "It takes time to develop contributor relationships to the extent that an overall fundraising program is engaged at all levels of the pyramid," he says.

(continued from page 21)

However, how does taking a strategic perspective on money translate into a more soundly diversified funding base? "Any time you're dependent on one source of income, you become very vulnerable and very beholden to that income stream, as opposed to having a group of investors who share a common interest," explains Johnson, author of *The Eight Principles of Sustainable Fundraising: Transforming Fundraising Anxiety Into the Opportunity of a Lifetime*. "It's like having an investment portfolio. You're going to need a mix that provides some growth and a lot of stability."

In other words, instead of seeing small gifts and large gifts as different amounts of the same resource, Johnson encourages organizations to look at the unique things that each type of gift enables your organization to accomplish. "Small gifts provide connections to the community, while big gifts let you scale your organization," he explains. It is the same resource but with a different perspective. And once the organization's perspective has changed, Johnson says, the right mix of revenue streams—and the right mix of donors within a single stream—will suggest themselves.

There is another way that the linear approach to fundraising can negatively affect an organization's attempts to diversify its funding base: when it reinforces the "scarcity mentality" that treats money as a zero-sum resource. "Sure, every nonprofit is competing for resources in a general sense," Johnson admits. "But if you're appealing to people who share your same sense of mission, then the only people you're 'competing' against in that sense are the people you haven't persuaded yet."

Johnson points to the work of Paul G. Schervish at the Boston College Center on Wealth and Philanthropy (**www.bc.edu/research/cwp**), whose research suggests that philanthropy is elastic and that fundraisers are not even close to reaching what Johnson calls "the theoretical limit." In fact, the promise inherent in the strategic approach to diversification inspires Johnson to make a sweeping claim that sounds a striking counterpoint to the dire news stories coming out of the nonprofit sector these days. "Sustainable fundraising revenue," he argues, "is available to any nonprofit that wants it."

Strategies for Successful Diversification

If Johnson is right, and abundant revenue is just waiting to be tapped, then how should nonprofits—particularly small to midsize organizations with limited staff and resources—go about claiming it for themselves? Peter Kim, manager at The Bridgespan Group (www.

A Grant Maker's Perspective on Diversified Funding

Founded in 1915, The Chicago Community Trust (**www.cct.org**) is one of the nation's oldest community foundations. It is also one of the largest, with more than $1.9 billion in consolidated assets. In 2012, its more than 1,000 funds disbursed more than $150 million to Chicago-area nonprofits in the arts, human services, healthcare, education and more.

The Trust is also a firm believer in the need for healthy diversification of funding sources. "Whenever we see that a nonprofit has support from a wide range of sources, we can immediately tell that this is an organization that has a wide number of investors," says Ngoan Le, the Trust's vice president of programs. "We see that as a sign of strength, that this nonprofit has a low probability of going out of business." Le adds that, when the Trust considers funding a nonprofit, it looks at the applicant's program and administrative budgets to see if they are funded from a mix of sources. "We never want to be the only source of revenue for a budget," she says.

Jamie Phillippe, vice president of development and donor servies at The Chicago Community Trust, explains that funding diversity can be broken down into three interrelated categories:

- **Diversity of sources**, which includes earned and unearned income, as well as competitive government grants.
- **Diversity of methods for securing sources**, which includes direct-mail appeals, face-to-face fundraising, special events, grant proposals, etc.
- **Diversity of purpose**, which encompasses restricted funds, such as facilities, programs and endowment as well as unrestricted funds.

The key, Phillippe says, is to find the right balance of these three elements for a particular organization. For example, a membership drive is typically a fairly modest source of revenue, but its method is labor-intensive. However, membership funds are typically unrestricted. Special events are also labor–intensive, but the revenue is potentially greater, even though the funds raised may be restricted to a particular program.

The Trust encourages nonprofits to explore alternative revenue sources due to the economy, such as social enterprises and counseling services, but notes that these ventures can require fundamentally different approaches, a shift in the organizational culture, new staff and possibly changes to the mission. It even encourages nonprofits with similar missions or constituencies to consider mergers. "If merging helps you do your mission better and get a better base of support, then you are doing your mission well," Le says. However, mergers should not be sought when in a position of weakness. "A merger can still work then, but it's not a strategy for growth," she says.

The Chicago Community Trust's belief in diversified funding isn't simply philosophical.

"Diversification is very relevant to us," Phillippe explains. "Community foundations are one of the few types of foundations that have to proactively raise money." The Trust is currently in the middle of an endowment campaign and is seeking a broad range of funds to continue serving an equally diverse spectrum of community nonprofits. "If it's done well, we don't think there's such a thing as too much diversification," she adds.

bridgespan.org), believes that an organization should first identify the most promising revenue streams. "Nonprofits should focus disproportionately in the areas where they're most likely to have success in fundraising," he says. "It sounds intuitive, but too often funding is treated less like a strategy than a collection of unrelated tactics."

Kim, the co-author of several influential articles on successful fundraising models that have appeared in the *Stanford Social Innovation Review*, explains that, while nonprofits with revenues of $50 million or more tend to concentrate their fundraising efforts on a single type of revenue, most organizations with annual revenues of less than $3 million likely cannot afford to limit their options that way. Even so, they may find some of the key fundraising concepts employed by their larger cousins to be valuable. As outlined in the article "Finding Your Funding Model," which Kim wrote with Bridgespan colleagues Gail Perreault and William Foster, those concepts include "focusing on types of funding that are natural matches for the nonprofit's work, clarifying who the main decision makers are behind those types of funding and understanding why those decision makers choose to support the organizations they do."

"Successful fundraising is not random," Kim emphasizes. "If organizations are putting a lot of effort into pursuing one type of funding but getting very little payoff, they should ask themselves if pursuing that source is the best use of their time."

Nonprofit income specialist Karen Eber Davis, principal at Karen Eber Davis Consulting (**www.kedconsult.com**) in Sarasota, Fla., agrees. She suggests allocating resources along a two-tiered strategy that focuses on developing many smaller, easily cultivated gifts and fewer large, more time-intensive ones.

Small gifts can be opportunity-driven, Davis points out. "If a donor volunteer happens to mention that his company matches charitable gifts, seize that," she advises. "If a local company offers you a gift, don't turn it down because you have never taken corporate money."

Davis encourages her clients to seek a broad diversity within opportunistic funding streams, not just in terms of donor level but also geographically. "You may be missing an entire community of resources if you concentrate only on local support, especially if you have regional or national appeal," she says.

That approach frees up time and resources to focus on cultivating a smaller number of larger, strategic-level gifts that can be used to sustain and grow entire programs. "Smaller groups need to pick out one, two or three areas of funding and pursue them in depth," Davis says. The ideal number of funding areas will depend on the size and the strengths of the particular organization.

The larger the source, the more sustainable it should be. "If 60 percent of your income is coming from five elderly people," Davis cautions, "you're in trouble." Therefore, a sound diversification strategy also should provide a reserve that can help carry the organization through the loss of a revenue stream until another is brought on line.

A successful diversification strategy, furthermore, needs to be tightly integrated into the organization as a whole. "A successful nonprofit needs three things," says Davis, author

Bigger Is Better—and Requires Added Funds

Five years ago this June, the staff members of Theatre Cedar Rapids (**www.theatrecr.org**) were just gearing up to write their latest three-year strategic plan when the rain-swollen Cedar River crested its banks. In the days that followed, the flood submerged downtown Cedar Rapids—including TCR's iconic downtown headquarters, a former vaudeville theater that sported a priceless 1,100-pipe, 14-rank pipe organ—under 31 feet of water. As the waters began to recede in the following weeks, TCR's leadership and staff put aside their plans for the future in order to concentrate on the present.

"We had to throw everything out of the window," says Casey Prince, TCR's executive director. The strategic plan was scrapped in favor of a capital campaign to raise funds to restore the building and to give it a much-needed facelift and overhaul. Furthermore, the organization used grants from the estate of a prominent local resident and arts supporter to seed an endowment to fund operations. Spurred by a $750,000 matching grant from the Hall-Perrine Foundation, the $6 million building improvement campaign was so successful that, by the time the Iowa Theater Building reopened in February of 2010, the organization's fundraising revenue had actually tripled, and the budget had grown from $800,000 to $2 million.

Success posed its own challenges, however. "Once the dust settled after moving back into our home, it was apparent that, compared to what we'd needed to do back in 2008, now we needed to do even more," Prince recalls. "The whole game had changed in that time."

As Prince and his team turned their attention back to strategic planning, one of the questions they would have to face was how to generate the additional revenue needed to sustain the larger organization. Part of the answer, they discovered, was to diversify their funding base.

TCR was no stranger to diversified funding prior to the flood. "As an arts organization, you have to take risks," Prince says. "That means you can't have all your eggs in one basket, because a single program could make or break a whole year."

Prior to the flood, TCR had relied on a healthy mix of foundation grants, corporate sponsorships, advertising, annual giving and special events. The new strategic plan would allow the organization to formalize its fundraising approach and build on it systematically. "The process definitely validated what we already knew but had yet to distill into a plan," Prince says.

TCR's current strategic plan, which was developed with the help of nonprofit consultancy ME&V (**www.meandv.com**), has artistic and financial objectives that inform and support each other. "We wholeheartedly believe that art isn't a dirty word and that business isn't a dirty word either," Prince says. Accordingly, the TCR strategic plan calls for a funding mix that supports program and administrative expenses holistically. "We look at everything functionally," he explains. "For example, if the building has to be shut down, that means we can't have a show. So how do we cover the overhead? Is there an administrative effort connected with this program expense or that education expense? Everything is woven together."

of the forthcoming *Nonprofit Income Without the Mystery: A Practical Guide to Sustainable Income*. "One is income, another is mission and the third is community. And for most groups, the income solution can be found inside the mission and the community."

Investing in New Sources of Funding

Experts warn that implementing a successful diversification strategy is not a light undertaking. "Few nonprofits think of fundraising as a new line of business, but it is," says Clara Miller, director of The F.B. Heron Foundation (**www.fbheron.org**) in New York City. "It requires a whole new skill set, and it needs to be properly capitalized. It takes three to five years to build an individual donor fundraising outfit, which is not widely understood or appreciated."

Miller's 2010 article, "Shattering the Myth About Diversified Revenue," challenged fundraisers and grant makers alike to reconsider the received wisdom that diversification represented a best practice. Many people at first interpreted Miller's argument as opposing diversified funding. On the contrary, she was cautioning against diversification simply for its own sake. In fact, there is evidence that nonprofits may need *fewer* revenue streams than they might expect.

Miller's own research into the funding patterns of youth-service organizations, as reported in her article "Truth or Consequences: The Implications of Financial Decisions," found that of the 1,085 organizations profiled, fully 50 percent had two sources of revenue, while 40 percent had just one. Nine percent had three sources, while only 1 percent had four or more sources. "The net revenue is the important number," she explains. "Managing too many lines of business can take away resources and time from others. It's a draw on capital. And it takes a toll on programs. Meanwhile, the problems haven't gone away just because you've stopped paying for your programs."

Drawing on her nearly 30 years of experience at the Nonprofit Finance Fund (**www.nonprofitfinancefund.org**), as well as her time at Heron, Miller has advice for nonprofits facing the prospect of diversifying their funding base.

1. **"You need revenue to have programs, but capital is what lets you attract more revenue."** Before seeking a new source of funding, be sure to have sufficient money on hand to hire and train the staff who can bring that revenue in and to purchase and implement the internal systems that will let you manage it effectively.
2. **"If you want to be profitable, complexity is your enemy."** Particularly for smaller nonprofits with limited resources, the added responsibilities can take a bigger overall percentage of time and resources.
3. **"For-profit tax status is not a business model."** While the idea of launching a commercial enterprise to raise funds is appealing to many nonprofits, Miller cautions that it is no more likely to create net revenue than a nonprofit model and that not all missions are naturally suited for a commercial approach.

This is not a turmoil-free proposition. "The culture change that results from the need to develop a new revenue stream causes a lot of *Sturm und Drang*," Miller admits. "But people resist it because it's not as comfortable as the *Sturm und Drang* they know."

Of course, no one ever said finding new sources of revenue is easy. Just ask any fundraising professional.

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Resources

2012 State of the Nonprofit Sector Survey
www.nonprofitfinancefund.org

The Eight Principles of Sustainable Fundraising: Transforming Fundraising Anxiety Into the Opportunity of a Lifetime by Larry C. Johnson, CFRE (Aloha Publishing, 2011), hardcover, 176 pages

"Enterprising Nonprofits" by J. Gregory Dees (*Harvard Business Review*, January/February 1998)
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"How Nonprofits Get Really Big" by William Foster and Gail Fine (*Stanford Social Innovation Review*, Spring 2007)
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"Money to Grow On" by William Foster (*Stanford Social Innovation Review*, Fall 2008)
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"Ten Nonprofit Funding Models" by William Landes Foster, Peter Kim and Barbara Christiansen (*Stanford Social Innovation Review*, Spring 2009)
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"Finding Your Funding Model" by Peter Kim, Gail Perreault and William Foster (*Stanford Social Innovation Review*, Fall 2011)
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"Shattering the Myth About Diversified Revenue" by Clara Miller (*The Chronicle of Philanthropy*, Sept. 2, 2010)
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"Truth or Consequences: The Implications of Financial Decisions" by Clara Miller (*Nonprofit Quarterly*, Summer 2008)
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