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DONOR LOYALTY

Are supporters still
following your mission?

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David Dwend, CFRE



How strategically stewarding your loyal donors will help your organization succeed with the ongoing shifts in charitable giving

BY PAUL LAGASSE

Perhaps fundraising professionals should adopt the Scout motto: "Be Prepared." Nonprofits are facing significant changes in the demographics and giving patterns of individual donors, and the organizations that take steps now to attract, engage and retain donors will be better situated to support their mission.

According to the 2013 Giving USA report from the Giving USA Foundation™ and its research partner, the Indiana University Lilly Family School of Philanthropy, individual giving rose by 3.9 percent (in current US\$) in 2012 from 2011, which compares favorably to the 3.7 percent increase in 2007 over the previous year. At the same time, other interesting trends have appeared. Giving from individuals in the United States increasingly makes up less of total giving overall, from a high of 85 percent in 1979 to less than three-fourths (72 percent) of total giving in 2012. (See Chart 1.)

Contributions from foundations, on the other hand, made up 14 percent of total giving in 2012, compared

with just 5 percent in 1979. (See Chart 2.) And of those foundations, Giving USA estimates that, on average, giving by family foundations comprises about 60 percent of giving by independent foundations each year. For 2012, that amounted to \$21.14 billion, or 46.2 percent of total giving by all foundations included in the foundation giving estimate.

So, what are the numbers actually saying, and how should you prepare for these changes?

No Country for Old Methods

Timothy L. Seiler, Ph.D., CFRE, director of The Fund Raising School at the Indiana University Lilly Family School of Philanthropy (www.philanthropy.iupui.edu/the-fund-raising-school) in Indianapolis, says that it is important to understand what the latest trends in individual giving really mean. "The 2013 Giving USA report shows that individuals want to continue to give to support the charities they care about," he says, "and will continue

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Chart 1. Individual Giving as a Percentage of Total Giving, 1972-2012

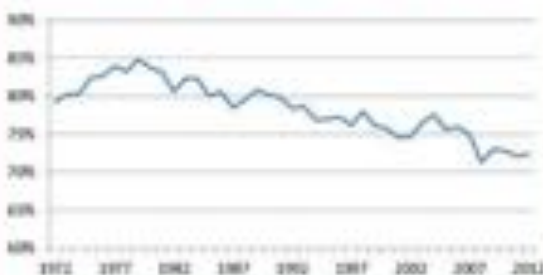
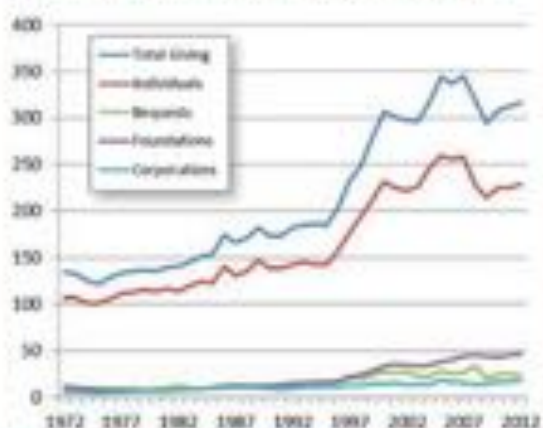


Chart 2. Giving Trends, 1972-2012 (in billions of inflation-adjusted US\$)



to give, even when the economy isn't robust." However, he cautions, "What we also see is that donors may be reducing the number of nonprofits that they give to."

This, in turn, makes it imperative that nonprofits demonstrate not only their value but also why they need donor support. "Frequent communication, particularly with donors, is important to make sure the organization is reporting its impact and successes and making the case that continued good work requires resources," Seiler adds.

Furthermore, in order for a charity's messages to reach the eyes and ears of its most effective supporters, Seiler suggests that an organization may need to narrow—not broaden—its target audience. "In tough times, a focus on loyal donors may be more strategic than an effort to acquire new ones," he says.

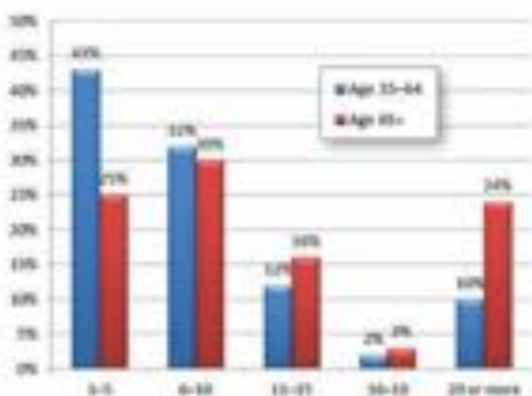
Penelope Burk, president of Cygnus Applied Research Inc. (www.cygnusresearch.com), with offices in Chicago, Toronto and York, U.K., says her research supports Seiler's observation that donors are giving more money to fewer charities. According to *The Burk Donor Survey: Where Philanthropy Is Headed in 2013*, which surveyed more than 24,000 active donors in the United States, "The long-term trend continues to move toward giving to fewer causes, with 43 percent of the survey's oldest supporters supporting 11 or more charities versus only 24 percent of middle-age donors." (See Chart 3.)

The survey also found that 60 percent of younger donors were more likely to have increased the amount of their gifts, largely due to improvements in their own financial stability.

"These combined data point to the need for change in how we steward donors," Burk says. She argues that the fundraising techniques that are effective for older donors are less successful at attracting either middle-age donors (age 35-64) or those under 35 years of age. "The 65-and-over demographic keeps mass marketing programs profitable today, but the life expectancy of that age group means we will see increasingly dramatic changes in the demographic and psychographic makeup of the donor pool within the next 10 years."

According to "Tomorrow's Donors," a recent special report by *The Chronicle of Philanthropy*, during the next 30 years these changes also will include many more

Chart 3. Number of Charitable Causes Supported in 2012: Middle-Age Versus Older Donors



Source: *The Burk Donor Survey: Where Philanthropy Is Headed in 2013*

minorities, affluent women, donors who are lesbian and gay, as well as people with no religious affiliation. As the baby boomer generation passes through its prime giving years, Millennial donors are expected to continue showing preferences for greater involvement in the nonprofits they support and for evidence of measurable outcomes and impact. All of this will require nonprofits to rethink their fundraising methodologies, or face being left behind by a generation of donors who feel no connection to an organization and its mission.

Burk, author of *Donor-Centered Fundraising* (Cygnus Applied Research, 2003) and the companion *Donor-Centered Leadership* (Cygnus Applied Research, 2013), believes that fundraisers working in direct marketing and large-scale events would benefit from taking a page from the playbook of major-gift officers and focusing on developing long-term relationships with donors. "Donors have a right to expect that we will take their perspective seriously," she explains. "When you treat them like major donors, their money follows."

Keep Donors Engaged in Policy Debates

In his introductory letter accompanying the 2013 Giving USA report, David H. King, CFRE, chair of The Giving Institute (www.givinginstitute.org) in Indianapolis and president and CEO of Alexander Haas (www.fundraisingcounsel.com) in Atlanta, wrote: "Policy and decision makers need to hear what the future of philanthropic giving in America would look like under different scenarios and must be prepared to defend them."

King is concerned that nonprofits are not doing enough to involve donors in the debate over federal policy initiatives that could affect their charitable giving, especially because by the time donors feel the effects of those decisions, it will already be too late to change them.

For example, King points to the potential effects of proposed changes to curtail the charitable tax deduction as a means of boosting tax revenue. While such a plan would inject several billion dollars of additional tax revenue into federal and state coffers, King and others argue that it is also likely to drive down charitable giving significantly among high-income earners for whom the deduction is an incentive and whose gifts represent a significant percentage of the total amount of individual gifts in the United States. If, as King believes, the small increase in tax revenue is more than offset by an even greater loss in individual gifts, the effects could be catastrophic for organizations that cannot afford even a small drop in revenue, such as

nonprofits without large endowments or a large donor pool to draw upon.

The debate over the potential merits and drawbacks of altering the charitable deduction continues to rage hotly among nonprofit professionals; the lack of consensus should not be surprising given the extraordinary breadth of the nonprofit sector in the United States. And the charitable deduction is not the only policy issue that nonprofits are dealing with today. The consequences of fiscal policies ranging from belt-tightening by state and local governments to October's federal government shutdown all affect nonprofits directly as well. Furthermore, King points out, the nonprofit sector contributes products and services that add more than 5 percent of the gross domestic product (GDP), so any policy actions that substantially damage the nonprofit sector are also likely to have a significant negative impact on GDP.

What concerns King, however, is that debates over these policies have largely been confined to the nonprofit professionals themselves. Regardless of where nonprofits come down on these issues, King argues that it behooves organizations to inform their donors about the potential impact such policy decisions will have on their personal bottom line. At the same time, King acknowledges that this requires nonprofits to walk a fine line. "We need to find a way to educate donors without lobbying them," he says.

The key, according to Burk, is to sell the program, not the brand. Donors want to see their values reflected in the organizations they support. And when they do, they are more inclined to give. By building good relationships with donors, fundraisers are able to read the signs when supporters are ready to take their giving to the next level. In fact, 42 percent of the donors Burk surveyed in 2013 said they could have given more if they had been asked. "If 42 percent already know that they're leaving money on the table, then an even higher percentage could probably be encouraged to give more by fundraisers who are performing at the top of their game," she argues. "It's all about how you treat them."

In order to accomplish that, however, fundraisers will need to allocate more resources to donor retention and less to donor acquisition.

The Benefits of Donor Upgrading

"As fundraisers, we have come to accept a lapsed donor as an end result," says L. Gregg Carlson, chair of the Giving USA Foundation (www.givinginstitute.org/giving-usa)

in Chicago and president of Carlson Fund Raising LLC (www.carlson-fundraising.com) in Henderson, Nev. Instead, he argues, "organizations need to be asking themselves, 'Where is our money coming from, and how do we find more donors like them?' In other words, 'What does my donor look like?'"

Carlson says that fundraisers can improve their chances of identifying loyal supporters by making a point of reaching out to them through their preferred communication channels and by being creative and flexible in how they ask donors to consider giving. While these methods are time- and labor-intensive, the payoff in the long run is likely to more than offset the investment. Carlson says that, in his experience, roughly half of donors are willing to consider sustained giving. However, he points out, "Many nonprofits are not graduating their donors to higher-end methodologies. By not graduating them from direct mail to phone to face-to-face, they're putting their donor base at risk."

Laura Goodwin, principal at The Osborne Group (www.theosbornegroup.com) in Mount Kisco, N.Y.,

Keep Donors by Abiding by Donor Intent

When the New Jersey Superior Court's Appellate Division handed down its decision in *Adler v. SAVE* in August, the ruling was widely described as precedent-setting because of its conclusion that nonprofits can be required to return gifts should living donors prove in court that the organizations have not honored the donors' original intent. The Adler decision has catalyzed nonprofits to think about how to prevent costly misunderstandings over donor intent, lest they risk losing gifts outright, as well as the goodwill of donors. (See "New Jersey Nonprofit Ordered to Return Gift After Not Honoring Donor's Intent" at <http://foundationcenter.org/pnd/news/story.html?id=432900002>.)

By now, the basics of the case are well known. Princeton couple Bernard and Jeanne Adler donated \$50,000 in cash and stock to SAVE, A Friend to Homeless Animals, a local animal shelter

that was planning a new facility, for the purpose of constructing rooms dedicated to the care of older cats and large dogs. The Adlers' informal gift agreement also secured naming rights to the rooms. However, following the merger of the shelter with another animal care organization, plans for the new facility changed to take advantage of an offer of a parcel of land in another township. The new facility, it was announced, would be much smaller than originally planned. Furthermore—and crucially—the new facility apparently would not include the two named rooms. Unable to reach an agreement with the nonprofit, the Adlers filed suit in county court for the return of their gift. Although the court ruled in the Adlers' favor, the shelter appealed, and the case went before the state's Superior Court, which ruled decisively for the Adlers—nearly nine years after their initial gift.

agrees. "Our clients who have a multichannel approach to engagement really do better," she says. However, those channels must be used for a broad range of messages of interest to donors. "If you're only doing solicitation on your multiple channels, you probably seem grabby," she points out. Therefore, nonprofits should seek feedback from donors to ensure that the channels facilitate two-way involvement and encourage them to feel as though they are part of a community.

Goodwin, who recently wrote about this topic ("The 72ers: Individual Giving for Everyone"), identifies three building blocks for turning what she describes as a "messy process" into an effective workflow for cultivating and upgrading individual donors:

1. A table of gifts
2. A clear vision of goals and objectives
3. Accountability and outcomes measurements

"I'm always surprised by how few people are using a simple name-by-name table of gifts," Goodwin says.

"There's no better way to identify the need, the gap and who we're going to talk to." The table of gifts also must be accompanied by a clear statement of what the gifts will enable the organization to accomplish in the community. "When we arm fundraisers with this knowledge, it becomes a lot easier to identify donors who may be motivated to help them achieve those goals," she adds. "It helps answer the question, 'What donor am I looking for?'"

Along with a clear vision of the objectives, fundraisers also must be able to present outcomes to donors. "If we're not sure what we're doing in the world, if we're only focused on telling people news about the organization, then what does that add up to?" Goodwin asks rhetorically. "We need to demonstrate ac-



Besides abiding by *A Donor Bill of Rights*, a key to preventing these kinds of problems is the gift agreement, says Kathryn W. Miree, president and primary consultant at Kathryn W. Miree & Associates (www.kathrynmireeandassociates.com) in Birmingham, Ala. "The gift agreement determines what happens to the gift and specifies the remedies that apply if something goes wrong. And that, in turn, determines whether you end up in court."

Miree explains that, because gift agreements are all written differently, it is important that all parties be aware of their responsibilities and roles. "Things go wrong when any of the parties around the table don't know enough to represent themselves effectively," she says. "If all parties are experienced or have experienced representation, the process works because you have a balance of responsibilities."

Miree recommends that gift agreements stipulate alternative uses for a gift in case plans change, as they did in the Adlers' case. Donors also may choose to set a time limit on their terms or define the intent broadly enough to allow the organization some leeway in how it chooses to use the funds. However, Miree admits, many donors are reluctant to consider alternative uses. "Don't make the restrictions so narrow that you create a dysfunctional pool of money," she often counsels donors.

A good gift agreement upholds the rights and responsibilities of all parties, not just at the time of signing but also for the duration of the gift. "We can't outguess change," Miree says. "It's important to give a board the discretion to use gifts where there is a greater impact."

"It's important to give a board the discretion to use gifts where there is a greater impact."

countability for the changes that we've accomplished and that we're on the way to accomplishing."

Veteran fundraisers know that, while high-touch approaches are more effective at retaining donors, they are more time-intensive. That is one reason why they have traditionally focused such activities on major-gift donors. Thanks to today's sophisticated donor-tracking software, however, proven high-touch techniques now require less time and effort, and, as a result, they can be broadened out to a larger segment of the donor pool, regardless of their giving level.

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Jay Love, co-founder and CEO of Indianapolis-based Bloomerang (<https://bloomerang.co>), finds it useful to invoke the Pareto Principle—the idea that a majority of a given outcome is the result of the efforts of a minority of a given population—when explaining why it makes sense to use high-touch methods to retain loyal donors instead of acquiring new ones. "One of our clients had 16,000 records in their database," he recalls. "We asked them how many of those people had made a gift in the last three years, and their answer was 2,000."

In addition, Love says, the client's last direct-mail campaign targeting lapsed donors netted just two gifts. "Why would they still be spending money trying to get the other 14,000?" he asks. "They would be so far ahead if they would just concentrate on their 2,000 confirmed supporters and let those people be the connectors who bring in others."

Love recalls the rule of thumb from the world of direct mail that says a donor who informs you about a change of address is 10 times more likely to make a major or legacy gift to your organization. "When that happens, you should be calling them and asking what your organization can do for them," Love says. "Instead, it's usually treated as a purely administrative function and not passed up the line."



Using Multiple Channels to Build Donor Loyalty

Fundraising efforts at the Watkins Glen, N.Y.-based Farm Sanctuary (www.farmsanctuary.org), the oldest and largest farm animal rescue organization in the United States, demonstrate the effectiveness of cultivating loyalty through relationship-building. Nearly three decades since the days when Farm Sanctuary volunteers raised money by selling tofu hot dogs at Grateful Dead concerts, the organization today generates \$10 million in annual revenue through several distinct channels, each of which is tailored to the specific interests and giving preferences of their donors. The arrangement fosters donor loyalty while also helping gift officers identify, cultivate and upgrade high-capacity supporters more effectively.

In descending order of revenue, Farm Sanctuary's main fundraising channels are:

- Major gifts, including the Friends of Hilda Club leadership giving society
- Direct mail and donor acquisition
- Bequests and planned giving
- Online fundraising as a complement to direct-mail campaigns
- Rescue animal sponsorships through the Adopt a Farm Animal program
- Monthly gifts through the Sanctuary Sustainer program
- Large-scale events, such as the Walks for Farm Animals, held annually in 40 cities across the United States and Canada
- Smaller streams, such as corporate giving, memorial stones, automobile donations and educational campaigns

"Channel development over more than two decades and constant fine-tuning with an eye toward better integration and efficiency has been a big part of the equation," says Nikki Bollaert, CFRE, CAP, Farm Sanctuary's senior director of development, "but we believe we are building a robust channel offering that will continue to increase loyalty and long-term ROI for Farm Sanctuary's file."

The current multichannel arrangement allows Farm Sanctuary's small but energetic fundraising staff to cultivate and communicate with donors more efficiently—and avoid rushing upgrades before donors are ready, Bollaert says. "When donors come in the door with a \$500 or \$1,000 gift, we can't immediately push them into a \$25,000 major-gift strategy, even if they have very high capacity. It takes time to develop the relationship. We really can't fast-forward that process. One of the biggest challenges we face is not how to populate the pipeline but how to prioritize our efforts in a growing high-value pipeline."

Bollaert is excited about the relationship-building potential of a new revenue stream that Farm Sanctuary is exploring: crowdfunding. The *What Did You Do?* campaign was a 10-day program launched in late September 2013 that aimed to raise public awareness of the plight of factory-farmed animals. Hosted by online fundraising platform CrowdRise (www.crowdrise.com), *What Did You Do?* encouraged donors to join one of several teams to raise funds competitively. Farm Sanctuary approached celebrities with large social media followings to promote the campaign via brief PSAs, tweets and Facebook and blog posts. (Celebrities and bloggers who promoted the campaign reached 10.8 million people.) Participants were able to track their team's progress toward fundraising goals on the campaign's CrowdRise page (www.crowdrise.com/WhatDidYouDo).

While the campaign raised a little more than 50 percent of its \$200,000 goal after 10 days, the matching-challenge donors allowed Farm Sanctuary to extend an additional week to the campaign, resulting in a total of around \$227,000. Equally important, Bollaert says, the campaign added a new layer of list-building, donor acquisition and engagement opportunities that can be integrated into Farm Sanctuary's overall fundraising strategy to complement and boost other channels.

Bollaert hopes the campaign will find its place among Farm Sanctuary's other smaller revenue streams. "Some of them are small from a revenue perspective, but their greater value is the additional engagement opportunities they provide to our highest-value donors," she explains. "Each of the channels has benefits that cannot be viewed in isolation from the others."

"I'm a big believer that if you find people who have a connection with your mission, you should build on it to turn them into lifelong supporters."

Bollaert's experience bears out Love's Pareto Principle philosophy. "I'm a big believer that if you find people who have a connection with your mission, you should build on it to turn them into lifelong supporters," Love says. "The data in *Giving USA* tell us over and over again that an overwhelming number of individual gifts come from people who are looking for organizations to connect to. I believe that if you can be their No. 1 nonprofit, then your organization will not fall off a financial cliff." 📍

Paul Lapane is a freelance writer in Annapolis, Md. (www.arrrrite.com).

Resources

Giving USA
www.givingusareports.org

Key Facts on U.S. Foundations, 2013 Edition
www.foundationcenter.org/gsknowledge/research/nationaltrends.html

CCS 2013 Snapshot of Today's Philanthropic Landscape
http://go.ccsfundraising.com/Download_the_2013_Landscape

"The 72ners: Individual Giving for Everyone"
by Laura Goodwin
<http://theosbornegroupblog.com/news/individual-giving/>

The Burk Donor Survey: Where Philanthropy is Headed in 2013
www.cygresearch.com/publications/orderReport.php

The Burk Donor Survey: Where Philanthropy is Headed in 2013: Canadian Results
www.cygresearch.com/publications/orderReport-CDN.php

"Tomorrow's Donors: The race is on for charities to win support from a fast-moving America"
<http://philanthropy.com/article/Tomorrows-Donors/141073>

Perfecting Donor Intent: Legal Lessons and Practical Advice by Kathryn W. Mires
www.kathrynmiresandassociates.com/PDF/Perfecting%20Donor%20Intent.pdf