Fundraising in Tough Economic Times

Key Thought

In tough economic times, the advice is simple: stay the course. There's no better way to ensure that your organization will emerge healthy and poised for renewed growth when the tough economic times are over.

By Mal Warwick and Dan Doyle

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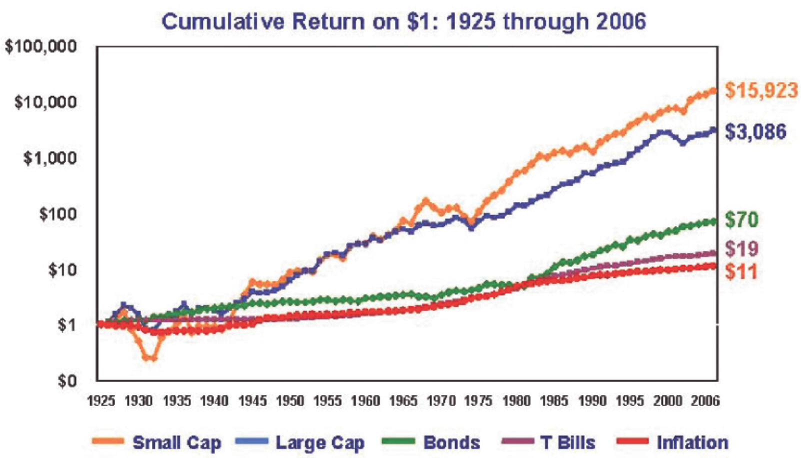
We know what you want.

You've been hearing scary talk about a recession that may or may not already be underway. You want to know what impact this economic bogeyman could have on your fundraising program, right?

Fair enough. Let's get started.

How recessions impact fundraising

The single biggest lesson to be learned from economic history is that our economy continues to grow over the long term. The increase in the Gross Domestic Product above the rate of inflation averaged 3.3% annually over the 100 years of the 20th Century. Such seemingly dramatic financial shocks as the collapse of the U.S. stock market in 1987 or the dot-com bust in 2000—even, ultimately, the crash of 1929—sooner or later come to look like minor setbacks. Here's the long-term picture:



This is the pattern traced by investments of different types over the 81-year period starting 1925—four years before the Crash of 1929. "Small cap" refers to stocks in companies that are relatively smaller and thus are valued less highly by the marketplace. "Large cap" refers to stocks in big companies, such as those that make up the Dow Jones Industrial Average and the Fortune 100. "T Bills" are short-term bonds issued by the U.S. Treasury. (Source: SmithBarney/Citigroup)

Recessions are always temporary—by definition. Even depressions, which are much more severe and longer-lasting, yield to the long-term trend of economic growth. Eventually, of course—sometime later in the 21st century, no doubt—resource limits will catch up with us and probably reverse the growth curve. (It's not only oil production that will eventually peak, if it hasn't already. Just as serious are the sharp and continuing declines in the availability of drinkable water and arable land.) But for the foreseeable future, we can expect any recession that comes along to be followed by a recovery, even, possibly, a rapid one.

Research shows that overall fundraising results roughly correlate with economic conditions, chiefly the trends in personal income and the Dow Jones Industrial Average (DJIA). If the economy's up by these measures, fundraising tends to rise. If it's down, fundraising revenue slips. However, the DJIA is what economists call a "leading indicator," which means that it tends to predict economic conditions in the near future, while fundraising is a "lagging indicator" that doesn't slip until a recession is well underway. By the time fundraising results have dropped, the economy may even be on the upswing. And in a mild recession, the recovery may get underway quickly enough to head off any significant decrease in giving.

Economic conditions affect fundraising results in specific ways and do not hit all nonprofits equally. For example, the rise and fall of the stock market tends to indicate the ability and willingness of many major foundations and big individual donors to give generous gifts. Foundation grants may be especially prone to drop sharply, since most foundation assets are invested in securities, and foundation boards tend to limit their annual giving to five percent of assets at the most. However, this effect also is likely to come later than the downturn itself, as grants are typically made on the basis of the previous year's asset evaluation.

Corporate contributions also tend to shrink as corporate profits decline, although the impact of a poor economy will affect different companies in very different ways. Many companies manage to preserve their profits through cost-cutting even in a down economy. And there are businesses in "countercyclical" industries—ones that serve basic human needs such as groceries that don't go away in a recession—which may even benefit from a downturn and might increase giving.

Similarly, there are countercyclical effects in the nonprofit sector. Difficult economic conditions underline the importance of human services, reinforcing the case for giving to traditional charities, while other sectors such as the arts might suffer.

Except in cases of severe economic downturns, the effects tend to be much less pronounced on membership renewal rates, average gifts in direct mail and telefundraising, cash contributions in churches and on the streets, and other barometers of giving by people who aren't necessarily wealthy. However, as a recession drags on, donor acquisition efforts may become even more challenging than they already are. Even those people whose day-to-day finances aren't curtailed by a recession tend to become more cautious, and response rates in acquisition may shrink because donors hesitate to expand their giving choices. Shrinking personal income and a bear market on Wall Street will take their toll.

In summary, then, here's what to watch out for in a recession:

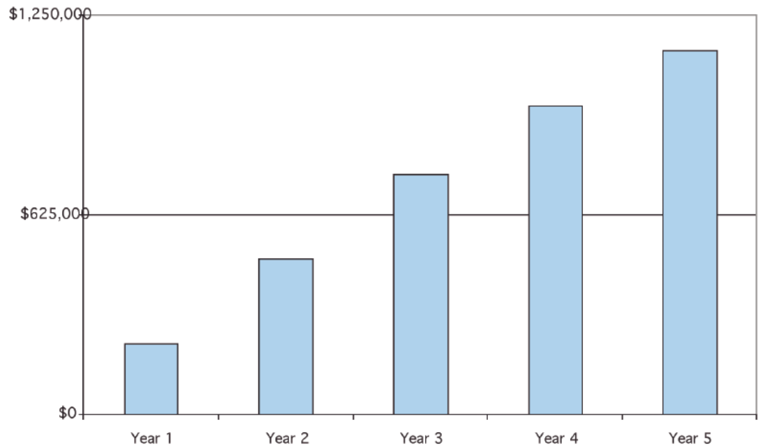
- An economic down turn may—or may not—adversely affect your fundraising results to any great degree. It depends on the severity, length, and character of the recession. So, don't panic!

- Even if nonprofits generally are feeling the pinch of a gloomy economic outlook, your organization might not be similarly impacted. The effects you'll feel will depend on how you raise your money, what services you provide, and, ultimately, what you do in response to deteriorating economic conditions.

Unquestionably, a recession poses problems, nonetheless—big problems, for many of us. So, what can you do about them?

The wise way to respond to recession

In uncertain economic times—especially when the airwaves and the front pages are abuzz with talk of recession—nonprofit executives may overreact. Under pressure from their boards of directors, they all too frequently take "cost-cutting" too far. The greatest victims are new-donor acquisition, which is often sharply cut back or even eliminated temporarily, and donor cultivation programs such as donor acknowledgments. These are the easiest targets, but in many ways the most unfortunate. Witness, for example, the impact of a one-year hiatus in donor acquisition imposed on a growing direct mail donor development program:



This chart illustrates cumulative revenue lost over five years by suspending acquisition for only one year, based on a growing direct mail program with 8,000 active donors who contributed a total of $1 million last year. Typically, this program acquires 2,500 new donors a year to sustain its growth. The chart shows the revenue lost year by year if that organization ceases acquiring new donors as an "economy" move. While new donors contribute little gross revenue in their first year on the file (and must be acquired at a loss), their long-term contribution to revenue within five years is over $1 million, a critical amount for a program of this scale.

Curtailing donor-acknowledgment activities in the guise of cost-cutting can be similarly counterproductive. Eliminating or economizing on thank-you letters or phone calls will prove to be a major error over the long term. Renewal rates will slip, donor loyalty decrease, and the donor base eventually shrink. And if such cost-cutting steps are combined with a cutback in donor acquisition, the result can be tragic.

So, what's a body to do in the face of a recession that's already making fundraising even more challenging than it usually is?

Here's what *not* to do:

- Don't cut back on new-donor acquisition.
- Don't economize on thank-you letters or other donor cultivation activities.

In these respects, my advice is simple: stay the course. There's no other way to ensure that your organization will emerge healthy and poised for renewed growth when the recession is over.

But staying the course doesn't mean you can't find ways to cut costs while protecting your file's overall health. Here are five ideas you can use to make it through tough times with stable net revenue—and a growing program.

How to get the most out of your program during tough times

1) *Focus on list exchanges*. Exchanging rather than renting to acquire new donors has two benefits. It's cheaper to exchange a name than to rent it, reducing your overall acquisition costs. And in most cases, exchange names perform better than rentals in acquisition mailings,

because they come from lists filled with donors who've shown they enjoy giving to a cause like yours. If you favor exchange lists over rentals in your merge/purge, you may find your continuation rental lists aren't paying their way after duping out the names that are already on your exchange partners' lists.

2) *Mail your lapsed file* more deeply in your acquisition mailings. If it costs you less to reactivate a lapsed donor than to acquire a new one, you aren't mailing your lapsed file deeply enough. Your lapsed names are free to mail, and reactivated donors can have higher long-term value than new donors because they have established relationships with you.

3) *Focus on your highest value donors*. It can be tempting to mail your entire file at nonprofit rates or skimp on personalization to cut down on costs. But there is a core of your file—maybe 10 or 20 percent—that generates most of your net revenue. These are the donors you need to be certain receive your mailings—and you can only really do so by paying for first-class postage. You should also invest in inspiring them to respond, either with increased personalization or by paying return postage. Don't make the mistake of cutting corners in your communications with your most valuable donors.

4) *Gang print*. I've seen hundreds of tests where a different outer envelope has made absolutely no difference in response or revenue. If you can't think of a reason why you're producing different components from mailing to mailing—get rid of them. By printing in larger quantities, you can save thousands of dollars.

5) *Reduce your postage expenses* by making sure your lettershop is taking the fullest possible advantage of postal discounts. The post office is making it more rewarding for you to do their work for them. Correct your file regularly using NCOA (the National Change of Address list) to achieve the best nonprofit rates, and commingle with other mailers to get even lower postage and faster delivery.

Unfortunately, we are facing a recession at the same time as our most loyal core of donors is dying. Demographic changes underway are undermining many of our assumptions about how best to communicate with our donors, what persuades them to give (or not), and what the future of fundraising may hold. Clearly, what's in store for us in the future—recession or no recession—is *not* more of the same.

But direct mail fundraising is built on innovation. Every proposition is testable. Every great idea, with a disciplined approach, can lead to a stronger program, whether it fails or succeeds. The paradigm may be changing, but the principles remain.

We believe the greatest mistake during these tough times will be to stick to what you know and retreat to a defensive position. Cutting acquisition and not investing in building relationships with your donors are quick ways to create a direct mail program that no longer justifies its expense.

So, whatever you do, keep trusting—and testing—your best thinking.

And good luck!

Our Clients

We are honored to work with outstanding nonprofit and political organizations that are making a difference in our world. Groups who have chosen to work with us include:

- AIDS Project Los Angeles
- Al Franken for Senate
- Bread for the World
- Center for Victims of Torture
- Corporate Accountability International
- Democracy for America
- Feingold Senate Committee
- Global Exchange
- Global Fund for Women
- Heal the Bay
- International Campaign for Tibet
- Make-A-Wish Foundation, Greater Bay Area
- National Park Foundation
- Ocean Conservancy
- Planned Parenthood Los Angeles
- Progressive Patriots Fund
- Project Bread
- Rails-to-Trails Conservancy
- Riverkeeper
- San Francisco AIDS Foundation
- Save The Bay
- TreePeople
- Union of Concerned Scientists
- United Steelworkers
- Wellstone Action!

Key Services

At Mal Warwick Associates, we bring a passion for fundraising to the exceptional causes our clients serve. This passion enables us to help them build outstanding fundraising programs and enduring long-term relationships with their donors or members.

A full service fundraising consulting agency, we have worked with nonprofit organizations and political causes since 1979. We provide exceptional strategic insight, in-depth analysis, and award-winning creative, all led by seasoned professionals. Our focus is direct mail, online, and telephone fundraising, but we are often involved in major giving, legacy giving, and other fundraising and marketing activities as well.

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