

Fundraising in Tough Times: A No-Nonsense Guide to Surviving in a Challenging Economy

Key Thought

Nobody can predict our economic future. But there are simple steps you can take to ensure that your organization will suffer the least possible damage in this recession—and emerge healthy and poised for renewed growth when the economic crisis has passed.

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In January 2008, as signs of trouble in the U.S. economy began coming thick and fast, we published a paper entitled “Fundraising in Tough Economic Times.” In the ten months that have passed since then, our economy—indeed, the global financial system—has deteriorated to an extent that has left even many seasoned economic observers breathless. After wading through a huge volume of scholarly articles, interviews, conference presentations, research findings, blog posts, and other analyses and commentaries, we’re ready to add our own remarks. The following thoughts represent our best thinking about how to cope with the harsh new financial environment the social sector now faces.

If you want a fresh perspective, read on. We’re not just going to drown you in statistics or regurgitate the familiar advice you’ve read elsewhere.

Let’s cut to the chase.

Our economy is in bad shape, and getting worse. Most informed observers think that the deterioration will continue, perhaps for a long time. So, what can we fundraisers do to minimize the impact on our organizations and maximize our income during this difficult period?

What can we learn from economic history?

Three relevant and overarching questions stand out clearly in the tsunami of recent commentary about the prospects of fundraising in today’s economy:

- a) The U.S. economy goes through ups and downs with remarkable frequency—sometimes, like now, with great suddenness. Like clockwork, however, the ups have invariably led to downs, and downs to ups again. *The real economic question facing us now is how severe will be the suffering from our current difficulties, and how protracted.*
- b) During the past three decades, economic reversals have merely slowed the steady growth of philanthropy in the USA. From 1967 through 2007, the average inflation-adjusted rate of growth in giving was 2.8 percent in years of economic recession and 4.3 percent in years of economic growth. (There was only a single year, 1987, when giving actually declined, and that was by just one percent.) However, *the question today is whether the current collapse of global stock markets and the U.S. housing market will lead to something much more severe than a recession like those we’ve experienced since the 1970s—something much more like the Great Depression of the 1930s. During the early years of that tragic time in our history, according to the limited data we have available, giving did indeed decline sharply.*
- c) Experience—largely anecdotal, but compelling nonetheless—makes clear that economic contractions have affected some sectors of the nonprofit world far more dramatically than others, and that some types and channels of giving have been more acutely impacted than others. Today *the question is whether an intelligent response to the economic crisis should vary from sector to sector (say, education as compared to healthcare) and from channel to channel (major gifts compared to direct mail, for example).*

There are no obvious and compelling answers to any of these three questions, and if anyone—whether practitioner, academic, or self-appointed pundit—pretends to know the answers, we suggest you head for the hills. Futurists and prognosticators of every stripe, professional and amateur alike, have an abysmal record. We prefer instead to take a page from the playbook of major corporations, government agencies, and venturesome nonprofits: the use of scenarios to envision possible futures.

Three scenarios for economic recovery

Simple logic suggests that, broadly speaking, there are three possible financial futures in store for us: things get worse, things stay more or less the same but gradually get better, or things get better quickly. Let's take a quick look at each of these three alternative futures and how they might affect our work as fundraisers.

Scenario A: Misery Loves Company

It's 2011, and economic conditions worldwide continue to be gloomy. The bugaboo of inflation has long since fled the scene, with prices for many products falling in the face of continually declining demand and flagging world trade. The U.S. economy is struggling to contain unemployment at 15%. Viewed in historical terms, stock markets around the world are hovering near their all-time lows, though optimists read the signs as pointing to economic recovery within two to three years.

Giving USA 2011 is widely expected to disclose the third consecutive annual drop in philanthropy. Recent reports from the United Way, the American Red Cross, and other prominent nonprofits suggest the fall-off in total giving may be as much as 10%, equaling or even exceeding last year's record decline. Last year, for the first time ever, the number of nonprofit organizations registered under Section 501(c)(3) actually shrank, and that trend is predicted to accelerate this year, as the accumulated impact of three years' declining revenues takes its inevitable toll.

Scenario B: On the Road Again

Now, late in 2010, the proverbial light is shining brightly at the end of the economic tunnel. The Standard & Poor's 500-stock index has been moving steadily upward for months now, anticipating—and reinforcing—the psychological impact of steadily more positive reports of reduced unemployment, stabilizing wages, and recovering export revenues. In many developing economies conditions are still grim, but the leading U.S. trade partners—Canada, Mexico, Japan, China, and the European Union—are showing strong signs of renewed economic health.

After a period of stagnation in 2009 and early 2010, philanthropic revenues are rising in response to the brighter economic outlook, renewed consumer confidence, and rising personal income. The more venturesome observers of the nonprofit sector are now predicting a strong year-end finish for the nation's nonprofits, and an even brighter year ahead in 2011.

Scenario C: Happy Times Are Here Again

Proving once again that fear can feed on itself and reach truly irrational levels, all signs now in May 2009 point to renewed economic growth following just three quarters of what economists are now terming a mild recession. Resolute government action, much of it internationally coordinated for the first time in history, is credited with the predicted turnaround.

After lukewarm year-end results in 2008, giving is now clearly on the rise. The widely feared collapse in foundation giving and major gifts has not materialized since financial markets stabilized late in the year, restoring trillions in lost investment value. Response to direct marketing appeals, which was better than expected in December and January, is returning to historically more familiar levels. Even response rates in direct mail prospecting are looking healthier.

These three scenarios represent the logical extremes of the future we may expect to unfold in the months ahead. They're not predictions. They're landscapes against which we can examine a range of possible options for fundraising strategy as the year 2008 draws to a close. So, for simplicity's sake, let's examine how three different approaches to fundraising might fare in each of these scenarios—approaches we might characterize as Defensive, Selective, and Aggressive.

Three possible fundraising strategies

1. The Defensive Approach

Cost-cutting is paramount. Cancel donor acquisition activities. Reduce the frequency of donor appeals while cutting back on mailing and telemarketing quantities. Eliminate thank-you letters, or at least replace those personalized letters with post cards. Bring gift processing and donor file maintenance in-house. Cancel all marginally profitable special events.

2. The Selective Approach

Maximize net revenue in the short term and maintain the long-term value of your donor base. Economize on such fair-weather activities as direct mail testing, costly cultivation events, and glossy magazines or newsletters. Strengthen the case for giving to match the reality of the times, and avoid cutting back on solicitations. Instead, increase the frequency of solicitations to those donors who normally generate high net revenue. Examine the long-term value of your donors, ranking the acquisition lists from which they came and favoring those lists that come out on top with re-orders. Step up donor acknowledgment and donor cultivation activities to strengthen your relationships with donors. Find low-cost ways to learn more about the most loyal and generous of your donors, and integrate new information into personalized appeals to them.

3. The Aggressive Approach

Pull out all the stops to take advantage of the opportunity created by the undue caution your competitors are exhibiting. Step up donor acquisition activities, even knowing that response rates will be lower than in the past. Innovate actively, testing new direct mail packages and new appeals online. Push hard for more and bigger gifts from donors while maintaining current stewardship policies without change.

Results of Pursuing Different Fundraising Strategies in Each of Three Economic Scenarios

Scenario		Defensive Approach	Selective Approach	Aggressive Approach
A	Misery Loves Company	Survival— for a short time	Count your blessings	Can you spell “Chapter 11?”
B	On the Road Again	Nothing ventured, nothing gained	Poised for growth	Get ready to count your losses
C	Happy Days Are Here Again	Survival— but just barely	Nothing lost	Hindsight is delicious

As you can see in the accompanying table, the Defensive Approach will ensure that a nonprofit survives only the early stages of a truly severe economic downturn (“Misery Loves Company”). In Scenario B, “On the Road Again,” the Defensive Approach suggests that an organization will fall behind its competitors as conditions improve. In Scenario C, a defensive strategy is a prescription for decline as less fearful nonprofits pull steadily ahead.

Similarly, the Aggressive Approach is a formula for bankruptcy in Scenario A, “Misery Loves Company.” Should the financial environment look more like the scenario we’ve entitled “On the Road Again,” an aggressive strategy will guarantee losses in the near term, perhaps very substantial ones. Only under Scenario C, “Happy Days Are Here Again,” will the Aggressive Approach appear wise in hindsight.

By contrast, the Selective Approach appears to maximize a nonprofit’s chances of surviving, even flourishing, regardless of the direction the overall economy takes. In Scenario A, the organization’s cost-cutting efforts, combined with continuing emphasis on stewardship, keeps the organization in business for the near term and strong for the long run. For Scenario B, the Selective Approach preserves the organization’s capacity to resume growth as the economy gradually improves. In Scenario C, with conditions rapidly stabilizing, the Selective Approach leaves the organization with the resources to shift strategy as the dire predictions of depression prove unfounded.

Thus, only one of these three broadly construed strategic approaches appears to hold promise under almost any foreseeable economic circumstances. Of course, that is the general case. The impact by sector may well be different, if experience is any guide, with organizations that don’t deliver direct services to poor people (arts, culture, advocacy) taking the strongest hits and social services and animal welfare groups being least affected. Similarly, the effect of economic conditions may vary by channel. Major institutional and individual gifts are likely to contract most quickly, and gifts of smaller size are more resistant to recession. Legacy gifts could remain strong, as they did during the Depression years. However, all of this is speculation, and as you can tell, we’re not in any mood to predict what the future holds.

To be consistent with our intention to explore an approach that holds promise of success no matter what economic conditions we face in the months ahead, let's turn now to the more specific actions that could characterize an intelligent "selective" approach.

Nine practical steps you can take now

- 1) Don't panic. You may even find opportunities opening up in these difficult times. Other fundraisers (and, more often, their bosses) are panicking. They're eliminating donor acquisition, canceling fundraising projects right and left, and cutting mailing quantities. If you make decisions carefully and stick to business, you'll do better both in the short run and in the long.
- 2) Strengthen your case for giving. Your donors don't want to hear how the economic crisis is affecting your organization. What they want to know is how economic troubles are impacting your beneficiaries. If you can accurately argue that their needs are greater than ever, recast your case to emphasize how much more urgently your donors' gifts are now needed. Above all, don't apologize for asking. Never forget that a request for funds for your cause is an opportunity for your donors to validate their cherished values and beliefs.
- 3) Cut costs the smart way. Don't necessarily reduce direct mail donor acquisition quantities; focus on lists that yield donors with higher long-term value, emphasize list exchanges, and reduce or eliminate package and copy testing. Mail lapsed donors. Gang print your materials—perhaps even with other, non-competing nonprofits. Reduce your postage expenses by co-mingling and learning more about postal discounts. In telemarketing, focus on calling phone-responsive names, and raise the minimum Highest Previous Contribution level of the names you'll call. Use email notifications to boost response both by mail and by phone. Convert online donors to monthly sustainers.
- 4) Segment your donor file using the most sophisticated tools within your reach. Mail your donors more selectively, dropping long-lapsed donors from current appeals and focusing more on those at the top of your organization's giving pyramid. If you're now sending generic appeals to all your donors, carve out, say, the top 10 percent or top 200 individuals and invest in truly personalized appeals to them, embedding multiple data points from your database in each individual letter. Refer to such matters as the number of years a donor has been contributing to your organization, whether she has pledged to leave a legacy gift, whether she is a volunteer, an event-attende, a monthly donor, a retiree—in short, any significant matter that helps set one donor apart from others.
- 5) Stick with what has worked in the past. Do less testing. Despite what you may be hearing from experts, this is not the time for innovation. Creativity can be costly.
- 6) Stick close to your donors—especially your most generous and responsive donors. If you're not using the telephone to stay in touch, now's the time to begin judiciously. The interactivity of telephone contact offers an ideal opportunity to craft your case for giving in terms that respond

directly to the values and priorities of individual donors. This is also the time to step up cultivation, not cut back. Don't even think about economizing by eliminating or cheapening your donor acknowledgments.

- 7) Learn more about your donors. Survey them at low cost with donated services from a university or business school faculty member in marketing or social science; a donor or member survey for your organization might make an ideal class project, the result of which will be statistically valid data about the attitudes, beliefs, and preferences of your donors as a whole. Use a "confidential donor survey" to acquire information specific to *individual* donors—and apply what you learn in carefully crafted, personalized appeals. For example, if you're working for a cancer research charity and you know that a donor's connection to your cause was the death of a loved one, you can write far more powerful copy. If you're promoting after-school programs for young children and a donor is either a parent or an elementary-school teacher, that connection can allow you to address her in a far more personal way. And if you know that a donor regards your organization as one of his top three charities, you can assume there is a strong likelihood that he'll give serious thought to an upgrade request.
- 8) Step up your online fundraising and communications efforts. If you're contacting your supporters once a month by email, increase the frequency to twice monthly, or weekly. Optimize online giving opportunities on your Web site by making the process as easy as possible for donors, including a prominent "Donate" button on every page, and building a specific landing page for each electronic appeal to reinforce the specific case for giving. Make sure you are utilizing the capability of your online fundraising tools to track donor interests and behaviors, and be sure to use that information to personalize email offers.
- 9) Break down the silos, and integrate your fundraising efforts. Combine direct mail, online, and telephone fundraising efforts in carefully sequenced campaigns that will allow each effort to reinforce the others. Be sure that your direct marketing or membership staff works closely with major gifts and legacy giving staff members to avoid letting any donors fall through the cracks. Set overall fundraising goals, not department by department objectives, and if possible develop incentives for everyone engaged in fundraising, marketing, and communications to attain those goals.

Taking these steps as your response to the current financial crisis will guarantee nothing. However, as best we can tell, these actions, taken together, constitute the likeliest path to surviving the short term and flourishing in the long run. Based on our current knowledge and our exploration of the three scenarios we've laid out above, the selective approach is the best way to ensure that your organization will maintain its footing and emerge from the current crisis in a strong position. But keep your eyes open all the while: benchmark actively and widely, and be nimble in revising tactics to take advantage of the changing environment.

Above all, remember that if your cause is meaningful and necessary, you will be able find people who will offer their support, no matter the economic situation.

For a Reading List that includes many of the sources we've consulted for this paper, go to www.malwarwick.com/fundraisingintoughtimes/.

How will your donors respond?

On October 29, 2008, Guidestar released the findings of its seventh annual economic survey of the nonprofit sector, asking individuals associated with charitable nonprofits how their organizations fared financially during the first nine months of 2008 compared with the first nine months of 2007.

“Some 38 percent reported increased contributions,” GuideStar reported, “25 percent said contribution levels had remained about the same, 35 percent reported a decrease, and 2 percent did not know.” These numbers compared unfavorably with those in the previous year’s survey, which were 52 percent, 25 percent, 19 percent, and 4 percent, respectively.

Apparently, then, U.S. nonprofits are already experiencing a noticeable decline in giving in 2008, and, to judge from the fear so widely shared in the nonprofit sector, we expect to face even worse in the months ahead. But what you (and we) want to know is, what do donors say about their expectations of giving in the future?

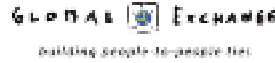
In a poll conducted October 10-11, 2008, fundraising researcher Dirk Rinker polled 303 donors to nonprofit organizations via the Internet to determine the level of “donor confidence” in a manner similar to how “consumer confidence” is regularly measured. (The Consumer Confidence Index is widely followed as a leading economic indicator.) The October poll was a follow-up to a similar inquiry in February 2008. Dirk’s findings are both encouraging and instructive. Here are highlights:

- At a time when Americans’ confidence in their political and economic systems was in freefall, with consumer confidence at an all-time low, donors’ opinion of charitable sector performance was holding steady, virtually unchanged from February to October.
- Few donors expected the loss in value of their homes or their stockholdings to affect their giving, which comes very largely from current income.
- Although on balance the poll pointed to an overall dip in giving, nearly as many donors (19%) disclosed that they expected to give more in the months ahead as those who said they’d give less (22%).
- The impact of reduced giving in the near term is likely to hit certain sectors of the nonprofit world far more heavily than others. Arts, culture, and humanities and social services may be the hardest hit. Animal protection, the environment, and education appear to face a much softer landing.

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