BLACKBAUD INSTITUTE
FOR PHILANTHROPIC IMPACT

Finding Your Own Right Mix

Steps for Evaluating Your Organization's Funding Streams

In *The Right Mix*, we explored the importance of diverse revenue streams and the key role individual fundraising can play in a healthy funding mix. That report identifies why dependence on one source of giving could affect your financial security and ability to retain donors. With that understanding of the benefits and pitfalls of different funding mixes, how can your organization think outside the box to achieve greater funding success? Here are a few steps that every organization can benefit from:

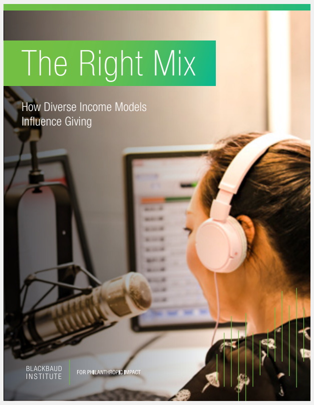
Ensure that the right voices are at the table.

Fundraisers can and should be a key part of discussions around funding streams. While there is a growing understanding about the importance of a culture of philanthropy across the sector, many organizations still make high-level funding decisions in a vacuum, with only executives and the finance team at the table. Similarly, marketing and fundraising strategies must be aligned to best frame and communicate the value of your mission and programs. When all organizational areas are part of the discussion on funding mix and aligned on the plan moving forward, you can accelerate your impact. To explore more perspectives about connecting fundraisers to the discussion across the organization, check out *npEXPERTS: Building a Culture of Philanthropy.*

Evaluate your Dependency Quotient.

Before you can make decisions about reshaping your funding mix, you need to know your current risk level. The Dependency Quotient, developed by BoardSource®, measures the extent to which an organization is dependent on its top donors to fund its work.

According to BoardSource, "It's an indicator of how vulnerable the organization could be in the face of changed priorities among its top funders. Generally speaking, organizations should seek to have a lower Dependency Quotient, indicating that they are more resilient to changes in top donor giving."



Get your copy of the *The Right Mix* to learn even more about the impact diversified funding models can have on your organization.

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Here's how you can calculate your organization's Dependency Quotient:

$$\frac{\text{Sum of Contributions from 5 Largest Donors or Funders}}{\text{Organizational Expenditures}} = \text{Dependency Quotient}$$

Example, provided by BoardSource: If an organization's top five donors contributed $250,000 during the past three years, and the total organizational expenditures for the same three-year period were $1,000,000, then its Dependency Quotient is 25% ($250,000/$1,000,000), meaning it would have to replace 25% of its budget if it lost its top five donors.

As BoardSource shares, it is very difficult to achieve both a low Dependency Quotient and a low cost of fundraising. Broad-based fundraising efforts tend to bring in more low- to mid-level donors and are more expensive because of it. Meanwhile, strategies like major gift fundraising can cost less, but leave the organization more dependent on a smaller number of big gifts. This is exactly why cost of fundraising should not be the only measure of effectiveness.

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Explore alternative funding sources.

Many organizations are already competing for the same grant dollars from traditional funders. In recent years, however, new ways of financing your mission have emerged on the scene. Financing methods like venture philanthropy grants, impact loans, equity investment, and donor advised funds (DAFs) have the potential to bring untapped dollars into the social sector. You should be well versed in these options as you consider the right funding mix for your organization. To learn more, check out *Beyond the Grant* by Mission Capital®. It shares the why, what, when, and how of alternative financing strategies for nonprofit leaders, so you can consider all your options.

*Source: BoardSource

Connect with and benchmark against other organizations.

Benchmarking is critical to understanding your organization's performance. Take the time to evaluate how your funding model differs from similar organizations, then consider whether any differences in your funding mix are truly intentional because of a unique business model or if you could find greater success by following other models. Don't be afraid to reach out to other organizations. Together, you can share ideas, successes, and failures to find the best-performing funding practices. The Contributor Development Partnership for public broadcasting, initiated and managed by WGBH in Boston, is a great example of the success that organizations can achieve when they come together. Now in its seventh year, it has 133 collaborating public media stations across the nation engaged in collaborative research and knowledge sharing. Its work has produced incremental revenue of over $100 million for the stations. Think creatively about which types of organizations, both in your local area and outside it, could provide inspiration for funding models and practices.

To learn even more about diversified funding for your organization, download *The Right Mix*.

Get your copy

About the Blackbaud Institute for Philanthropic Impact

The Blackbaud Institute drives research and insight to accelerate the impact of the social good community. It convenes expert partners from across the philanthropic sector to foster diverse perspectives, collective thinking, and collaborative solutions to the world's greatest challenges. Using the most comprehensive data set in the social good community, the Blackbaud Institute and its partners conduct research, uncover strategic insight, and share results broadly, all in order to drive effective philanthropy at every stage, from fundraising to outcomes. Knowledge is powering the future of social good, and the Blackbaud Institute is an engine of that progress. Learn more, sign up for our newsletter, and check out our latest resources at www.blackbaudinstitute.com.