The Right Mix

How Diverse Income Models Influence Giving
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The Right Mix: How Diverse Income Models Influence Giving

For all the attention paid to how nonprofits raise funds, there is very little public understanding about the practice of fundraising and the various income streams nonprofits rely on. There are widespread notions that fundraising is a necessary evil, or that dollars spent on fundraising are being diverted from the organization’s work. This is a dangerous mischaracterization of the role that fundraising plays in supporting and sustaining the work of the nonprofit sector.

Here’s the truth:

- **Nonprofits depend on charitable support.** According to the [National Center for Charitable Statistics](https://www.nccsdatacenter.org), charitable donations underwrite 23%—almost a quarter—of all nonprofit expenses; that percentage increases to 51% when you include only those organizations with budgets of $10 million or less. There is no question that without charitable dollars, nonprofit organizations could not fund their missions and work.

- **Fundraising is the practice of securing charitable gifts.** While it’s true that some donations are made without fundraising outreach, the vast majority of charitable gifts are made by donors as a result of being asked, which makes the practice of fundraising essential for organizations to survive.

- **Fundraising is an ongoing and continuous effort.** A study by the Urban Institute® and the Association of Fundraising Professionals® found that in a one-year period, 96 donors were lost for every 100 donors gained. In pure dollars, this meant that $4.695 billion new (or increased) dollars were raised to help cover the $4.264 billion lost due to donor attrition.¹ To fuel growth, or even to keep pace with current needs, organizations must continue to invest in fundraising efforts to support their programs.

At BoardSource, we understand there are real risks to underinvesting in fundraising, including the possibility of becoming overdependent on a small number of donors. Through the “Measuring Fundraising Effectiveness” framework we created with GuideStar®, BBB Wise Giving Alliance®, and the Association of Fundraising Professionals, we formed a way for nonprofit board and staff members to quantify the risk associated with a lack of diversification—what we refer to as the Dependency Quotient.

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¹ [2016 Fundraising Effectiveness Survey Report](http://www.cnpatui.org/Research/Annual-Fundraising-Effectiveness-Survey.aspx), Center on Nonprofits and Philanthropy at the Urban Institute and the Association of Fundraising Professionals
It’s a very simple concept that invites organizations to consider this question: What percentage of our operating budget would be left unfunded if we lost our organization’s top five donors?

For some organizations, this question reveals tremendous vulnerability and fragility. Without their top five donors, they would cease to exist. For others, it documents that a change in the giving of one donor—or even five—would be unlikely to create organizational distress.

The defining difference between these two realities is what this report is all about: investing in a smart, strategic, and diversified approach to fundraising.

There is no question that it takes time, effort, and—yes—money to build a strong and resilient fundraising program. But the fact is that investments in fundraising should be made not despite our need to fund our missions and work, but because of it.

Anne Wallestad
President and Chief Executive Officer, BoardSource®
INTRODUCTION

The nonprofit sector is as diverse as its commercial counterpart. While the financial profile of the commercial sector is most readily summarized by profitability, in the nonprofit sector, financial profiles are characterized by varied sources of income.

Since 1971, when I first began working in management at nonprofit organizations and as a fundraising consultant, I’ve seen just about every type of organization and revenue mix possible. I’ve seen firsthand how organizations can become increasingly dependent on one or two revenue streams.

These varied income sources create distinctly different nonprofit business models. While companies in the commercial sector depend on sales to make a profit, contributed revenue in the nonprofit sector is based on voluntary responses to the solicitations of governments, corporations, foundations, and individuals—for example, support in the form of donations or grants. In addition, non-contributed sources—revenue from either program-related income or other earned income—can substantially influence contributed revenue.

This report explores how other forms of contributed income and income derived from non-contributed sources influence individual contributed income. We will discover how to build more sustainable organizations by maximizing individual contributions within different mixes of revenue sources and through the diversification of revenue streams.

CONTRIBUTED VS. NON-CONTRIBUTED REVENUE

Contributed:
Support to an organization based on a voluntary response to the solicitations of governments, corporations, foundations, and individuals

Non-contributed:
Revenue from either program-related income—such as hospital care, education, or ticket sales—or other earned income, such as merchandise
EVIDENCE OF VARIED INCOME MODELS

The primary sources of information on nonprofit financial models are the Internal Revenue Service (IRS) and the Urban Institute. While the IRS makes organizations’ form 990 returns available, the Urban Institute compiles current and trend data on finances, employment, private giving, and volunteering. The Urban Institute’s research, published in *The Nonprofit Almanac: The Essential Facts and Figures for Managers, Researchers, and Volunteers*, is an excellent source for evaluating the multitude of business models present in the nonprofit sector.

The data in the table below shows percentages of income from five sources for what the Urban Institute calls “reporting public charities” in the sectors listed. Reporting public charities are those that report—and are required to report—to the IRS and had a minimum of $50,000 in gross receipts in 2013. Most religious organizations and congregations are not required to report to the IRS. In 2013, reporting public charities accounted for 31% of all 501(c)(3) public charities and 76% of all public charity income.2

### PERCENTS OF REVENUES BY SOURCES OF REPORTING PUBLIC CHARITIES—2013

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>PRIVATE CONTRIBUTIONS</th>
<th>GOVERNMENT GRANTS AND FEES</th>
<th>NONGOVERNMENT GRANTS AND FEES</th>
<th>INTEREST INCOME</th>
<th>OTHER—INCLUDING EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts, Culture, Humanities</td>
<td>42%</td>
<td>11%</td>
<td>36%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Education</td>
<td>16%</td>
<td>13%</td>
<td>59%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Environment and Animals</td>
<td>50%</td>
<td>15%</td>
<td>28%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Health</td>
<td>4%</td>
<td>38%</td>
<td>54%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Human Services</td>
<td>21%</td>
<td>47%</td>
<td>28%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>International</td>
<td>65%</td>
<td>22%</td>
<td>9%</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

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These sectors have varying degrees of dependence on multiple sources of income, which include 59% and 54% nongovernment grants and fees for education (tuition) and health (medical service charges), respectively; 47% and 38% government grants and fees for human services and health, respectively; and 65% and 50% private contributions for international and environment and animals, respectively.

Comparing the combined percentages of government and nongovernment grants and fees to the percentages of private contributions is another perspective worth taking. For example, the grants and fees percentages combination represents 92% of the average revenue in the health sector, while the average percentage of private contributions is a mere 4%.

This is critically reflected in an organization’s ability to retain the continuing support of the donors they attract. For this report, we looked at the donor retention rates of new and multiyear donors across eight sectors, comprising 18 million donors who contributed $5.1 billion in 2017. At the extreme ends of the spectrum of performance were hospitals (on the low end) and public media (on the high end). New donor retention ranged from 13–39% for hospitals, compared to 42–55% for public television and radio stations. Multiyear retention ranged from 22–59% for hospitals, compared to 66–81% for public television and radio stations.³

These two sectors represent the widest diversity of business models and financial sourcing strategies, yet there are tactical fundraising practices common to both. These include robust sustainer programs in both sectors, albeit more generally with public television and radio than among healthcare institutions.

³ Blackbaud Research
REFINING DATA FOR PLANNING AND MANAGEMENT

Fortunately, we don’t have to play the hands we are dealt—we can refine the data to more accurately assess a given organization’s situation. Then, we can find, study, and perhaps emulate the strategies and fundraising tactics of organizations that have implemented successful individual giving programs.

Identify the right organizations to model.

Just as the average financial metrics for the automotive industry don’t help create successful business models of either Tesla® or AAMCO®, we need to explore for data beyond the National Taxonomy of Exempt Entities (NTEE) sector averages. For example, the data for the health sector in the previous table is very much influenced by hospitals, primary treatment facilities, and outpatient facilities. Together, these types of organizations comprise 84% of the sector’s revenue, 84% of its expenses, and 90% of its assets, but they represent just 18% of the number of public reporting charities in the sector.4 In this way, hospitals, primary treatment facilities, and outpatient facilities are to the health sector what Amazon® is to retail.

Some NTEE categories are reasonably comprehensive: Human services has 11 subcategories. Others are less defined: Public and society benefit has a widely varied collection, with organizations categorized as civil rights and advocacy, community improvement, philanthropy and volunteerism, science and technology, social science, and other public and societal benefit.

And, just as AAMCO had the freedom to decide the business category that fit it best, nonprofits get to decide which NTEE sector fits them best. I know a prominent and market-dominant conservation organization that has placed itself in the international category, and an equally prominent library that identifies itself in education, rather than humanities, in the mixed NTEE bag of arts, culture, and humanities.

The best course to refining evidence for effective benchmarking is to identify organizations doing similar work toward similar goals, with some consideration of differences in size and market potential. GuideStar allows you to gather relevant information and data from 990 tax returns for this secondary research. If you enjoy traffic jams or have difficulty falling asleep at work, check out the IRS.

Next, look for organizations that have busted out of the straitjackets of their categories’ revenue models. Look for marketing and fundraising strategies among those organizations that have loosened the constraints of their income models. For example:

- Is Planned Parenthood® a health, human services, or advocacy organization? It is all three, and it can make convincing cases for financial support in all three realms.
- Is St. Jude Children’s Research Hospital® a hospital that has been confined to the health sector’s average of strictly limited individual support? No, it has made an effective case for supporting victims of debilitating diseases as a trustworthy steward, while effectively marketing itself as a curator of societal values.

Listen and learn.

Look for stories of extraordinary fundraising performance regardless of revenue model, particularly in situations where either donor retention or retained donor value (or both) have dramatically improved.

The average organization may not be able to reach the remarkable 70% or greater sustainer rates becoming increasingly common among public television and radio stations5, but there is strong evidence that every organization can improve donor retention by instituting a sustainer program (learn more in the Sustainers in Focus research series).

Similarly, the average organization may not be able to achieve the amount of $1,000 or greater sustaining donors the Human Rights Campaign® has, but any organization—national or local—can emulate the power of their community pride events.

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4 The Nonprofit Almanac, Ninth Edition, The Urban Institute
5 donorCentrics® Index
BUILDING STRONG DONOR RELATIONSHIPS

I doubt anyone in fundraising or financial management would disagree that the most complicated source of financial support to manage is individual giving. The fundamental strategies of individual giving are universal: Retain the maximum number of donors, develop their value to the organization over time, and grow the base of support at a rate that at least exceeds attrition. The fundamental tactics of solicitation and resolicitation are also common, varying only in their execution.

Four key factors influence donor relationships:

1. Donor values

Consistently, research demonstrates that people do not support organizations, they support causes. They either back people or animals in crises, or they back values that resonate with them. These values are inherent in organizations’ missions and manifest in the work they do. In many—arguably, most—cases, the values are clearly represented: the repertoires of performing arts organizations, the collections in libraries and museums, the graduates and curricula of universities, and the productions and services of public media. The best marketing and fundraising practices relate to donor values. Organizations tend to struggle when their programs depart from those resonant values.

2. Urgency

This includes urgency toward the needs of people, animals, or both. In these cases—represented by a broad spectrum of organizations in a variety of sectors—research has also demonstrated that support is not given to organizations, but through them to those in need. The biggest fundraising problem these organizations face is controversy over their stewardship of the donations entrusted to them, even when the issue raised is demonstrably unfair or false.

3. Proximity

Proximity is a three-dimensional factor affecting donor relationships. In no particular order, the first of these three factors is proximity of personal experience compounded by the length or tenure of that experience: for example, residence on a college’s campus, membership in a religious congregation, attendance at arts performances, a library card (provided it’s used), and a museum membership and visits.

A second dimension of proximity is community. Dozens of studies I have done over the decades have found that donors hold a strong affinity toward organizations they believe contribute to the quality of life in their communities. We have seen that the longer donors reside in communities, the stronger they feel about the positive impact of the organizations they choose to support. And those organizations don’t have to be local; national and even international organizations can show community presence and impact.

The third proximity dimension is control. I blame or credit this to the emergence of Baby Boomer influence on American society. From their teen years onward, a significant characteristic of members of that generation has been individuals having as much control as possible, including over those taking or receiving money. The emergence of the Internet and social media have demonstrated that proximity in this dimension is not necessarily geographic, but can be linked to intimacy, access to information, and the ability to interact with responsible people.

4. Impact

Donors ask themselves how impactful their donation can be to an organization that: is primarily tax funded, since they’ve already contributed through their taxes; has substantial foundation or corporate funding; or has substantial opportunity to monetize services.

Most often, these sources of revenue obligate the organization to publicize them in return, exacerbating the impression of their importance to the organization’s revenue. In this report, we have primarily focused on this factor.
CONCLUSION AND RECOMMENDATIONS

Assess your right mix.

A nonprofit organization’s mission and work tend to determine the sources of income available to it. Its sources of income, in turn, determine the revenue model at the foundation of its business plan and its opportunity for contributed revenue from individuals. The principal factor affecting opportunity for contributed revenue from individuals is the strength of donors’ engagement with the organization.

Organizations with the need and opportunity to secure funding from sources other than individual voluntary contributions, including revenue from services provided to individuals, may not feel an incentive to focus on individual support.

In any business model, the first step toward measuring the capacity to develop individual contributed support is to evaluate how well donor support has been retained over time. Without donor retention that at least exceeds the rate of attrition, there is no opportunity to build the donor base or to grow its value in years to come.

While the revenue model largely determined by an organization’s mission and work cannot be substantially changed, there are usually opportunities for an organization to adjust its business model to expand prospects for individual giving. These opportunities to mitigate negatives and highlight positives extend from the tactical integration and coordination of program, financial, marketing, and resource development strategies to the specifics of fundraising practices.

We have entered an era in which it appears the expansion of the nonprofit sector cannot continue with the expectation of an expanded market of individual donors. Consolidation will have to come. Meanwhile, collaboration within and among organizations must be more extensively practiced.
Build a sustainable future from the top down.

In my experience in senior management at nonprofit organizations and consulting with senior managers, organizational obstacles to growth and stability loom large. There are key structural elements of nonprofit enterprise that promote disconnection. Most prominent is the division between program services and supporting services fundamental to financial management. Unintended consequences of this foundational accounting protocol are not only disconnection between the program side and the supporting side, but also disconnections within each side. These silos not only create a disconcerting lack of collaboration, particularly in forward planning, but also cause dysfunctional competition for top management attention and for resources that are perennially limited. Organizations can never afford this, but today we are under such severe economic pressure that a paradigm shift is needed more than ever.

There are a few collaborative approaches leaders can implement to combat these issues:

1. Chief development officers and chief financial officers must collaborate so financial and fundraising strategies and expectations are aligned for organization benefit.

2. Planning and budgeting for research and testing is essential in understanding the potential for contributed and non-contributed income.

3. Marketing and fundraising strategies must be aligned to best frame and communicate the societal values embraced by an organization’s mission and programs. This results in stronger donor engagement and retention.

4. Organizations should connect with those pursuing like business models to realize two important benefits: economic scale in research and testing, and benchmarking best-performing practices. The Contributor Development Partnership for public broadcasting, initiated and managed by WGBH in Boston, is a good example. Now in its seventh year, it has 133 collaborating stations engaged in at least one of its 18 businesses, and has produced incremental revenue of over $100 million.6

6 Contributor Development Partnership
About the Author

Christopher Dann is a consultant who works with Blackbaud Chief Scientist Chuck Longfield on research projects aimed at expanding donor bases and improving income for the nonprofit sector. Chris and Chuck have been collaborating on such projects for more than 30 years.

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.

About Blackbaud

Leading uniquely at the intersection point of technology and social good, Blackbaud connects and empowers organizations to increase their impact through cloud software, services, expertise, and data intelligence. We serve the entire social good community, which includes nonprofits, foundations, companies, education institutions, healthcare organizations, and the individual change agents who support them.

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