



Fundraising in a Cold Climate

An Analysis by 2into3

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***Prepared by:
Dennis O'Connor
Deirdre Hatch***

***2into3,
Benson Street,
77 Sir John Rogerson's Quay,
Dublin 2.***

***+353 (1) 640 1825
+353 (86) 8162278
dennis@2into3.com
www.2into3.com***



1. Introduction

Pearl Harbour, the assassination of John F Kennedy, the Arab oil Embargo and 9/11: all are significant events on the world stage. Which of these caused the greatest decline in philanthropic giving in the US? The answer may surprise many who are concerned about the impact of the recent and ongoing financial crises on philanthropy – none. In fact, during the year of each of these crises the rate of philanthropic giving in the US actually rose on the previous year.

Today, it is clear that some non-profits are facing tough times in the fundraising stakes. The recently acquired Merrill Lynch awarded \$43.7 million to non-profits in 2007, and the now bankrupt Lehman Brothers gave \$39 million.¹ For the many beneficiaries of their funds, and the funds of other casualties of recent events, a big question mark now exists over their future support.

It is not just the direct beneficiaries of these organisations that are facing an uncertain future. The recent volatility in financial markets as a whole can have a direct impact on other donors – one long established, UK-based trust recently reported that its endowment lost more than £10 million in value in less than 18 months.² Anecdotal evidence also suggests that the effect of the faltering economy is already been felt by some non-profits in the US, who are reporting a fall-off in donations, or a delay to pledged donations, particularly large gifts.³

This uncertainty comes at a time when many non-profits are also facing an increased demand for their services and are simultaneously looking at a potential cut or freeze in government spending. So what is the future likely to hold for non-profits in an economic climate that is becoming increasingly difficult? Is it time to give in to the doom and gloom and resign ourselves to the fact that at the moment, and for the foreseeable future, fundraising is doomed to fail?

¹ <http://philanthropy.com/news/updates/index.php?id=5732> :

² Atlantic Philanthropies:

http://atlanticphilanthropies.org/news/news/philanthropy_in_a_time_of_recession_will_anything_give

³ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000601.htm>

2. Lessons From the Past

There is little historic data on donations in Ireland. Therefore, we need to look to the experience of other countries, such as the US, to identify the impact of previous economic difficulties on philanthropy. The fundraising environments of Ireland and the US are by no means identical – cultural factors, environmental factors, and the stage of development of philanthropy all interact to create different fundraising environments. However, US past experiences give us some useful insights.

The Centre on Philanthropy at Indiana University carried out a review of data on economic trends and philanthropic giving. It focused in particular on times of crisis in the US. Thirteen events were examined, including war-like events (such as the fall of France, Pearl Harbour and the Cuban Missile Crisis), acts of terrorism (such as the 1993 World Trade Centre bombing), political crises (such as the assassination of John F. Kennedy and the resignation of Nixon), and economic crises (such as the Arab oil embargo and the financial crisis of 1987). Donations in the US during the year of the event and the year either side of the event were examined.

The analysis found that total giving in the US increased every year examined, with one exception. Excluding this one exception, the rate of growth varied from 1.2% to 46.8%. In addition, in the year following each economic crisis studied, the rate of growth in donations exceeded that of the year of the event, indicating that a delayed correction in levels of giving was not in operation. The table below shows an extract from the results.

Event	Year	% Change in Stock Market ⁴	% Change in Giving ⁵
Fall of France	1940	-20.9%	+46.8%
Pearl Harbour	1941	-0.7%	+36.3%
Cuban Missile Crisis	1962	+16.9%	+1.2%
Arab Oil Crisis	1973	-30.9%	+4.7%
1987 financial crisis	1987	-4.9%	-1.3%
9/11	2001	-7%	+4%
Credit Crunch	2008	-22.16% ⁶	?
Irish Market	2008	-43.3% ⁷	?

⁴ For the 2008 Credit Crunch, % Change in Stock Market relates to change in the Dow Jones between 1st January 2008 and 3rd October 2008. In the Irish market for 2008, % Change in Stock Market relates to change in the ISEQ Overall Index between 1st January 2008 and 3rd October 2008. For 9/11, the % Change in Stock Market relates to change in the Dow Jones in 2001. For all others events listed here, % Change in Stock Market relates to change in the Dow Jones 365 days after the event.

⁵ % Change in Giving relates to total giving in the US in that year.

⁶ CNN Money: <http://money.cnn.com/data/markets/dow/>

⁷ Irish Stock Exchange:

http://www.ise.ie/app/indexHistory.asp?end_day=1&end_month=1&end_year=2008&start_day=3&start_month=10&start_year=2008&x=5&y=5



As the table shows, the one exception was 1987, a year of financial crisis. In 1987, giving dropped by 1.3% on the previous year. However, even this relatively small drop may have had nothing to do with the financial crisis – the year before, a tax change law came into effect that may have prompted many people to make their donations early, so they could maximise the value of tax deductions.⁸ By 1988, levels of giving had increased again, by 7.1% on the previous year. All these figures are before adjustment for inflation.

The Centre on Philanthropy at Indiana University also carried out a review of economic trends and philanthropic giving over forty years, from 1959 to 1999. This research showed that, once adjusted for inflation, giving between 1959 and 1999 grew by an average of 3%, falling to a drop of 0.7% during recessions. In years that included at least eight months recession, the average drop was 2.7%.⁹ Total philanthropy also showed resiliency in the face of stock market volatility, fluctuating less dramatically than the stock market. In fact, during 2002, when the S&P Index dropped 23%, philanthropy actually increased by 1%.

So, if past history is a guide, recent events should, at a macro level give us little cause for alarm. An average drop of 0.7% during recessions is not significant. On 29 September 2008, the Dow Jones had the biggest drop in points (not in percentage) in its history – nearly 778 points. This represented a drop of 6.98% - less than a third of the drop in the S&P index in 2002 in percentage terms.

However, clearly these figures can mask a range of variations – it is likely that the impact of a downturn will not be felt evenly across all types of organisations. There are a myriad of factors at play that influence how a non-profit may fare in difficult economic times. Fundraising techniques, the mission of the organisation, the donor base, and the way the organisation operates are amongst the key factors playing a part.

2.1. Fundraising Techniques

The Association of Fundraising Professionals carried out a survey on fundraising in the US at the end of 2007, at the point when the mortgage crisis was hitting home.¹⁰ The survey found that over three quarters of non-profits raised more funds, or the same amount of funds, in 2007 as in 2006. The fundraising techniques examined were direct mail, telemarketing, major gifts, planned giving, online fundraising and special events. The survey found that nearly every fundraising technique measured in the survey saw less funds raised in 2007 than in 2006. The one exception was planned giving, which grew by 2%.

⁸ Giving USA Foundation Report

⁹ The Philanthropy Journal: <http://philanthropyjournal.org/news/past-sheds-light-recession-giving>

¹⁰ Association of Fundraising Professionals: State of Fundraising Survey: http://www.afpnet.org/ka/ka-3.cfm?content_item_id=24425&folder_id=2365



A report produced by the Association of Fundraising Professionals, on the impact of 9/11 on non-profits found that, in the aftermath of 9/11, different types of philanthropic giving were affected in different ways.¹¹ Planned giving programmes showed little change, and a greater percentage experienced an increase in the success of online giving/Internet based requests made after September 11th than before. Higher percentages of organisations reported a decrease in funds raised through annual funds, direct mail and major gifts campaigns, than had done so before September 11.

2.2. Mission

Historically, economic difficulties have been shown to affect different types of non-profits in different ways. A study published by the Giving USA Foundation,¹² found that for some organisations, recessions can actually increase the level of donations. For example, for human services groups, the study found that the average rate of growth across forty years (after adjustment for inflation) was 2.3%; this more than doubled to an average of 5% during the four years with eight or more months of recession. For organisations with a religious, health or public service benefit, arts organisations and organisations focussing on international affairs, average rates of growth in donations were positive but did not increase during recession. In fact, the only sector that saw a drop in the average rate of growth in donations during the years with at least eight months of recession was the education sector.

2.3. Donor Profile

A non-profit's donor profile can be a significant factor affecting how the non-profit will fare during an economic downturn – individuals, companies and foundations have been shown to be affected by economic difficulties in different ways.

Research in the US has found that, over the course of the four decades analysed, during years with at least eight months recession, individual giving dropped an average of 3.9% after inflation.¹³ In addition, based on recent experiences in the US, modest gifts in particular (those in the \$100-\$300 range) have been negatively affected.¹⁴ Therefore, non-profits that rely on a broad base of donors in this gift range are perhaps likely to be most affected. The survey also found that foundation donations dropped an average of 0.1% and corporate donations decreased an average of 1.6%.

¹¹ Association of Fundraising Professionals: Study of the impact of the events of September 11 on Charities

¹² Centre on Philanthropy at Indiana University: 'Giving during recessions and economic slowdowns' (published by the Giving USA Foundation). Referenced in <http://philanthropyjournal.org/news/past-sheds-light-recession-giving>

¹³ Centre on Philanthropy at Indiana University: 'Giving during recessions and economic slowdowns' (published by the Giving USA Foundation). Referenced in <http://philanthropyjournal.org/news/past-sheds-light-recession-giving>

¹⁴ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000601.htm>

2.4. Organisational Factors

The non-profit's method of working also seems to be a factor in how well they fare during economic difficulties. According to research carried out by a fundraising consultant based in Chicago, in difficult economic times, half of America's largest colleges tend to achieve an increase in contributions while half do not. The distinguishing factors in those that increased contributions were found to be those that planned for the difficulties, those that took special measures as required by the change in circumstances, and those that took a long-term view of fundraising. In contrast, those that had lower contributions tended to be those that did not have sufficient fundraisers, those that did not continue a drive for new donors, or those that failed to promptly fill a key fundraising or other leadership role.¹⁵

The survey by the Association of Fundraising Professionals on donations in 2007 found that organisation size seemed to play a part in fundraising success in that year – a majority of larger organisations raised more money in 2007, while smaller organisations did not fare nearly as well. Large organisations that had diversified funding streams and developed alternative sources of revenue in recent years managed to offset the impact of a slowing economy.¹⁶ In addition, those that focused on donor retention, expansion of planned giving and reduced dependency on government funds seemed to perform better in times of economic crisis.

¹⁵ The Chronicle of Philanthropy: <http://philanthropy.com/news/prospecting/index.php?id=5756>

¹⁶ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i18/18002501.htm>

3. What is Likely to Happen Now?

Given the number of different factors at play, and the lack of data in an Irish context, it is very difficult to predict the impact that economic conditions are likely to have on fundraising in Ireland. Based on historic evidence, undoubtedly for some the impact will be felt strongly in a negative way, but for others, the impact is less certain and may even be positive.

3.1. Individual Gifts

Predictions for gifts from individuals vary. In broad terms, a poll carried out in the US found that 29% of Americans plan to cut giving this year.¹⁷ Age profile may also have an impact – this poll found that while donors over 65 planned to give less or not at all, donors between 25 and 34 are likely to increase their philanthropic giving.¹⁸ In the UK the polls tell a different story - a recent poll carried out in the UK found that 49% of those polled said they would probably give less; 15% said they would not.¹⁹

Whether the non-profit has a large pool of donors giving small gifts, or a small pool of donors giving large gifts also seems likely to have an impact. Large gifts from donors with longstanding ties to an organisation are likely to continue to honour their commitments, but, for some, terms may be altered so that payments are delayed.²⁰ In addition, a recent article points out that many philanthropists consider it their duty to invest in the community. Many see it as a way of life, rather than being something to do only in good financial times, enjoying the satisfaction, prestige and influence that they gain from their philanthropic activities. On top of this, while some philanthropists may suffer in a recession, many may actually prosper.²¹ These are clearly generalisations that will not apply across the board. However, it indicates that a recession does not necessarily equate to a reduction in major gifts from all philanthropists.

Another aspect to consider is the fact that philanthropy in Ireland is a relatively young enterprise. As highlighted by Atlantic Philanthropies, there is still significant potential to grow philanthropy in Ireland - only 12% of the population currently gives in a planned way.²² Ireland has accumulated significant wealth since the heady days of the Celtic Tiger and all this wealth has not disappeared. There seems to be significant potential for growth in gifts from individuals, particularly in major gifts.

¹⁷ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i23/23003903.htm>

¹⁸ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i23/23003903.htm>

¹⁹ The Third Sector: <http://www.thirdsector.co.uk/News/DailyBulletin/848372/Credit-crunch-means-donors-will-give-less/36354DC98506F47E47DDB404F49940F2/?DCMP=EMC-DailyBulletin>

²⁰ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000801.htm>

²¹ All Business: <http://www.allbusiness.com/specialty-businesses/non-profit-businesses-non/164170-1.html>

²² Atlantic Philanthropies:

http://atlanticphilanthropies.org/news/news/philanthropy_in_a_time_of_recession_will_anything_give

3.2. Direct Mail and Special Events

An article, produced in the Chronicle of Philanthropy, projects that organisations will find it particularly difficult to attract donations (particularly repeat donations) through direct mail.²³ Special events also tend to see less take-up amongst donors and this seems likely in the current environment, as in difficult times in particular, donors want to see the full amount of any donation going to the organisation, with minimal overhead costs being deducted.

3.3. Legacies

Some analysts predict that legacy income is likely to drop: while the number of legacies may stay the same, the amount in monetary value may decrease. This is likely particularly if the donation is based on a percentage of the donor's estate, as falling stock and property values take their toll.²⁴

In this context, it is also worth considering that the use of legacies as a fundraising technique is an area that is in the early stages in Ireland. This has a two-fold implication. Firstly, there is large potential for growth from this source in Ireland. Secondly, unlike in the US, it is likely to be a number of years before many legacies come to fruition, giving those legacies that have recently lost value, more time to recover their value.

3.4. Corporate Funding

A senior figure at Business in the Community in the UK recently commented that it is inevitable that businesses will reduce their spending on non-profits during the economic downturn.²⁵ While this seems to be likely for some companies, particularly those in the financial, property or construction sectors in Ireland, it is not necessarily the case for all companies. Following the 2001 terrorist attacks, while the overall stock market and mutual fund indexes in the US were down, a significant percentage of organisations (35-40%) were still making money.²⁶ Depending on the industry and the company, the likely success of corporate fundraising depends very much on the individual company and industry being approached. In competitive times, reputation is increasingly important – and being recognised for contributions to the non-profit sector in high-profile ways can help a company's reputation and ultimately the bottom-line.

²³ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000801.htm>

²⁴ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000801.htm>

²⁵ The Third Sector: <http://www.thirdsector.co.uk/news/Article/847702/Reduced-business-spending-charities-inevitable/>

²⁶ The Chronicle of Philanthropy: <http://philanthropy.com/free/articles/v20/i08/08001301.htm>

In addition, where cuts are planned, many companies with long-term agreements may still honour their commitments. Cuts may not be made immediately, giving those non-profits affected time to develop alternate income streams.

3.5. Funding from Foundations

The outlook for donations by foundations will depend on the foundation in question.

A recent survey on projected donations from foundations in the US indicates a reasonably positive outlook. The Foundation Centre found that 54% expected giving to increase in 2008 – for many foundations the reason for this was primarily as a response to help those affected by the economy. 28% projected a decrease in the year. The biggest foundations (making grants of over \$10 million) were the most likely to increase giving in 2008.²⁷ This survey was conducted prior to the extraordinary events in the financial markets in recent weeks.

Given the recent financial instability, many foundation endowments may have fallen significantly, meaning there could be less funds to go around. While many foundations focus on the long-term and are able to weather short term fluctuations, it seems likely that if the economic situation continues for some time, the impact may begin to take its toll on those foundations whose endowments are particularly dependent on stock market performance. There could also be increased competition for funds due to the probable fall in government funding in some sectors.

However, many foundations are fixed-life foundations. For these foundations, it seems unlikely that current funding programmes will be cut immediately; rather these types of foundations may simply stop their programme of giving earlier than originally planned. Alternately, some of these foundations may have time to recover any losses their endowments may be currently suffering.

²⁷ The Chronicle of Philanthropy: <http://philanthropy.com/news/updates/4568/most-grant-makers-plan-to-increase-giving-in-2008>



4. What Can your Organisation Do?

History shows us that, in past recessions, donations at a macro level have not been significantly affected. However, there have been winners and losers. So what can your organisation do to ensure you are strongly positioned to face challenging times?

1. **Examine your income streams.** Not all income streams will be affected in the same way. Identifying income streams that are likely to be cut will allow you to take pre-emptive action to minimise the effect of the cut.
2. **Diversify** your income streams. Over dependency on one type of income stream, one person or one company is far from ideal. This is an important fundraising principle – one that becomes even more important in economic downturns. If you do have a high dependency on one income stream, be it a foundation, corporation or individual, talk to your key donors early. Talking to them about their plans will help you to develop a realistic plan for the coming year, or make adjustments as required.
3. Re-focus on **donor retention**, through focusing more than ever on donor cultivation and donor stewardship.
4. **Keep communicating** with your donors. Focus on the importance of **the cause** rather than the organisation, and explain how the donor's support will make a difference in a positive way. Let your donors know much their contributions mean to you, by **showing the impact** of your work on the life of an individual. In addition, **focus on long term plans and transparency** in how money will be spent – a recent poll showed that nearly a quarter of donors stopped giving because they were unable to see where their money was being spent.²⁸ For companies, clearly articulate the benefits to the company of partnering with a non-profit. Speak in their language, highlighting the **business benefits** of the partnership.
5. While it is critical to focus on donor retention, do not stop efforts to try to find **new donors**. Given the gloomy outlook and the increased difficulty in finding new donors, the tendency for many may be to stop trying to recruit new donors. This happened in the US after the 2001 terrorist attacks – many non-profits stopped mailing appeals to potential donors, from a fear of offending or alienating people. However, this could be a mistake - eighteen months after 9/11, many of these non-profits were looking at a significantly shrunken donor pool, which took time to rebuild.²⁹
6. **Keep in touch** with people who have stopped making donations. Although the tone and frequency of your communications may change, keeping the relationship alive is likely to increase the chance that donors will resume giving when they can.

²⁸ The Third Sector: <http://www.thirdsector.co.uk/News/DailyBulletin/850207/Information-key-retaining-donors-says-poll/AAF31988B78A2280A58D4B38C9F29D02/?DCMP=EMC-DailyBulletin>

²⁹ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000801.htm>



7. **Research, research, research.** Be aware of the environment and adjust your approach accordingly. The economic downturn does not affect everyone in the same way – some may be thriving through the downturn. On the other hand, potential donors that may have seemed likely supporters may need to be approached differently today, or not at all, until things improve. Before approaching a key donor, refresh your research into their background and assets. Your donor’s situation may have changed – an awareness of this will allow you to pitch in an appropriate way, at an appropriate time and at an appropriate level.
8. Consider your use of **planned giving**, including regular giving and legacies. Planned giving is the one fundraising method that has in the past shown an increase during times of recession. Therefore, if you do not currently include planned giving in your fundraising mix, consider including it. If you currently have planned giving in your mix, consider moving some of your resources from other fundraising methods such as direct mail or events to planned giving.
9. **Avoid fundraising cuts if possible.** This can have a negative impact, particularly on planned giving. It can also cause problems with donor retention, if donor stewardship services are neglected. If you do make cuts, think carefully about the adjustments you make. Research found that during the last major downturn in the US, decisions that were intended as temporary short-term cuts and changes have had permanent effects.³⁰

³⁰ The Chronicle of Philanthropy: <http://philanthropy.com/premium/articles/v20/i08/08000601.htm>

Authors



Dennis O'Connor
Director, 2into3
+353 1 640 1825
+353 86 8162278
dennis@2into3.com



Deirdre Hatch
Consultant, 2into3
+353 1 6401891
+353 87 9237006
deirdre@2into3.com