FUNDRAISING *forum*

MAMA SAID NEVER PUT ALL YOUR EGGS IN ONE BASKET:

Boards, Strategic Thinking, & the Need for Diversified Revenue

Use these checklists to guarantee a steady income for your organization.

BY TERRIE TEMKIN

The poet Arthur Guiterman once said, "Keep out of ruts; a rut is something which if traveled in too much, becomes a ditch." This is especially true when it comes to fundraising.

Your organization can avoid wearing a rut in the road by venturing off the beaten track. The key is to keep your destination clear and your map handy so you can make the best choice from your options. Ready to travel? Let's go.

THE RESPONSIBILITY FOR NAVIGATING

When mapping out your organization's journey, it's imperative to consult both your staff and board. Each group's insight is different yet equally critical. Staff members control the details necessary to drive the organization day to day. Strategic thinking with a long-range perspective is the defining responsibility of boards.

Strategic thinking is fun. It challenges boards to think creatively and envision the "what ifs…." But it requires more than dreaming dreams. All plans have costs that must be covered. As one pop philosopher reminds us: If you want milk, don't set your stool in the middle of the field in the hopes that the cow will back into you. To realize your vision, you must decide how to fund that vision—a process that involves a great deal of strategic thinking.

MAPPING OUT THE TRIP

A board should consider many factors when deciding how best to fund its plan. Here are a few points to keep in mind:

Decide how much money you need—and when you need it. The staff should be able to supply board members with program budgets and timelines geared to objectives previously defined by the board. Board members must be realistic and plan for contingencies as they allocate money and time.

Scrutinize timelines. By helping the board visualize its needs for resources, timelines ensure that the organization doesn't take on more projects than it can handle. Timelines also point out problems, as when the board is relying on funds that can't possibly come in within the desired time frame.

Look at fundraising options. Among them:

Personal contributions

- face-to-face solicitation
- direct mail
- telemarketing
- door-to-door solicitation
- online solicitation
- matching gifts
- planned giving

Grants

- foundation grants
- government grants
- corporate sponsorship

Earned income

- special events
- neighborhood fundraising (for example, bake sales, car washes and garage sales)
- cause-related marketing
- affinity marketing (such as the promotion of credit cards that sport the organization's logo in return for a percentage of the credit card companies' profits)
- joint ventures
- fees for services
- unrelated business

Think Multiple Revenue Streams. The key is to pick several of the above methods to guarantee a steady stream of revenue. Mama always said: Never put all your eggs in one basket; you may drop or lose the basket.

Fundraising techniques go through cycles. For about 15 years

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unless you just need the exercise.

special events were hot, hot, hot. Now they are losing their luster. Affinity marketing was all the rage until it seemed as if every nonprofit organization was offering its own credit card and the IRS stepped in to collect unrelated business income tax (UBIT). Fundraising on the Internet appears to be the next major trend. But it may be short-lived if the issue of state-by-state registration can't be worked out. The point is, while revenue prospects can seem rosy if your organization hits a cycle on its upswing, you can lose big if you use a method that's on its downswing–especially if the board was counting too heavily on that source of cash.

You may also lose big if you don't face the fact that your mission's appeal can go in cycles as well. For years, AIDS organizations, overlooked by mainstream funding sources, went begging. Then, suddenly, it seemed that everyone was throwing money in their direction. Today, with new drug treatments helping people with AIDS lead longer, healthier lives, the mission has lost its sense of urgency, and AIDS organizations are once again scrounging for funds.

For these reasons, it's important to develop balanced fund-development programs. A balanced program will show income from each of the three categories noted above—personal contributions, grants, and earned income.

Diversity within each of these categories is also important. An organization that counts on getting 25 percent or more of its income from any one source is crossing into a danger zone. And while the zone may be cautionary yellow at 25 percent, it is definitely red at 33 percent. What would your organization give up if a third of its expected income didn't come in? Many organizations had to face this when, in 1992, the United Way went through a credibility crisis that affected its fundraising ability. They faced it again when the federal government changed its funding process to block grants in the mid 1990s. Organizations that relied heavily on these funding sources found themselves scrambling to stay alive.

One way to encourage diversity is to be sure the board's fundraising plan targets people both inside and outside the organization. Traditionally, many organizations functioned under the belief that the sweat equity board members and volunteers contributed to their organization was sufficient. They looked only outside the organization for cash donations. Today most realize that those closest to the organization have a responsibility to support it financially as well.

Think Strategically about Funding. There's an old saying that applies well to fundraising: Dig where the gold is unless you just need the exercise. As part of deciding where to "dig," boards must evaluate the ***potential*** of each fundraising strategy to meet their needs. While a car wash may bring in enough dollars for a high school band looking to buy a new drum set, it won't bring in enough dollars for a university to fund its endowment. Looking for the gold also means being realistic about whose deep pockets the organization will attempt to tap. A local bank may be extremely philanthropic. But if your organization is a health-related charity and the bank funds the arts, it is a waste of time and effort to approach the bank.

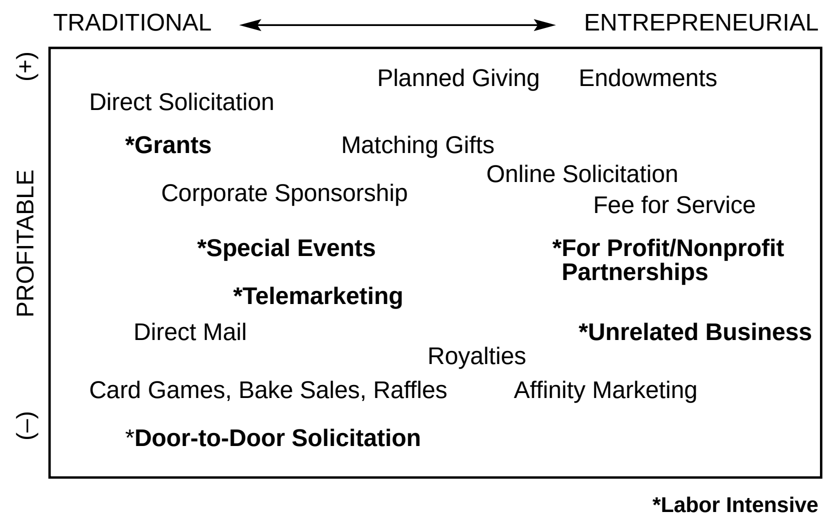
It might be more productive to ask the local gangster who wants to buy respectability to contribute to your cause. Some organizations believe there's no money so dirty that it can't be made clean with the tears of widows and orphans. Is that your organization? Or do you find that idea distasteful? Deciding your ***philosophy*** of fundraising is critical.

Related to philosophy is ***image.*** While you may not be taking money from gangsters, every day your board has to look beyond the dollar signs and decide whether it wants its organization known as the bingo group or the organization that sells burial plots. Development efforts always have a public relations component. The question you must constantly ask is: What kind of an image are we projecting if we go ahead with this idea?

Sensibilities may be ruffled if the avenues pursued aren't ***mission-appropriate.*** Some people were very uncomfortable, for example, when they learned that the founder of Mothers Against Drunk Driving (MADD) accepted money from liquor companies.

This brings us to ***stakeholders' needs and desires.*** How will your contributors, clients, staff, board members, and the public feel if, for instance, your board decides to implement a fee for services that have traditionally been free, or to incorporate affinity marketing into your fundraising mix? You had better feel confident that clients will see the inherent value in your services and be willing to pay or that enough people will view the affinity offering as a benefit and opt to take advantage of it. If people react negatively, they will share their displeasure with the world and your organization's image will suffer. A minimal benchmark against which any development idea should be measured is the commitment level of your board. If the board doesn't back an idea with enthusiasm, it's probably not an idea to implement.

Figure 1. **Fund-Development Options: From Traditional to Entrepreneurial**



Fundraising plans should fit the ***board's worldview.*** Some boards are more comfortable with traditional fundraising methods such as grants, special events, and direct solicitation. Others are motivated only by entrepreneurial approaches—for example, establishing a for-profit business to generate income for the nonprofit (see Figure 1). Because the worldview may shift with any changes in your board roster, this should not be a defining issue. At the same time, board members must be committed to whatever fundraising efforts are undertaken, so their preference should carry some weight.

Whatever fund-development strategy the board selects should make sense for the organization's ***sophistication level.*** The earlier example of a university trying to fund its endowment by holding a car wash is a case in point. The major donors so essential to a university's viability might lose confidence in an administration operating at this rudimentary level. University development offices typically function at the cutting edge.

A related issue is your organization's stage of existence. Organizations have ***life cycles*** just as people do. When an organization is in its infancy, it is consumed with the basics. Capital campaigns and endowment funds are years down the road. As the organization grows to maturity, a permanent home and security become important. In the early years, unless an organization's mission is truly unique and topical, a board's ability to promote a new organization to a for-profit partner is probably limited. Businesses looking for nonprofit partners generally want to associate with a well-recognized organization so as to bask in its reflected goodness.

Another important fundraising issue is the ***availability of sufficient staffing***—paid or volunteer—with the appropriate skills. For example, your organization may need only one or two people to operate a planned giving program, but they must be highly skilled individuals with a great deal of specialized knowledge. For an auction, you need lots of people—to solicit items, put together a catalog, sell tickets, serve as auctioneer, man the checkout counter, arrange for food and entertainment, and encourage sales.

The ***risk*** you assume by choosing a particular fundraising course must be considered, too. Some of the most treasured fundraising techniques are filled with risk. Raffles, for example, are illegal in almost every state (see "References"). You must be aware of where the potential for problems exists. When choosing a fundraising method, look carefully at the following:

- down payments, such as those incurred in special event planning (for example, the organization must cancel the event)
- situations or events that could lead to personal injury or property damage (for example, someone gets food poisoning at the bake sale)
- investment decisions
- maintenance of inventory (for example, storage costs eat up the projected profits from a cookbook)
- reporting and registration requirements (for example, Florida has begun to fine organizations in other states that have not registered with the state of Florida to solicit funds if those organizations receive any money from Florida. This is true *even if there was no effort to solicit in Florida*–say someone stumbled over a Web page, thought the organization was interesting, and decided to send a check).

Figure 2. **Fund-Development Options: Decision Grid**

	DIRECT SOLICITATION	DIRECT MAIL	TELEMARKETING	DOOR-TO-DOOR SOLICITATION	ONLINE SOLICITATION	SPECIAL EVENTS	NEIGHBORHOOD FUND RAISING	FOUNDATION GRANTS	GOVERNMENT GRANTS	CORPORATE SPONSORSHIP	CAUSE-RELATED MARKETING	AFFINITY MARKETING	MATCHING GIFTS	JOINT VENTURES	PLANNED GIVING	FEE FOR SERVICES	UNRELATED BUSINESS
POTENTIAL																	
SOPHISTICATION LEVEL																	
STAGE IN ORGANIZATION'S LIFECYCLE																	
STAKEHOLDER NEEDS AND DESIRES																	
BOARD'S WORLD VIEW																	
STAKEHOLDER SENSIBILITIES																	
IMAGE																	
AVAILABILITY OF SUFFICIENT STAFFING																	
RISK																	
TAX LIABILITY																	
COST																	
COMPETITION																	

"Nonprofit" is a tax code, not a goal!

- the reputations of for-profit partners
- potential backlash from organization members who resent a particular course of action
- constraints imposed by funding agencies (for example, reporting requirements that demand administrative oversight not paid for by the grant)
- unexpected tax liability
- government sanctions, including the loss of 501(c)(3) status

Nonprofits often overlook the potential for ***tax liability***. Yet several fundraising options, such as the sale of goods and services not directly related to the organization's mission, are taxable. Many organization stakeholders recoil from the idea of paying taxes, but nonprofits raise a lot of money pursuing unrelated business income. The key, once again, is to think strategically about the benefits versus the costs.

Unfortunately, ***cost*** is one more factor that's often overlooked. Remember: Sometimes money just costs too much. The most blatant example is the board that opts for a special event because it wants to avoid direct solicitation. Board members invest much time and money to raise a couple thousand dollars. And they still have to solicit. Soliciting for ticket sales, underwriting, and giveaways is more time-consuming than asking for a major gift, and the potential for return is less. The lesson is to make no decision about fundraising without first looking at total costs. Even nonprofits have to make a profit: "Nonprofit" is a tax code, not a goal!

Finally, with just under 1.5 million nonprofit organizations in this country–a figure that grows by approximately 40,000 a year–you must consider your ***competition.*** What are others in the community doing to raise money? How can you ensure that your organization wins its share of the market?

Your board must talk about the above issues, always framing its responses in relation to the organization's mission. Its conclusions should be written down. Some of the conclusions, such as the degree of risk the organization is comfortable in assuming, should probably be codified as policy. Then, the board should ask how well each fundraising technique stacks up when measured against its conclusions.

One easy way for your board to visualize the comparisons is to create a grid with decisions about issues on the vertical axis and fund-development options on the horizontal axis (see Figure 2). If the board puts a check mark in any box where the fundraising method meets the set standard, a quick look at the completed grid will show which methods are most appropriate.

Think Contingencies. No matter how realistic your budget, you're likely to find yourself short in some area sometime during the year. Unfortunately, you face a risk whenever your plans depend on others, including corporate sponsors or joint venture partners, who may decide to put their money elsewhere or who suddenly file bankruptcy. Therefore, it is critical that your board plan for contingencies, with back-up fundraising ideas beyond those specified in the original plan.

THE JOURNEY

So, the board has identified your organization's destination, unfolded the map, and talked about where everyone wants to go and why. The pros and cons of certain stops over others have been debated. The costs have been discussed and the options narrowed to those that are both affordable and appealing. You are ready to pull out of the drive.

As with any other journey, the planning you have done should make for a memorable trip. Just a few final hints:

Share the driving. It will increase the pleasure for everyone as work teams coalesce, friendships emerge, and people feel they are truly helping the organization make an impact on the community.

Seek adventure. There is no reason to follow last year's fundraising plan. The less traveled roads will not only keep you out of the ditches, but also provide you with some of your best board experiences—as long as you always keep sight of your destination. ■

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These resources are available from the Society's Resource Center, 608-274-9777, Ext. 221, www. danenet.org/snpo.

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