Charitableway Gives Up on Online Giving

Why did this leader in charitable online giving fail? Does its demise hold lessons for the future?

BY GORDON FELLER

Charitableway, at one time a leading firm in online philanthropy, has called it quits. The question remains: Why did a high-profile company that raised $43 million from investors and processed $36 million in workplace-giving donations fail? According to Charitableway's founder Pete Mountanos, the two-year old, San Carlos, California-based firm overestimated the size of the e-philanthropy market, and couldn't develop a business model that accommodated the demands of both its corporate clients and its United Way partners.

Charitableway initially created an online charity mall that let visitors contribute to charities directly or by making online purchases. But after finding that charities weren't prepared to manage data about online donors, the company last fall shifted its strategy and introduced its workplace-giving product. Charitableway signed up 12 companies to handle its workplace campaigns. More than 90 percent of the donations that Charitableway processed involved partnerships between its corporate clients and United Way affiliates.

Tom Reis, who tracks e-philanthropy for the W.K. Kellogg Foundation in Battle Creek, Michigan, says Charitableway's demise could signal that the bottom line for the online-charity business may be more about contributions to society than high returns. "It may be pointing to the reality that while there is opportunity in the e-philanthropy hills, it may not be the golden, high-return on investment that the venture capital community or even the business community in general wants," he says.

What is the full scope of the opportunity for application service providers (ASPs) in charitable-donation processing?[1] Employers of all kinds want to better serve their employees, in part because they put a premium on retaining good workers. Approximately $4 billion was donated through company-supported workplace-giving campaigns last year—and the matching part of the program creates a substantial pool of goodwill toward the employer. Giving at the office is a popular alternative for many individuals. Providing potential donors with online access to charities opens up opportunities for service providers.

Helping companies streamline workplace giving may be a viable notion in a thriving economy, but working directly with corporations as Charitableway did may not be the right strategy in a slow economy. That's the take on Charitableway's problem from Vinay Bhagat, founder and CEO at Convio, a company that provides relationship management software to nonprofit organizations themselves. "If you are IBM, what are you going to spend your money on—sales force automation software or tools to enhance workplace giving?", asks Bhagat. An online donation system may be 25th on the priority list for a for-profit business. But when you deal with the nonprofits themselves, a Web-based system is number 1 or 2 on the list, said Bhagat.[2]

He may be on to something. On March 27, Convio announced that it had secured $12 million in a second round of funding through Granite Ventures and Adobe Ventures. Convio customers include the Planned Parenthood Federation of America (PPFA), the 12th largest nonprofit in the U.S. Convio reports that PPFA raised $500,000 in the last four months using the Convio Relationship Management System.

Is Convio's success representative of more opportunities for ASPs in the online-giving sector, despite Charitableway's failure? Ted Hart, president and CEO of the

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Philanthropy Foundation explains, "Online giving will continue to grow as the Internet becomes more prevalent in our marketplace. However, we have learned that launching a Web site and asking for money is not a guaranteed strategy for success."

Hart notes several statistical trends that will propel online giving. In the next 50 years, economists project the largest inter-generational transfer of wealth ever in the U.S., estimated at between $6 and $25 trillion. Meanwhile, more and more people are hooking up to the Internet. Over half (56%) of American adults now have Internet access, according to a recent poll by the Pew Internet Project (www.pewtrusts.com).

While there may be profits for ASPs in the nonprofit sector, Charitableway will not be around to prosper from them. Mountanos says he will liquidate the company in six to eight months after training clients and their charitable partners to process their campaigns using smaller systems. "Investors want to make sure we do the right thing by the charities," he says. "And by doing it now, we can return capital to the investors."

Mountanos is not completely discouraged. He says he will continue to be involved in e-philanthropy. "I think there are still good propositions in this space and there is always money for a good business proposition," he says. "In light of what it takes to grow, and the size of various markets within the big philanthropy market, a more appropriate structure is smaller and slower." ■

Footnotes

[1]For more on how nonprofits can partner with ASPs, see Gordon Feller in "Selected References."

[2]See "How to Stake Out Your Claim in Cyberspace" and other articles by J.P. Frenza in *Nonprofit World* (www.danenet.org/snpo).

Selected References

Feller, Gordon, "Latest High-Tech Trends: One Giant Leap for Nonprofits," *Nonprofit World*, Vol. 19, No. 1.

Gordon, Lou, "Tech Wise: Nonprofits Join the Revolution," *Nonprofit World*, Vol. 16, No. 5.

Roufa, Mike, "Can Nonprofits Really Raise Money on the Internet?", *Nonprofit World*, Vol. 17, No. 3.

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

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