Raising Funds in an Uncertain Economy

Don't make these fatal errors.

By Marc A. Pitman

In today's uncertain economy, many development professionals assume there isn't enough money to go around. Unfortunately, such fears become self-fulfilling. Fortunately, this "chicken little" mentality isn't based in reality.

Over the past 30 years, individual giving has increased every year but one. Despite catastrophic events like the attacks of 9/11, giving has continued to improve. Only once (after the 1987 Black Monday) did individual giving decrease; and even then, it fell by only 1%. These statistics prove donors' resilience.

Year after year, whether there's a recession, war, or act of terrorism, the amount given to charity grows. But most nonprofits don't use these facts to help with strategic planning.

Weak economies can be helpful. They force you to be leaner. Then, when the economy rebounds, you're better positioned to take advantage of it.

Use times like these to become stronger. Don't fall into the too-common trap of making these deadly mistakes:

Mistake 1: spending less on fundraising

Asking for money costs money. Mailings and fundraising events seem like obvious targets when you're looking for budgets to slash. But be careful. Most fundraising efforts can be tweaked to improve their effectiveness, but none becomes more effective by being eliminated. Use these times of belt tightening to be more strategic with your fundraising methods, but don't simply cut for cutting's sake.

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The development staff at a small hospital in Central Maine recently made a startling discovery about their direct mail program. For two years, they cut costs by mailing only to their most responsive donors. But during those years, the amount raised dropped by 30%. This year they restored their mailings to original levels and raised as much in six months as they had in the previous year. Spending a few extra thousand dollars yielded tens of thousands more in donations.

Mistake 2: becoming pessimistic

Successful fundraising professionals are the most optimistic people alive. They live in hope of a better future. The minute fundraising professionals become gloomy, people hold their wallets tighter. No one wants to invest in a questionable deal. Donors want to know their gift is going to make a nonprofit stronger.

Greg Baldwin, founder of VolunteerMatch, knows how important it is to stay positive. During the tumultuous times around 2001, VolunteerMatch raised over $8 million by staying "focused on the big idea." Baldwin's big idea is to do for volunteering what eBay did for yard sales. By keeping that vision front and center, VolunteerMatch was able to ride out the rough times of the tech bust and 9/11.

Mistake 3: apologizing when asking for money

With the barrage of news reports telling how bad things are, it's easy to feel awkward about asking. But timidity is a sure-fire way to not raise money. Fundraisers must get out from behind their desks and invite donors to give. Of course, they need to understand that many of their best donors may not be able to give at the same level. That understanding is how they show compassion.

But there's nothing compassionate about not asking. Nonprofits are needed more than ever in challenging economic times. If nonprofit leaders don't ask for support, the people they serve will suffer.

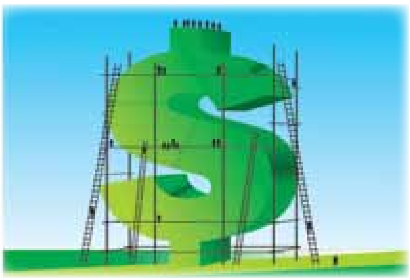
Since donors may not be as cash-rich as they were last year, help them think of other ways to offer support. Perhaps they could volunteer. Maybe the local PR firm could do pro bono media work for your organization instead of giving a cash donation. Or a company could donate products rather than money.

Whether the economy is soft or strong, one sure way to raise less money is to stop asking for it. The best way to recession-proof fundraising is to keep doing the things that raise money and to do them in ways that strengthen relationships with donors, helping them become evangelists for your cause.

The three antidotes

1. Keep on making wise investments in fundraising efforts.
2. Stay upbeat and focused.
3. Ask with confidence.

Combine these ingredients and you have an excellent recipe for strengthening your nonprofit in good economies and bad. ■



Resources

- **Recession-Ready Fundraising** (Vol. 26, No. 6)
- **What's the Key to Raising Money in a Tough Economy?** (Vol. 26, No. 4)
- **Fundraising with Your Board** (Vol. 13, No. 5)
- **Deeper Donor Relationships = Increased Contributions** (Vol. 26, No. 4)
- **Fear of Fundraising** (Vol. 20, No. 5)

These *Nonprofit World* articles are available at www.snpo.org. Also see Learning Institute programs on-line: Resource Development and O for Opportunity: Exploring New Revenue Opportunities for Nonprofits (http://www.snpo.org/lino).

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Five Strategies to Enhance Your Fundraising

Here are ways to use the slow economy to your advantage.

By Sarah H. B. Kahl & Ann Thomas

Despite the challenges of today's economy, there's a spectrum of ways to enrich your fundraising efforts. Use the following tips to raise funds during an economic downturn:

Encourage Donors to Take Advantage of Low Interest Rates

Certain planned-giving methods take advantage of low interest rates. Each month, the IRS publishes an interest rate (known as the Section 7520 rate), which is the rate used for a number of planned-giving techniques.

One technique that's more attractive to donors when interest rates are low is the charitable lead trust (CLT). The mechanics of a CLT provide that a charity receives an interest for a period of years. The interest can be expressed either as a dollar amount or percentage of the assets in the trust. At the end of the term, whatever amount is left in the trust passes to the specified beneficiaries. Depending on the CLT's structure, the donor may receive an income tax deduction. The individual donees receive the remainder interest at little or no gift tax cost to the donor.

Consider a hypothetical donor who might contemplate this technique, particularly when interest rates are low. Mother wants to set up a trust fund for her children. Her stock portfolio is down, but she believes it will grow over time. She also wants to benefit her favorite charity. Mother could transfer $1 million of her stock to a CLT that would pay her favorite charity $111,326 each year for 10 years. If the transaction occurred in February of 2009, there would be no gift tax cost to Mother. Even if the stocks grew as little as 5% a year, there would still be $228,644 left at the end of the term for her children. An 8% return would provide $546,189 for her children.

If Mother had made the same transfer in November of 2007 when interest rates were higher, the amount that would be required for the charity would be $130,765, and 5% growth would leave nothing for her children. From the perspective of a donor like Mother, a low Section 7520 rate makes a CLT appealing.

It's true that low interest rates will decrease the amount the charity receives each year. The decrease is relative small, however, and the CLT's attractiveness to donors means that you may be able to encourage more people to take advantage of it.

Draw on Demand for Fixed Income by Offering Charitable Gift Annuities

In difficult economic times, the idea of receiving a fixed income for life is especially attractive. Donors seeking such security and wanting to benefit a favorite charity may find the answer in charitable gift annuities.

With a charitable gift annuity, a donor contributes property (typically appreciated property) to a charity in exchange for an annuity payment for the rest of the donor's life. The annuity would be lower than fair market value. The difference between fair market value and the donor's annuity payment is the amount that is treated as passing to the designated charity.

To avoid unrelated business income tax (UBIT), be sure the amount treated as passing to charity is at least 10% of the property's value. This is harder to achieve when interest rates are low. But with careful planning, you may find that a charitable gift annuity is a valuable tool for attracting donors.

continued on page 8