

# Permanently Crowdfunded:

The Business Model for Nonprofits Dependent on Individual Donations

January 17, 2024

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# Today's Presenters



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**RUTH  
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Nonprofit Financial  
Commons

# Today's Presenters



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Principal & Founder

Benefactor Group



**JON PRATT**  
Senior Research Fellow

Minnesota Council of  
Nonprofits

# 5 Common Nonprofit Business Models



INDIVIDUAL DONOR



FOUNDATION (“INSTITUTIONAL”)



GOVERNMENT



FEE FOR SERVICE



MEMBERSHIP

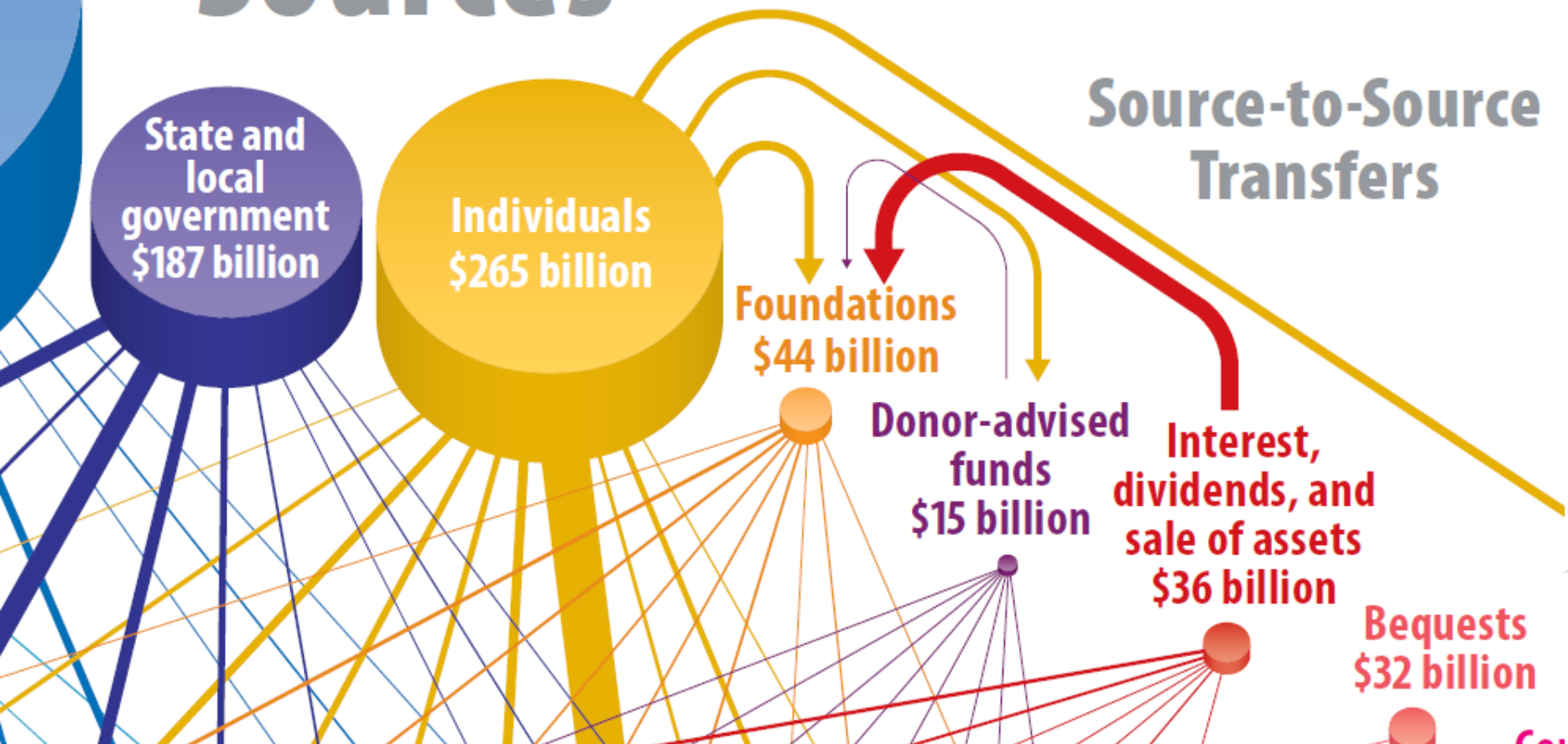
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# Illustrated Nonprofit Economy

## 3rd Edition

by Jon Pratt (*NPQ* contributing editor)  
and Kari Aanestad (contributing writer)

### Sources



### Source-to-Source Transfers

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# NPQ's Illustrated Nonprofit Economy

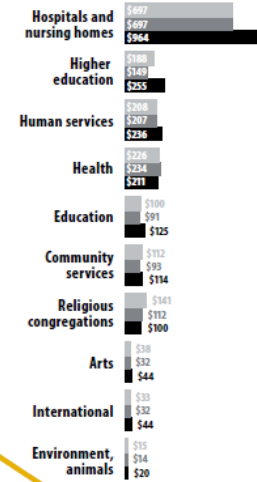
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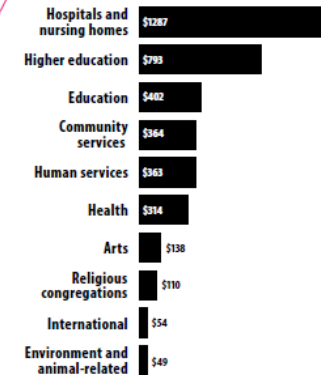
### Sources

### Source-to-Source Transfers

### Revenue Growth (inflation adjusted in \$ billions; 2006, 2009, 2015)



### Total Assets (in \$ billions, 2015)



Program fees from private sources  
**\$1 trillion**

Federal government  
**\$491 billion**

State and local government  
**\$187 billion**

Individuals  
**\$265 billion**

Foundations  
**\$44 billion**

Donor-advised funds  
**\$15 billion**

Interest, dividends, and sale of assets  
**\$36 billion**

Bequests  
**\$32 billion**

Corporations  
**\$18 billion**

Federated drives  
**\$15 billion**

Hospitals and nursing homes  
**\$964 billion**  
(6,505 organizations)

Higher education  
**\$255 billion**  
(2,470)

Human services  
**\$236 billion**  
(143,871)

Health  
**\$211 billion**  
(43,084)

Education  
**\$125 billion**  
(71,345)

Community services  
**\$114 billion**  
(53,333)

Religious congregations  
**\$100 billion**  
(282,000)

Arts  
**\$44 billion**  
(45,831)

International  
**\$44 billion**  
(9,859)

Environment, animals  
**\$20 billion**  
(21,002)

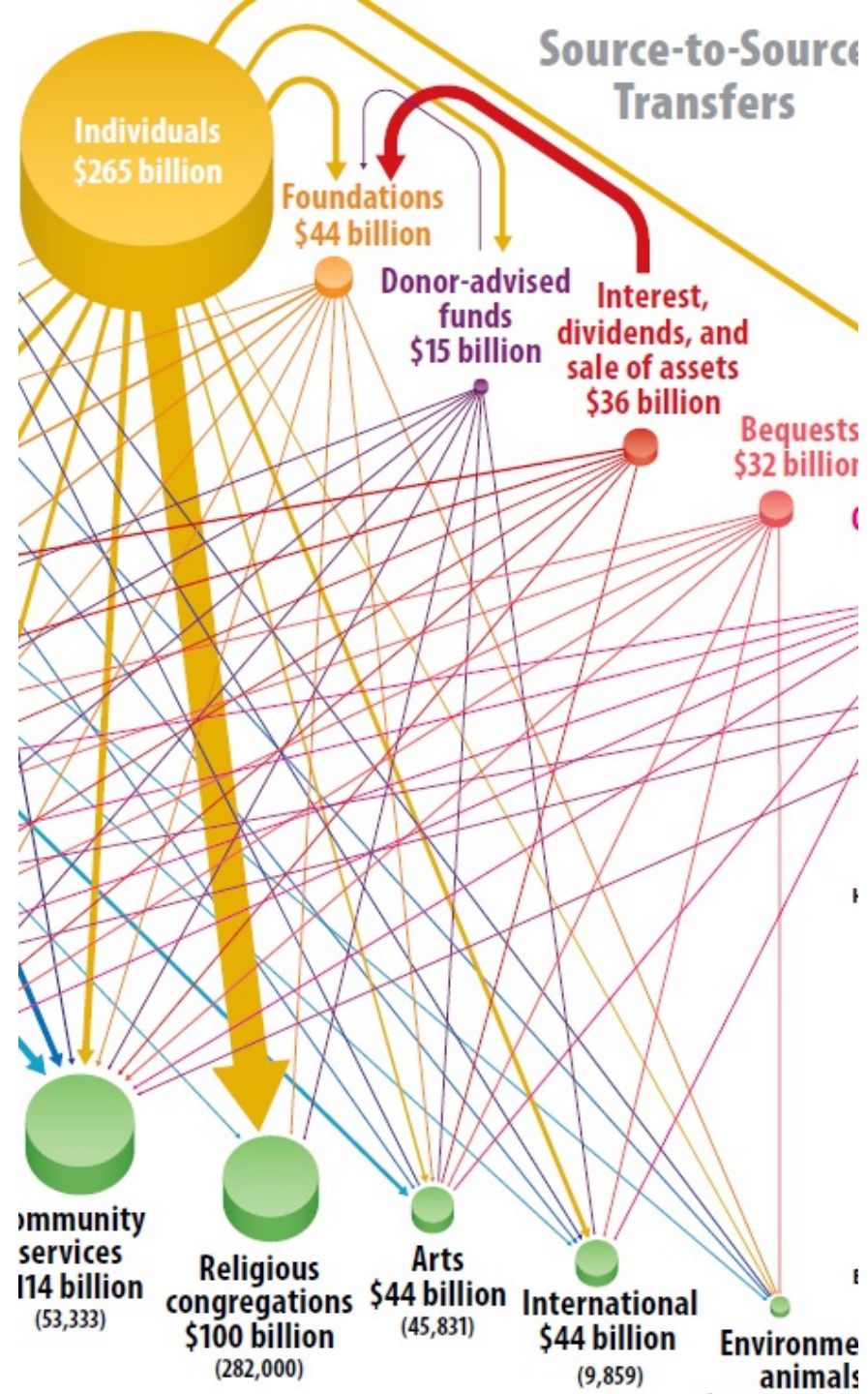
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THE Nonprofit QUARTERLY

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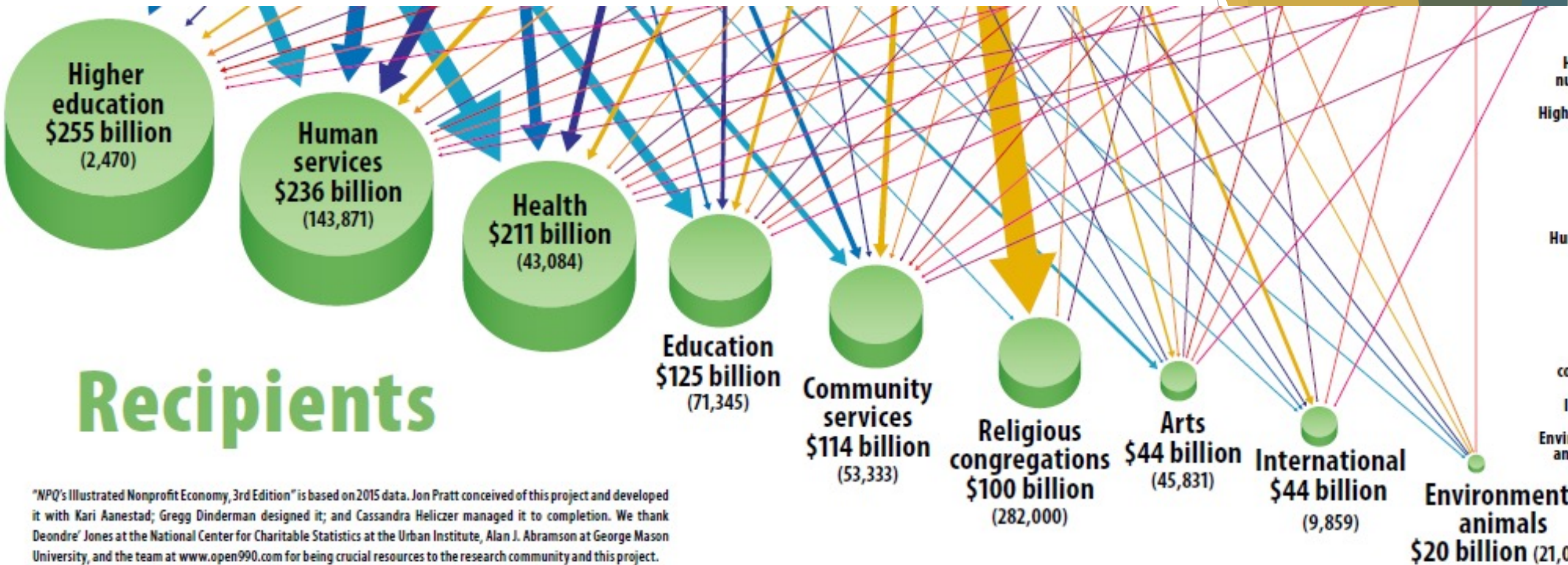
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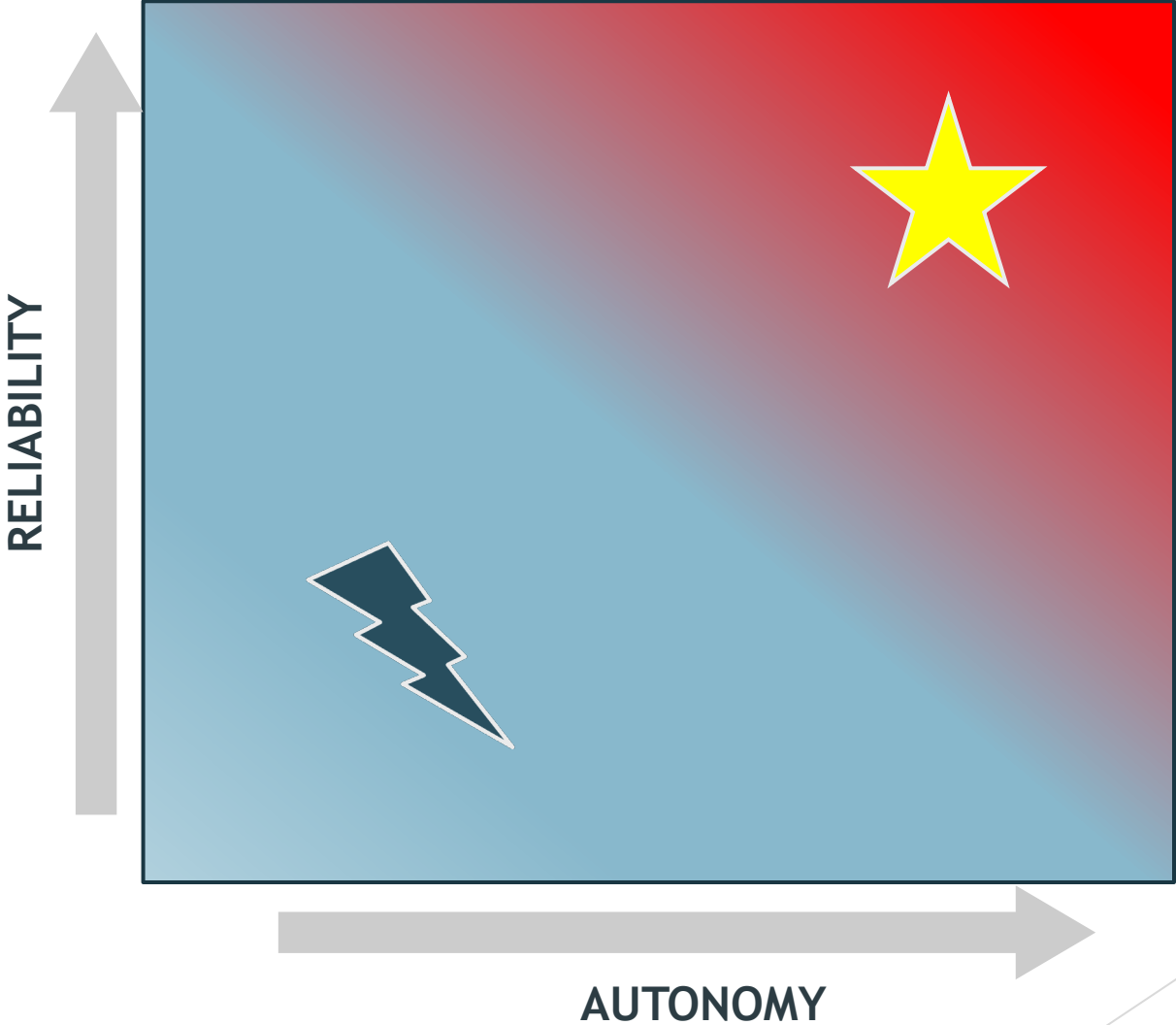
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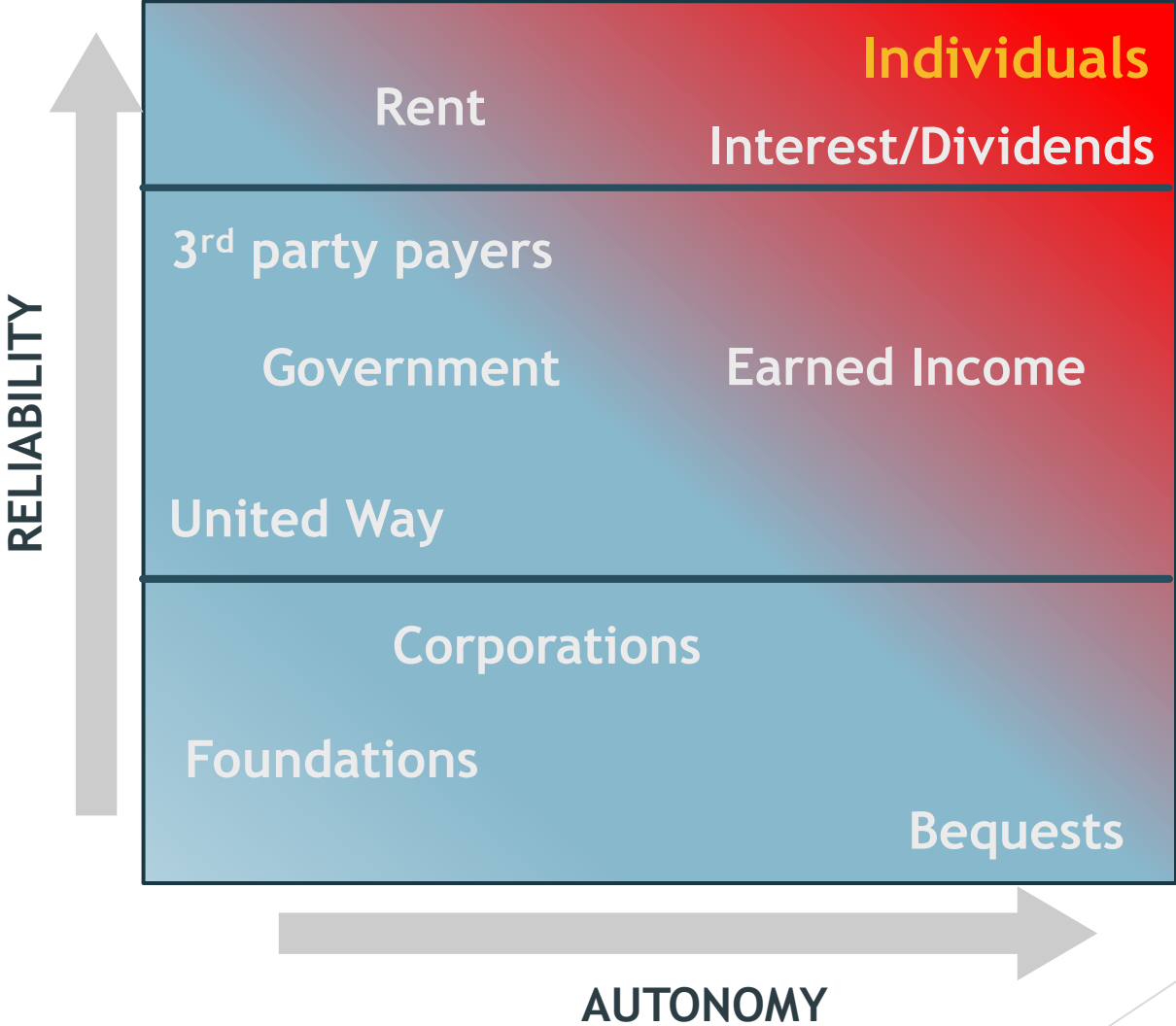
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# Nonprofit Revenue Sources



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# Nonprofit Revenue Sources



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# Individual Donations: Different & Valuable

## Exclusively intended for nonprofits

- ▶ Is typically **unrestricted**
- ▶ Major donations can potentially represent reputational, mission-alignment and/or sustainability **risk**

## Can be regenerative, with multiple forms of capital in one contact

- ▶ Donors can become active supporters of your cause, and vice versa
- ▶ Donors can generate funding from themselves AND others

## Highly dependent on a social contract with donors/supporters

- ▶ Need to be in touch with your base and share **common cause(s)** with them
- ▶ Betrayal of common cause(s) comes at a huge risk

# Poll: What Is Your Organization's Expense Budget?

1	Below \$250K
2	Between \$250K and \$1M
3	Between \$1M and \$5M
4	More than \$5M

# Poll: What is your organization's mission area?

1	Animals & Environment
2	Arts & Culture
3	Advocacy & Organizing
4	Capacity Building & Leadership Development
5	Community Development & Workforce
6	Healthcare & Aging
7	Housing & Shelter
8	Social Services
9	Education & Youth
10	Self-Help, Peer Support, Associational
11	Other (in the chat)

# Poll: What proportion of your funding comes from individual donors

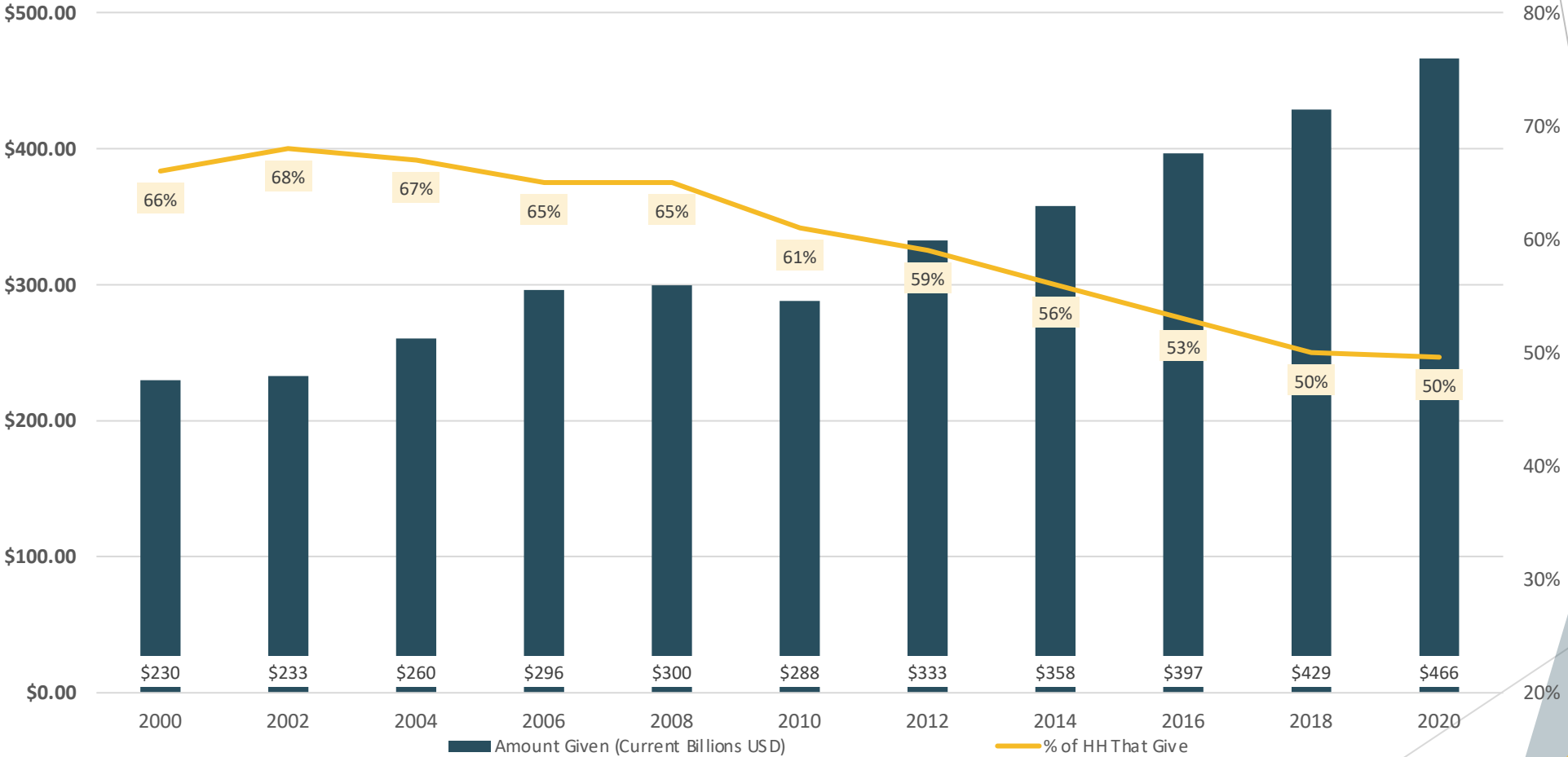
1	It is our primary revenue stream
2	It is more than a third of our funding
3	It is a small but important component of our funding
4	We do not have much of a donor base YET

# Poll: Our dollar goals were met or exceeded

1	Our dollar goals were not met
2	We had fewer donors in 2024 YOY
3	We gained donors in 2024 YOY
4	We gained ground on retaining donor



# Is Charitable Giving Resilient? Or Stagnant?



# Why are fewer people giving?

- ▶ Declining trust?
- ▶ Inflation and stagnant wages?
- ▶ The myth of scarcity?
- ▶ Fundraisers' focus on major gifts?
- ▶ Policy environment?

## OR ARE THEY NOT BEING COUNTED?


- ▶ Crowdfunding
- ▶ Checkout donations
- ▶ Mutual aid & person-to-person giving

# “Dollars Up, Donors Down”

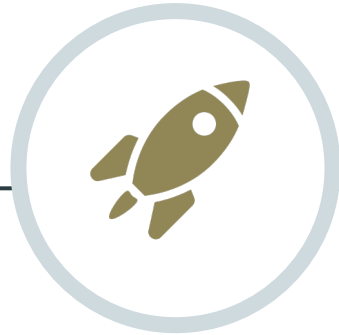
## WHY WORRY?



### DONOR CONCENTRATION RISK

 < 10%

     < 25%




### AN EVENTUAL CEILING

“Volume is fuel”



### THE COMMON GOOD

Inclusive philanthropy



**“At the heart of our democracy is an engaged citizenry, willing to dedicate time and resources to solving problems. In the process these everyday givers and volunteers build social capital, advance citizen agency, and strengthen our communities’ capacity to solve”**

**OK, but how?**

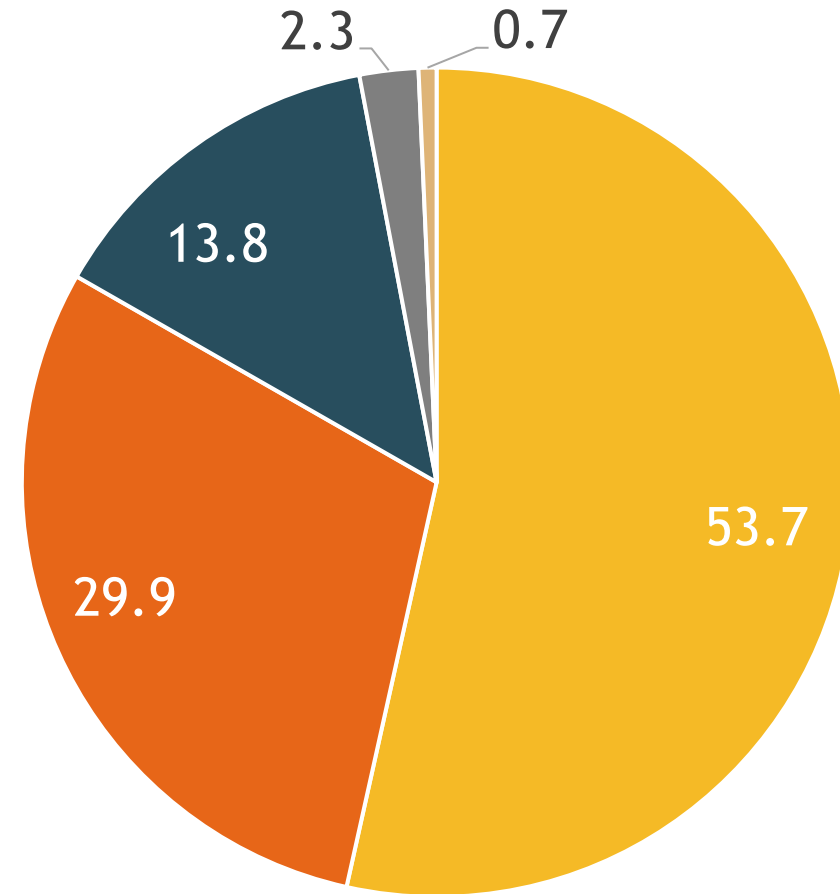
Jane Wales

Vice President, Aspen Institute  
Co-chair, The Generosity Commission

## Trends in Dollars Given

- **Micro Donors** - decreased by 15%
- **Small Donors** - decreased by 8.5%
- **Midsize Donors** - decreased by 6.7%
- **Major Donors** - decreased by 7.5%
- **Supersize Donors** - decreased by 7.5%

## % of Donor Population by Gift Size

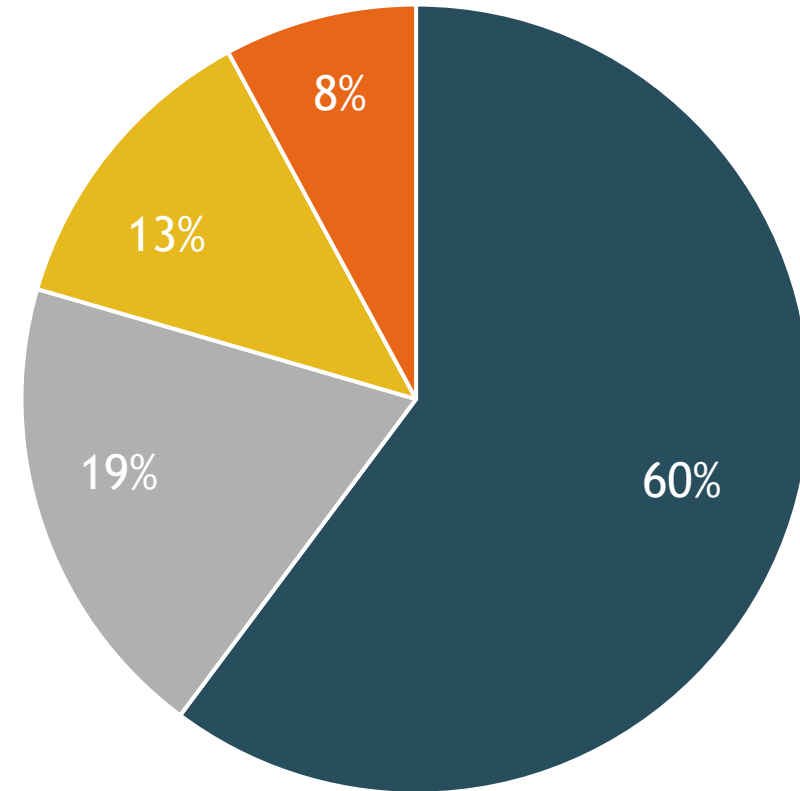


■ micro donors ■ small donors ■ midsize  
■ major ■ supersize



## Who Gives to an Organization?

- **New donors** - have never given to the organization before
- **New retained donors** - gave to the organization last year and this year, but have not before
- **Repeat retained donors** - gave to the organization in the last two years, but not for the first time
- **Recaptured donors** - did not give to the organization last year but have given in the past.



■ repeat retained donors ■ new donors ■ recaptured donors ■ new retained donors

# What can we learn about Loyal Donors?

- ▶ Who are loyal donors?
  - Active recurring subscription or gave to a cause three X over a period of five years.
- ▶ Twice as likely to **increase donations** in 2022 compared to passive donors and are **likely to give four times more**.
- ▶ Twice as likely to **maintain their donations** when going through financial stress as passive donors
- ▶ 1.6 times as likely to **make small changes and sacrifices** to their daily living expenses to **maintain their giving**.



# What can we learn about Loyal Donors?

- ▶ **25%** make an additional gift.
- ▶ **10%** sign up to participate in a peer-to-peer campaign.
- ▶ **85%** of traditional donors
- ▶ **65%** of next-gen donors



# How to Acquire and Engage Loyal Donors

- ▶ Multichannel
- ▶ In person
- ▶ Direct mail & Phone
- ▶ Online
  - ▶ Email
  - ▶ Social
- ▶ **Smart e-mail:**
  - ▶ Vary subjects and call-to-action
  - ▶ Engage
  - ▶ Convert to website visitor  
(more time = higher conversion)
  - ▶ Test (A/B)

# Digital advertising: return on ad spend (ROAS)

M+R Benchmarks Report

	Display	Search	Meta	Twitter	Video
All	\$0.33	\$2.75	\$0.50	\$0.41	\$0.13
Cultural	—	\$3.75	\$0.32	—	—
Disaster/International Aid	\$0.12	\$4.96	\$0.66	\$0.87	\$0.13
Environmental	\$0.08	\$1.97	\$0.30	—	—
Health	\$0.60	\$3.14	\$0.51	—	\$0.06
Hunger/Poverty	\$0.96	\$4.84	\$1.07	—	\$2.51
Public Media	—	\$6.77	\$0.21	—	—
Rights	\$0.26	\$1.61	\$0.17	—	—
Wildlife/Animal Welfare	\$0.21	\$1.51	\$0.52	—	\$0.27
Large	\$0.65	\$3.24	\$0.71	\$0.39	\$0.17
Medium	\$0.28	\$2.10	\$0.27	\$0.42	\$0.02
Small	\$0.21	\$2.79	\$0.58	—	

# Generosity & Giving

## WHAT WE CAN ALL DO

- ▶ Embrace broader definitions of philanthropy.
- ▶ Adopt tax policies that value all gifts regardless of donor's income or contribution amount.
- ▶ Question traditions that exacerbate exclusivity within donor programs.
- ▶ Adjust fundraising tactics to reduce reliance on “big gifts”



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# Business Model Considerations



Revenue  
Source

Who's paying  
and for what?



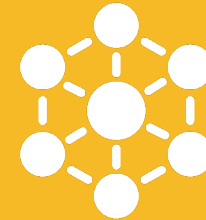
Risk

What are the  
common risks,  
sensitivities &  
challenges?



Leadership  
Capacity

What leadership  
orientation is  
best suited?



Infrastructure  
Needs

What systems  
need be in place?

# Business Model Considerations



## INDIVIDUAL DONORS

### SENSITIVITIES, RISKS, & CHALLENGES

- ▶ Reputational concerns on the part of the nonprofit and donors

### LEADERSHIP ORIENTATION

- ▶ Promotes high emotional consciousness of the organization as visible, public facing, and effective
- ▶ Provides avenues for high prestige giving

### INFRASTRUCTURE NEEDS

- ▶ Donation management systems to capture and retain donors' interests and confidence
- ▶ Systems for surfacing potential high net worth donors and for discerning and addressing the donor's motivations

# Shifting Economics of Individual Giving

## What has Changed

- ▶ Fundraising systems and other avenues to identify and access new donors are less costly and increasingly more efficient
- ▶ Widening wealth divide has positioned large-dollar donors to make up a greater proportion of overall giving
- ▶ Public's shifting attention
- ▶ Ways to signal common cause are accelerated and networks of common cause are expanded
- ▶ DAFs and giving circles create complications requiring new systems for acquiring gifts
- ▶ Fundraising systems to manage donor engagement continue to emerge, providing more technical and vendor options than previously

## What Remains the Same

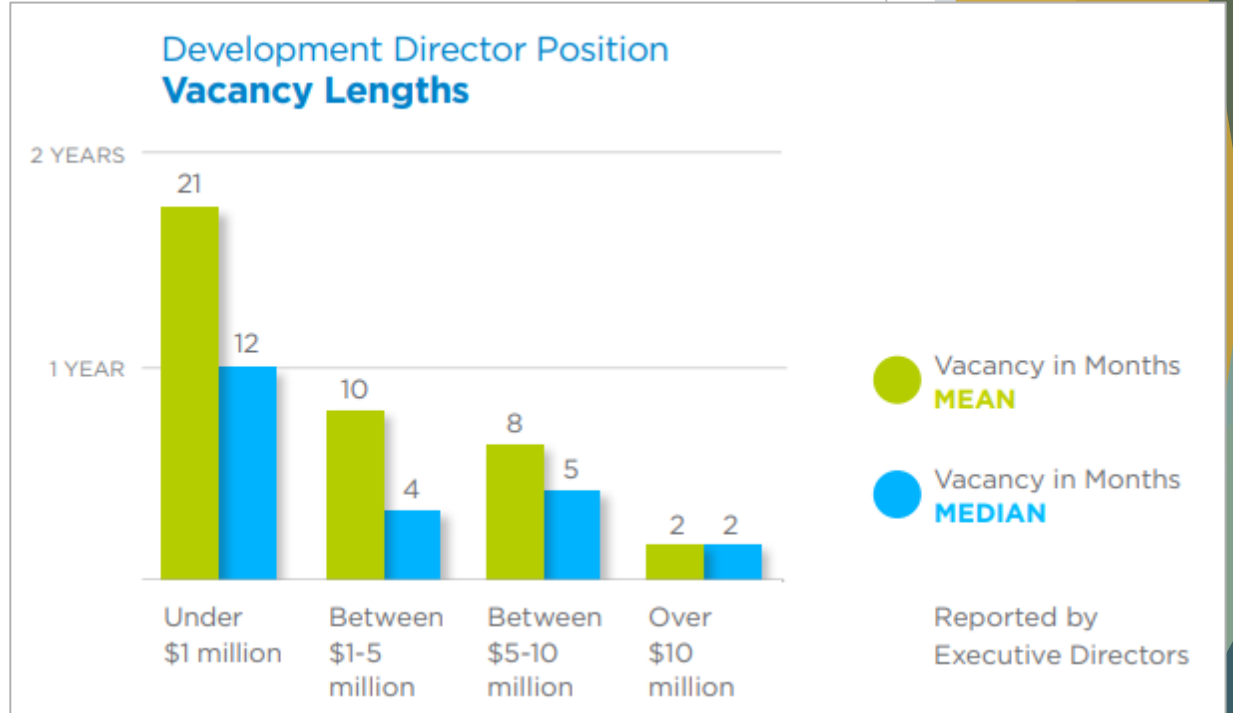
- ▶ Donor motivations continue to remain focused on programming and may be informed by the Overhead Myth
- ▶ Social “common cause” dynamic at work but is more sensitive to “othering” dynamics
- ▶ Trust, integrity and relationship are the critical making violations of public trust a significant risk factor
- ▶ Ability to maintain donor management systems and donor prospecting during challenging economic times is sensitive to organizational size and scale

# Underdeveloped



- ▶ The smaller the organization the lower the pay
- ▶ Many entry level development directors are underprepared and under-supported
- ▶ As a result, unrealistic expectations and rapid turnover plagues the position causing many to leave role open over extended periods
- ▶ The smaller the organization, the longer the role stays open

# Development Staff Turnover





# Reciprocity & Integrity

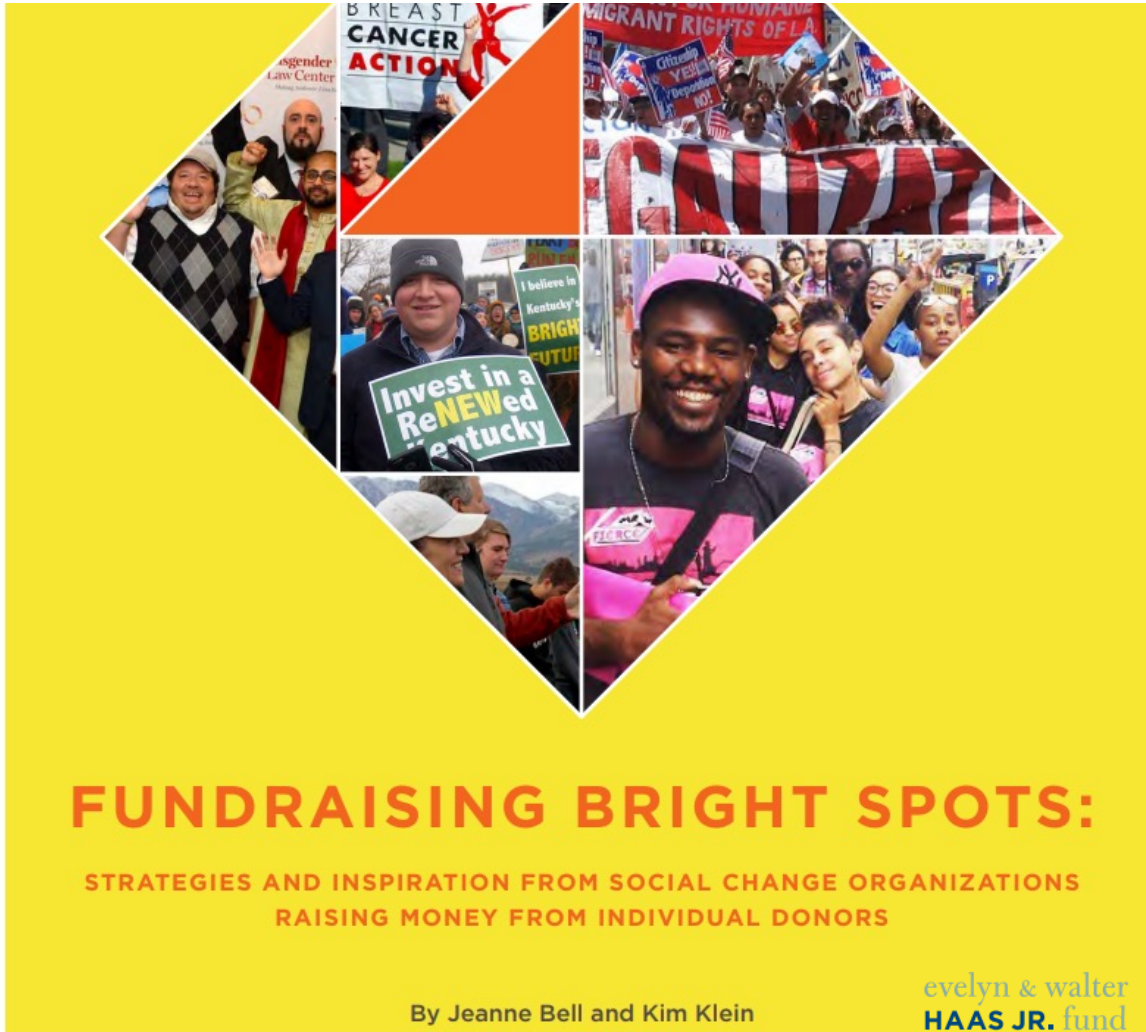
- ▶ The Winston-Salem chapter of the Susan G. Komen Foundation lost 43% in fundraising revenues following a 2012 scandal
- ▶ Subsequent participation in the local race dropped 75%

**Lessons Learned:** Donors value integrity and merely lend their support.



# Fundraising Bright Spots

## FINDINGS



- ▶ Fundraising is core to the organization's identity
- ▶ Fundraising is distributed broadly across staff, Board, and volunteers
- ▶ Fundraising succeeds because of authentic relationships with donors
- ▶ Fundraising is characterized by persistence, discipline, and intentionality

# The Crowd in Crowdfunding

## A Strategic Advantage

1

A dollar is worth more than a dollar

2

A dollar leverages other dollars

3

Stability can be developed through numbers

4

Some protection can be purchased

# Building Authenticity



Being **genuine about who you are and what you stand for** as an organization is core to fundraising success.



Fundraising is a form of **organizing and power-building**, not merely a strategy for financing the organization's work.



Development directors are organizational leaders focused on **skill building, culture change, and systems development** to support others in fundraising.



The conversation about fundraising goals and progress belongs everywhere. It's **not contained in a single department or confined to a single team.**

# Stay Connected on the Forum

## YOUR FORUM AWAITS...

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