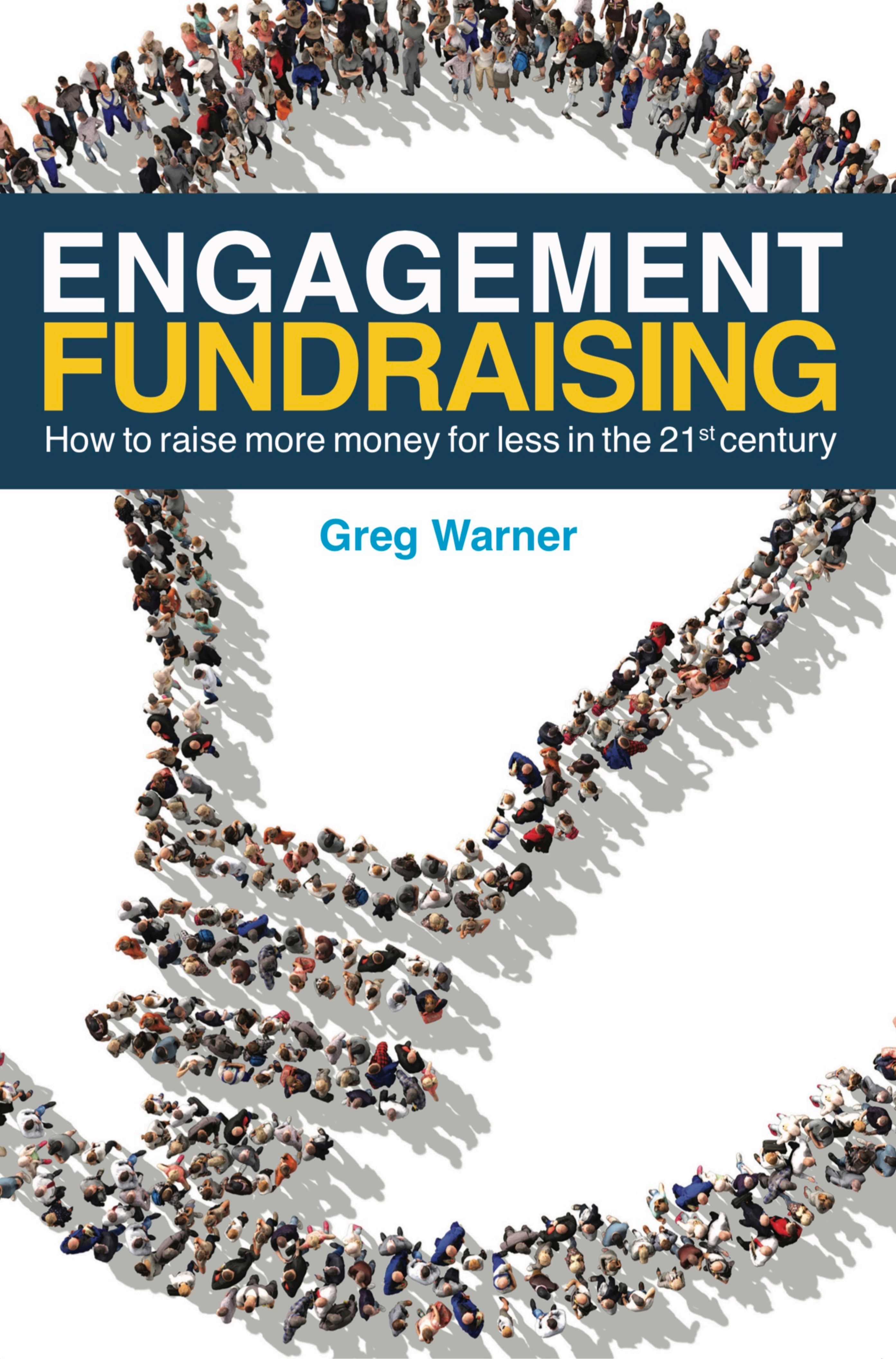
ENGAGEMENT FUNDRAISING

How to raise more money for less in the 21st century

Greg Warner



Praise

It’s not hyperbole to say that *Engagement Fundraising* has changed the way I approach fundraising.

— **Tracy Malloy-Curtis, JD** Legacy Giving Director,
Mal Warwick Donordigital

I love *Engagement Fundraising* because Greg wrote it based on his own first-person donor experience. His entire body of work, because of that, truly puts the donor’s wants and needs at the center of every philanthropic interaction. The impact of that is significant.

— **Andrew Olsen** Senior Vice President, Newport One

Greg takes an aggressive whack at conventional fundraising thought and practice in his convincing and practical book, *Engagement Fundraising*. He is one of the few fundraising practitioners I know who understands that fundraising is not about the money—it is about engaging the donor. In this easy-to-read book, he presents his market-tested ideas, strategies, and approaches to effective fundraising. Greg calls us all to cast aside the old way of doing things. Then he shows us a better way. This is a must read for anyone who wants to engage with donors more effectively.

—**Richard Perry** Founding Partner, Veritus Group

In *Engagement Fundraising*, Greg Warner passionately reveals the twenty-first century donor-centric strategy practiced by MarketSmart. His fresh, technology-driven approach is a powerful way forward for those interested in engaging people to inspire more philanthropic support.

— **Michael J. Rosen** President, ML Innovations;
Author, *Donor-Centered Planned Gift Marketing*

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Published by MarketSmart

Hardcover ISBN: 978-1-7322628-0-5
Trade Paperback ISBN: 978-1-7322628-1-2
eISBN: 978-1-7322628-2-9

100 percent of net proceeds from the sale of this book will be donated to support the search for a cure for diabetes.

Inscription

This is for the donors, volunteers, advocates, and members who want to change the world but need an organization bigger than them to get it done.

This is for the employees at nonprofits who work tirelessly for the donors, volunteers, advocates, and members.

And most of all, this is for the people who desperately depend on all of the above. People like my wife, Nessa, whom I love more than anything in the world. She needs a cure for her type 1 diabetes—the wretched disease that has encumbered her life since she was just nine years old.

This is for others like her: the sick, the poor, and the hungry. The wounded, underserved, and distressed. The defenseless, needy, and unfortunate.

This is for humanity and for generations to come.

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Introduction
Who Is This Guy?

I never intended to write this book.

In fact, I never thought I'd write any book at all. I also never anticipated I would be involved in fundraising. It wasn't in my original life plan.

As long as I can remember, I wanted to have my own ad agency. When I was a kid, I doodled new logos for 80s rock bands on the brown paper bags that covered my schoolbooks. I painted album covers on the backs of my friends' denim jackets. I even created a bunch of posters for a friend running a campaign to be on the student council.

I was voted "Class Artist" in my high school yearbook, but I always believed I was more than an artist. I thought of myself as a promoter, a publicist, a marketer. I was always fascinated with promotions and found power in words and emotion in images. *How can one person motivate the masses with a single headline, logo, or picture?* I'd wonder.

When I visited my dad's little townhouse every other weekend in Princeton, New Jersey, I would sometimes talk to his next-door neighbor, Barton Cummings. He was a nice old man who liked to talk to me about his days in the advertising business.

It was serendipitous because he happened to be the former CEO of Compton Advertising, one of the largest advertising firms in the country that he built to become an international agency. It was later purchased by Saatchi & Saatchi, a firm that now has a network of 140 offices in 76 countries with over 6,500 employees.

Bart was known as a "benevolent dictator" because he was responsible for building the great product brands of the 1950s that changed consumer preferences and altered buyer purchase behaviors. His most famous clients were Proctor & Gamble, U.S. Steel, and the New York Stock Exchange.

His was the golden age of advertising—the days when admen drank stiff martinis and dined with their clients to get the opportunity to spend their budgets and sear the images of their brands into the minds of consumers everywhere. I wanted to be one of those guys.

Before I finally opened my own marketing shop, I worked for one magazine, two newspapers, two ad agencies, a direct marketing firm, and a printer. Finally, in 2008, I launched MarketSmart inside a filthy, run-down warehouse. Starting a business during the Great Recession was either crazy or stupid—or both.

We were daring. We would take risks. We wouldn't shy away from challenges.

Our niche was generating highly qualified leads for sales teams in the private sector. We got excited when our efforts drew forth responses so salespeople could close bigger deals faster and more cost-effectively.

Results were the oxygen we breathed.

We grew. But as our revenues increased, the business became less fulfilling for me. After a while, it seemed like everything I ever wanted wasn't everything I really needed.

My heart yearned for something more meaningful. I began to ask myself, "How can I add more significance to my life?" The answer came in my mailbox.

The Letter That Changed My Life

A diabetes charity sent me a newsletter. We were regular donors, so getting yet another piece of mail from them was nothing new. Yet, that particular newsletter changed my life forever.

It was filled with legal jargon. It was confusing. Although most people receiving this newsletter would have thrown it away immediately, I took a good, hard look. As a marketer, I was curious. I wanted to figure out what they wanted me to do.

After some thoughtful examination and consideration, I realized they wanted me to give their organization a legacy gift that would be realized after my lifetime. The method they recommended was a charitable gift annuity, a strategic giving option set aside mostly for people over the age of 65. I was 37.

It wasn't the first time I considered the wasteful nature of charity marketing. My beloved Uncle Sid died from melanoma several years before I received that newsletter. Soon after his death, my cousins started a nonprofit foundation to raise money. Every year, our entire family and a bunch of friends worked tirelessly on a fundraising golf tournament and banquet. Its mission was to educate the public about the dangers of the sun and how to protect oneself from skin cancer.

Sounds nice, right? It *was* nice. But nice wasn't the point.

I would go to the event every year, but privately I thought there had to be a better way. I saw how inefficient and ineffective our actions were. After all of the costs and expenses, very little money was left for the charity. The foundation made the family and community feel good for a while, but we really weren't making a big enough impact. Eventually, everyone got tired and lost interest, and the endeavor was laid to rest.

The Path to Creating Change

The experience with the diabetes charity's newsletter ticked me off. As time passed, a lot of what I learned about nonprofits left me irritated. As a donor, I often found myself feeling angry and annoyed. Over time, telemarketing calls interrupted my meals and direct mailers filled my trash cans. The more I examined nonprofits' marketing efforts, the more incensed I became.

Eventually, I found myself reading balance sheets and 990s to unravel how some nonprofits expertly shift numbers around to make it seem as though the donations they receive efficiently support their missions—not their expenses. For instance, a clever CFO can ensure that events such as bike rides or 5k races magically become educational events, not fundraisers. The trick is simple: just lay out some informational brochures nearby.

I don't blame them for playing those games. Donors have been trained by the media and others to frown upon nonprofits' spending of money to raise money. Yet blaming the media isn't the answer either.

In many cases, the media's scrutiny of evildoers has been warranted. In August of 2012, the *Los Angeles Times* reported on its investigations into the Boy Scouts of America during which it allegedly found cover-ups of sexual abuse and improper screening of trusted volunteers. This seemingly led to more stringent background checks on potential volunteers and a policy of reporting suspicions of abuse to police.

In September of the same year, two large for-profit fundraising service providers were forced to defend their practices. *Bloomberg Markets* magazine reported on the telemarketing firm InfoCision Management, finding practices that included examples of telemarketers lying to donors, while (in one case) only 22 percent of donation revenues went to the charities for which they were intended.

In the same year, CNN reported on another service provider, Quadriga Art, alleging that the Disabled Veterans National Foundation paid the firm more than it had received in donations (at least on paper). Something screwy was going on but the firm's public relations team argued that the coverage was unbalanced and showed a misunderstanding of both the industry and what their client does.

Stories like these scared donors, leading them to lump the bad apples with the good and driving them to turn to charity vetting sites such as Charity Navigator and GuideStar. Too often, donors use those sites to focus solely on what percent of their donations go to the cause compared with the amount supporting administrative expenses. This led us right back to where we started, with clever CFOs being forced to mislead donors by playing games with their balance sheets and 990s.

Spending Money to Make Money

One of the most notable takedowns of a do-gooder spending money to raise money was when Dan Pallotta's efforts to do good were thwarted.

Dan had always been involved in efforts to help others. At just 19, he became the chair of the Harvard Hunger Action Committee, raising money for Oxfam America. In the 1990s, he led a for-profit charitable company named Pallotta TeamWorks, which employed hundreds of full-time staff and raised $582 million for charities in just eight years. In 2002, with the company netting $81 million for charity after expenses (a tidy sum indeed), the company was forced to lay off its entire staff and shut its doors.

Why? Dan told the story in his now famous TED Talk which, as of this writing, has been viewed over 4 million times. Here's his explanation of what happened:

"The short story is, our sponsors split on us. They wanted to distance themselves from us because we were being crucified in the media for investing 40 percent of the gross in recruitment and customer service and the magic of the experience, and there is no accounting terminology to describe that kind of investment in growth and in the future, other than this demonic label of 'overhead.' So one day, all 350 of our great employees lost their jobs . . . because they were labeled 'overhead.' Our sponsor went and tried the events on their own. The overhead went up. Net income for breast cancer research went down by 84 percent, or 60 million dollars, in one year."

"This is what happens when we confuse morality with frugality. We've all been taught that the bake sale with five percent overhead is morally superior to the professional fundraising enterprise with 40 percent overhead, but we're missing the most important piece of information, which is: What is the actual size of these pies? Who cares if the bake sale only has five percent overhead if it's tiny? What if the bake sale only netted 71 dollars for charity because it made no investment in its scale and the professional fundraising enterprise netted 71 million dollars because it did? Now which pie would we prefer, and which pie do we think people who are hungry would prefer?"[1]

A Broken Model

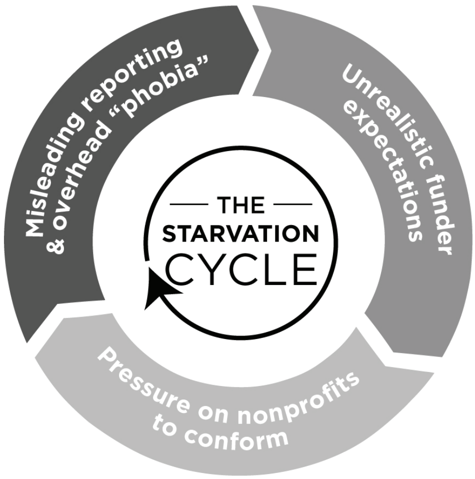
Are you getting the picture yet? At its very core, the paradigm is damaged.

Charities are saddled with extra pressure to meet formulas for how much they should spend to raise money. This policing of business practices stifles the actual mission.

Critics often preach that charities need to act more like businesses, but then they refuse to let them. In an effort to "expose fraud," critics and watchdogs impose rules regarding what amount of overhead is considered allowable. The heightened scrutiny squelches innovation in fundraising strategies, because the innovation might fail and would then be viewed as a waste of donor funds.

1 Dan Pallotta, "The Way We Think About Charity is Dead Wrong," TED: Ideas Worth Spreading, last modified February 2013, accessed December 2, 2017, https://www.ted.com/talks/dan_pallotta_the_way_we_think_about_charity_is_dead_wrong.

The Bridgespan Group, a global nonprofit organization that collaborates with mission-driven leaders, organizations, and philanthropists, described the situation in this graphic:



The Bridgespan Group's depiction of the nonprofit starvation cycle.

- **Misleading reporting:** The majority of nonprofits underreport overhead on tax forms and in fundraising materials—a result of overhead "phobia."

- **Unrealistic expectations:** Donors tend to reward organizations with the "leanest" profiles. They also skew their funding toward programmatic activities instead of overhead and innovation.

- **Pressure to conform:** Nonprofit leaders feel pressure to conform to funders' unrealistic expectations by spending as little as possible on overhead, and by reporting lower-than-actual overhead rates.

This research led me to conclude that fundraisers and donors are in a pickle. They have been unfairly subjected to a broken system for decades. It isn't their fault, but it is their problem.

I wondered . . . *Could I change the paradigm?*

Lightning Strikes

I decided to call the diabetes charity that sent me the newsletter. After being forced to navigate a labyrinth of pages online and using their phone system, I finally reached the person responsible for using the approach. I asked her if it was working. Her answer was no.

I asked, "Do you need highly qualified leads so you can close more legacy gifts?"

She replied, "Yes."

That's when it happened. Although I'd never read a book about fundraising and was unfamiliar with its orthodoxies, I knew I could help. Thankfully, she allowed me the opportunity to do so. She gave me a shot. She let me take what I knew about marketing and human behavior to devise a campaign to garner better results.

Our first effort delivered outcomes that were simply astounding. She credited our success by writing a wonderful reference letter that said, "From virtually nonexistent leads, we have had correspondence with hundreds of individuals requesting estate planning information or stating they have left a bequest to the [organization]."

Soon after, one of the recipients of our donor-centric marketing sent it to the leadership of another diabetes charity, leading them to contact me to see if I might help them, too. Of course, I did.

I generated thousands of responses for those organizations and uncovered hundreds of bequests that were previously unknown to each of them, with a future value of almost $25 million.

I knew why my plan worked and the other one failed. It revolved around *engagement*. The confusing newsletter I originally received didn't *engage* me, for three big reasons:

1. **It was irrelevant.** I couldn't take advantage of a charitable gift annuity at the age of 37.

2. **It was impersonal.** Emotionless newsletters seemingly written by lawyers using legal jargon are uninspiring at best and off-putting at worst.

3. **It was interruptive.** Sending thousands of newsletters to donors whether they want them or not is wasteful, insensitive, and annoying to the vast majority of recipients.

I later learned that the newsletter wasn't written by anyone employed by the charity. Stressed-out fundraisers often hire outside vendors to write, design, produce, and distribute outreach communications on their nonprofit's behalf. After all, I was enlisted to generate leads for them, too.

The problem is that many of the vendors offering planned gift marketing services use cookie-cutter approaches. They simply reuse the same content for all of their clients but swap out the logos and make other customizations so their newsletters look unique.

Donors aren't fooled or inspired because most of the content is transactional in nature. These vendors tend to focus on *how* to make a legacy gift instead of engaging with each donor on a personal level about *why* they should care and how their life story entwines with the charity's mission.

The approach has been making vendors rich for decades, but it's not effective. Even so, busy fundraisers fall into the trap of doing what their predecessor did simply because that's the way it's always been done. It's an easy answer, but the presumed "experts" deliver lackluster results.

What most organizations need is major and legacy gift lead generation along with discovery of previously undisclosed legacy gifts—something very similar to what MarketSmart was already doing for private-sector businesses. Applying MarketSmart's engagement strategy brought astounding results.

So I decided to shift my business. We reengineered my marketing firm to help more charities properly engage supporters, generate highly qualified leads, cultivate those leads, and uncover hidden legacy gifts. I soon realized that we needed software to support our efforts. Since that software didn't exist, we took on the challenge and built it ourselves. Now we're helping nonprofits around the world raise more money at lower costs while providing donors with the value they deserve.

Our model is *Engagement Fundraising*—a term I developed in 2012.

Introducing Engagement Fundraising

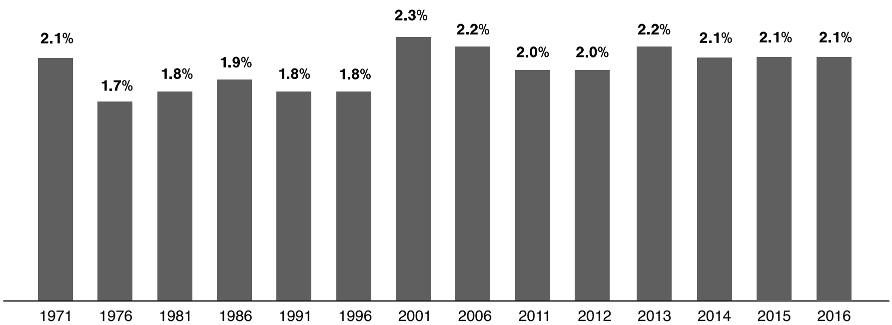
At its core, Engagement Fundraising is simple. It boils down to making people feel good.

It's about people, not money. It's about conversations, not transactions. It's about collaboration, not exclusion. It's about gratitude, not thanklessness. It's about fairness, not trickery.

Consider that giving has been stuck at around 2 percent of Gross Domestic Product for almost half a century and the average nonprofit's first-time donor retention rate is only 32 percent (just 17 percent for new donors giving under $100).

Knowing those two statistics, one should start to wonder: If the rate of giving has stayed the same, where have the donors gone if they haven't stuck with your charity?

Giving has been stuck at around 2% for almost half a century.



Source: The Giving Institute™

I know the answer. They're hopping from one charity to another! Why? Because they want to give! They need to give! They are required to give! They love to give because it makes them feel good!

Unfortunately, donors aren't getting any love back from the nonprofit sector, and that's why they shop around, giving money to one charity this year and another the next. They're hopping and they're hoping. Hoping that they'll finally find a home with a charity that loves them back. Hoping they'll finally find a charity that thanks them with genuine sincerity. Hoping they'll finally find a charity that reports what they did with the money. Hoping they'll finally find a charity that doesn't treat them like ATM machines. Hoping they'll finally find a charity that engages with them.

Supporters want to be engaged. They want to be involved. They want to be captivated and engrossed in your mission. The best way to do all this is by harnessing smart strategy with the power of technology to provide scale and efficiency that simply weren't possible until now.

Back when I first began to study the sector, I'd ask myself, "Why are fundraisers still 'spraying and praying,' using direct mail and spam aimed at people who could not care less? Why aren't they gaining permission from their audiences, allowing them to opt in and out? Why aren't they moving into the modern world and leveraging technology to target a more suitable audience, provide more relevant engagement experiences, and lower their costs?"

Engagement Fundraising addresses all of these issues and places trust at the cornerstone of its foundation. Once you gain the trust of a potential prospect, words and images have tremendous power. One of the reasons I was drawn to marketing in the first place was that I particularly liked feeling that I could influence people to do things that were good for *them*. I was starting to realize that I might influence people to do good for others, too, if I could apply these ideas in the context of fundraising.

Transparency, honesty, collaboration, and consideration: there's a reason they work in the business world, and it's the same reason they work in the charitable sector. I maintain that my early success in marketing and advertising was not because I was the best con artist. It was because I'd internalized these concepts and implemented them routinely. As you will soon see, the overarching lesson is that making people feel good generates returns.

In the 21st century, the key lies in leveraging technology to help more people feel good so they'll give money to help make the world a better place. That requires finding people who can make major gifts and then giving them a home charity that sincerely appreciates *them*, not just their donations.

Leaving a charity in one's will, or making any large gift, is a highly considered decision. It's much different from throwing change in a bucket at the grocery store—an impulse decision. With Engagement Fundraising, seeking a considered gift is all about providing valuable content and a feedback loop.

Content is an offer; it helps to engage people, entertain them, inform them, and bring out their emotions. If you create valuable content and you engage the right audience, you'll help people move themselves through the decision-making process so they'll take action. Valuable content is nonthreatening, permission oriented, considerate, and fair.

Engagement Fundraising strategically delivers valuable content to a prospective donor, they opt in, and a relationship forms with a two-way conversation thanks to a feedback loop. When a supporter accepts your valuable content, he'll often reciprocate. Sometimes he'll share information about himself. Sometimes he'll give money. Or perhaps he'll involve others. At this stage, it's best to entice him to "talk" to you through his engagement so you can grow the relationship by listening and responding to his very specific needs.

Supporters want to give! They have philanthropic ambitions, but they don't want to be treated like a money machine. Since the majority of their thinking about giving occurs without the fundraiser present, Engagement Fundraising helps the fundraiser become involved in the consideration process without being in front of them. It's about engaging, not asking. It's about leveraging technologies to open up a dialogue over a period of time. It's about providing value in line with a supporter's wants, needs, and desires. It's about allowing the supporter to move *herself* to the point of making a gift, or wanting to talk to the charity to facilitate that process. In fact, if you do your Engagement Fundraising right, you may never even have to "make the ask." Imagine that!

This is a book for fundraisers, from the perspective of a donor who discovered firsthand that fundraising is broken—me! In the following chapters, I want to show you how it can be fixed, and empower you to transform your organization. With the help of cutting-edge technology, you will be able to raise more money for your mission at lower costs, by targeting the donors most likely to deliver large, major gifts, including legacy gifts. You'll bring your organization into the 21st century, and the results will speak for themselves: happier donors, successful fundraising campaigns, and more change in the world.

Before We Go Any Further…

Are you sure you want this? Some people don't. They're stuck. They're closed-minded. They're mired in orthodoxy, tradition, and conventions that impede progress for the human race. And, yes! I truly believe they're obstructing a revolution.

I'm a crusader and disruptor. I break things in order to rebuild them better than they once were—more efficient and more effective. I have long studied and admired other crusaders and disruptors. Their pictures adorn the walls of my firm, such as Martin Luther King, Jr., Mahatma Gandhi, Golda Meir, Nelson Mandela, and Steve Jobs. I know, however, that disruption makes people uncomfortable.

Soon after my success with the first two charities, I offered to speak at a local fundraising conference. There, I began to tell the attendees about our strategies and successes. I was excited because I felt like I'd found a cure for cancer. What happened next was entirely unexpected.

The crowd was not happy. Their arms were crossed. Their noses were turned up. The vibe was cold and uncomfortable. I was interrupted and heckled. My ideas were met with resistance and disdain.

The following week, the event coordinator called to tell me that the organizing committee had never gotten complaints about speakers before—until now. It was awful. I felt like I got punched in the face and sent to an alternate universe, one where success meant failure and results invoked contempt, derision, and scorn.

That's when I came to the conclusion that *fundraising is broken*. That's right, I said it!

I hope you're not offended by my crassness. Instead, I hope you, too, are tired of the way things are—because within these pages you'll find what my allies have already discovered: the recipe for building endowments while lowering fundraising costs so nonprofits can ensure that their missions remain funded for generations to come.

Part One

A New World

Chapter 1
The World Has Changed

The world of fundraising is facing a climate change. The environment is shifting and a course correction is needed. Unfortunately, fundraisers aren't keeping up.

At a fundraising conference, I once listened to a roundtable discussion that was punctuated by the "oohs" and "ahhs" of the audience. The saleswoman leading the conversation was continually highlighting the high open-rate percentage of her cookie-cutter email marketing product.

Open rates are calculated by dividing the number of emails opened by the total number of email messages sent. There are conflicting views regarding their use as a performance measure. The truth is that open rates are "vanity metrics." They don't account for the effectiveness, or ineffectiveness, of email marketing. Measuring them provides little useful information, because the number of emails viewed or opened is rarely accurate. And even if it is precise, does it matter? These days, don't we open emails repeatedly as we thumb through messages on our phones whenever we have time to spare?

Was this the next "shiny new object" that would help the fundraisers exceed their numbers? Actually no, but they thought it just might be. They wanted the product the saleswoman was describing because they were misled into thinking that open rates matter. The product was designed to appeal to busy fundraisers, but its tools and messages did just the opposite for its targets—the donors. Even worse, the saleswoman had no idea that the product she was selling didn't really work. She was pitching a *tool* for fundraisers, not something designed to help donors achieve their philanthropic dreams.

The vendor probably landed a new client or two that day because the fundraisers were blind to the fact that focusing on open rates is a waste of time. It wasn't their fault; they didn't know what they didn't know. The vendor should have known better.

The situation I witnessed around open rates is just an example of what's happening in the business of fundraising. More and more silver bullets and new whiz-bang methods of doing things keep popping up. The industry is awash in misinformation about the best marketing techniques spewed by uninformed "experts" more interested in their own gains than they are in the donors who support the charities desperately in need of their help.

I've quizzed self-proclaimed experts including thought leaders, authors, speakers, and consultants. I've discovered that too many have very little understanding of how to use marketing communications to raise major gifts (including planned gifts). I've also seen far too many nonprofit staff approve or reject marketing communications based on *their* preferences, not their donors'. Too often they're more interested in winning the internal political argument than getting results by making donors feel good. I've even witnessed the approval of communications based on what a decision maker's daughter thought as a result of her recently acquired college degree.

What you really need to know as a fundraiser is that engagement, value, and two-way conversation are the true game changers. When combined with new scientific findings, technologies, and tactics proven effective over time, results increase exponentially.

Instead of asking about open rates, you should be asking more important questions: Do donors engage? Do they click? Do they go to the web page? Do they fill out a form, donate, sign up, or involve themselves in something? Have they been enabled to effect change and find meaning in their lives? And most importantly, have they been made to feel good?

The climate change in fundraising requires not only an understanding of philosophies of engagement but also an understanding of the *appropriate* use of technology. My dad used to tell me, "Technology is just a tool, and tools can be dangerous." He'd continue, "Some people use hammers to build stuff, while others use them to break stuff." And finally he'd challenge me by asking, "What will you do with your tools?"

When used correctly, new technologies can save money, create relationships, and respect the time and interests of potential donors. However, swapping technology such as email in spray-and-pray campaigns as a replacement for direct mail can also create the same one-way, one-size-fits-all, arm's-length, donor anonymity that your supporters want you to overcome.

Historically, giving was accomplished on a one-to-one basis within the community. The fundraiser knew the donor and would personally thank them for their help. Now, a charity may have 433,612 donors. The donor may have become a segment, a target, a persona, or simply Donor I.D. A23986.

Fundraisers like you are in a difficult spot. You're constantly being asked to raise more money by your board of directors, but you don't have the staff, resources, or tools to do it the right way. You're probably overworked and underpaid. You may be patient, empathetic to your cause, and full of good intentions. You know you need to create relationships and speak to donors one-to-one, but all too often, the demands of the position force you or your marketing staff to communicate one-to-many. Generic, impersonal, one-way communications may be easier for your nonprofit to distribute and may provide short-term gains, but it doesn't pay off in the long run. It is ultimately disrespectful to donors, forcing them to hop around in search of a better experience.

A Cautionary Tale

The story of Olive Cooke illustrates what can happen when regard for the donor is lost in a never-ending chase for the next donation. Mrs. Cooke, a 92-year-old resident of Great Britain, received an estimated 3,000 mailings from charities annually. She was featured in a newspaper article about the state of charitable fundraising six months before taking her own life. While Mrs.

Cooke's family doesn't blame the charities for her death, they are critical of the fundraising techniques they witnessed.

The Fundraising Standards Board (FRSB), an independent self-regulator for charity fundraising in the UK, stepped in to investigate after receiving hundreds of complaints related to Mrs. Cooke's story. The FSRB found that of the 99 charities possessing her information, 70 of them had acquired her personal details from someone other than Mrs. Cooke. This means that the majority of the charities marketing to Mrs. Cooke bought her contact information from other charities, and 24 continued to profit by selling it to others. Mrs. Cooke donated to 88 of the charities in her lifetime, but only 16 regularly gave her an opportunity to opt out of further communication or data sharing.

The charities cited in the report had no way of knowing the cumulative impact of their methods, but the sheer number of requests was overwhelming. The mass-marketing techniques, coupled with data sharing and the inability to opt out, led to a total disregard for Mrs. Cooke in an effort to eke out another few pounds.

The FRSB's report called for a behavioral shift within charities and a new commitment to donors based on greater respect. The report made 17 recommendations for changes to the Code of Fundraising Practice, including a requirement to include the ability to opt out of further communication, and to obtain explicit permission before sharing data.

I bet there are many Mrs. Cookes around the world today. Even with a fundraiser's good intentions, there's always a temptation to raise a few more dollars by blasting one more email. It's too easy to buy cold email lists, append your current database, and spam people you don't know.

I believe a reckoning day is coming for the rest of us, just as it did in the UK. The charitable world has changed due to technology and donor expectations. If you can embrace the change and use it to your benefit by engaging with givers in a respectful, mutually beneficial, and two-sided conversation, revolutionary results can be accomplished. If not, the storm clouds gathering on the horizon will eventually force a change, whether you're ready or not.

The Old Models—And Why They Don't Work

Change is hard. It's even harder when you're underpaid, under-resourced, and charged with the roles most important to the mission: finding and retaining donors, raising major donations, and inspiring legacy gifts. Even so, you need to move away from traditional models to employ new ways of connecting to donors with sincerity.

Given all of the resources and time in the world, you'd probably default to the Golden Rule and have no problem treating donors as you'd like to be treated. Like dating, you would build a slow and steady relationship with a potential donor. Maybe share ideas, learn her story, understand why she cares, and gauge where she is in the consideration process before pushing her too far too fast. Instead, the time-and-money crunch forces you to fall back on old ways of doing things.

The challenge of marketing to donors is further complicated by the mindset of many fundraisers themselves that have an aversion to viewing themselves as marketers or salespeople. I even heard one Chief Development Officer take it a step further and say, "I'm not a salesperson. I'm not a marketer. I'm not even a fundraiser. I'm a dream maker!" She wanted to see herself as a do-gooder. Perhaps she felt the other descriptors were beneath her?

Here's the thing: "Sales" isn't a dirty word. It's not about being a "shark." The best salespeople are actually enormously thoughtful and kindhearted. They always aim for a win-win even though they're under pressure to generate results, too.

It seems that many fundraisers think of salespeople in the for-profit world as used car peddlers, but that simply isn't the case. The raising of money by charities is no different from sales and marketing in the private sector. A win-win is essential. When you learn to view the whole process simply, as a way to align an individual's need with what you have to offer, everyone gets the results they desire.

Sales leaders know that everything I'm describing in this book applies to them, too. The private sector is way ahead of nonprofits in this regard, which makes sense. Their profit model financially motivates them—their CEOs, managers, and salespeople—to crack the code on what truly works and what doesn't. If they don't, their investors seek change. In the 21st century, your investors (your donors) will, too.

The Pyramid

Still reading? Terrific. But get ready for some turbulence. I'm about to shatter some traditions, orthodoxies, and conventions that many fundraisers hold on to for dear life. Let's begin.

When we talk about old models, one of the most timeworn fundraising concepts is the donor pyramid model, perhaps because it offers an alternative to the traditional sales and marketing funnel method of moving leads to qualified prospects and then to customers. I can only assume that the pyramid model was first developed because, in the past, fundraisers generally didn't want to be thought of as marketers or salespeople. But, as I've previously mentioned—they are. Almost every exchange of money for value involves marketing and selling. Fundraising is simply a subset of that archetype, not a separate category.

When organizations embrace the traditional fundraising pyramid, they try to acquire donors at the bottom of the pyramid, usually aiming to gain donations from low-level, first-time donors. Any donation is enough in this model, because it enables entry into the process. Fundraisers then try to move donors up the pyramid, perhaps first pursuing monthly, repeat donations.

Then they'll try to inspire larger and larger gifts until the donor reaches the midlevel category. Usually, the midlevel is where things get messy. The supporter who gave 25 bucks a month is now giving $500 here and there. They've moved themselves from "coach" to "business class," but they usually don't get treated any better. In fact, many midlevel donors end up not getting any communication at all.

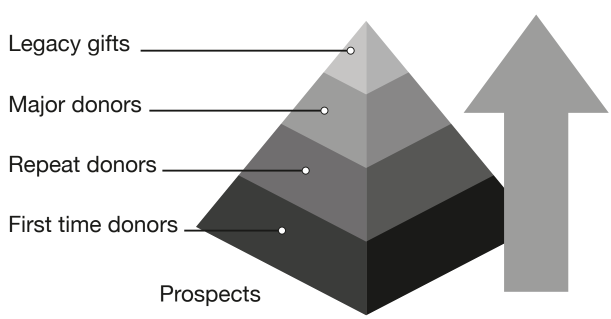
Since midlevel-category donors usually aren't worthy of costly face-to-face relationships with Major Gift Officers and no longer fit in the lower level, they often get ignored and then stop giving altogether. Then they hop away looking for a charity that will love them back.

If the donor somehow makes it through this maze, however, they might eventually find themselves approached by a Major Gift Officer. The Gift Officer will seek to build a relationship that might lead to greater giving in the "first class" zone.

Finally, the charity will hope for the ultimate gift: a legacy gift. Charities fail to realize that most people change their minds, removing charities from their estate plans or shifting their distribution percentages within the tempestuous last days of their lives.

Additionally, many wealthy people would rather pass their money on to their heirs, and they often say they have left a gift in their will when they haven't.

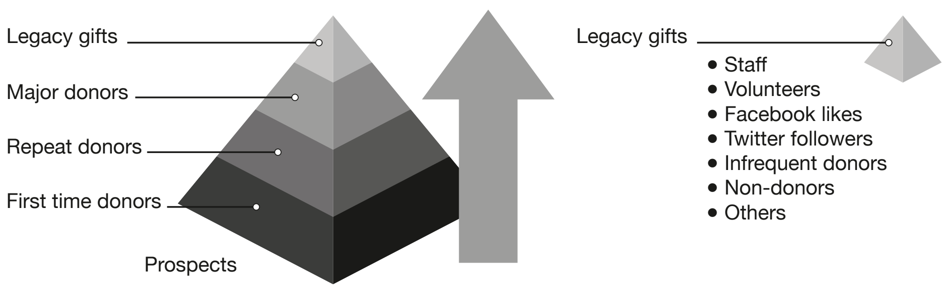
The fact is, the traditional pyramid is wrong. Legacy gifts can come from anyone, not just those moved up by the charity. The average person reserves their single most meaningful donation, their major gift, until *after* their lifetime. It might even be their first donation that the charity receives.



Traditional fundraising pyramid.

For decades, fundraisers have referred to these heaven-sent donations as "coming over the transom." (A transom is a window found in some old-fashioned offices that sits just above a doorway and can be opened so people can toss mail over the crossbar.) These gifts often come from donors, but they also come from advocates, members, staff, volunteers, and even people who have been following your charity's efforts on social media.

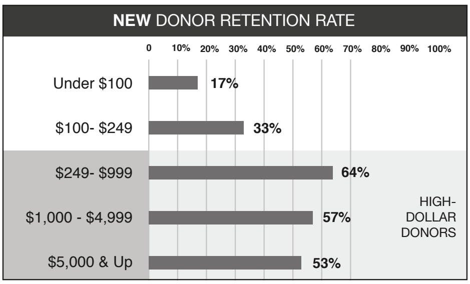
For example, there may be a donor with fond memories of her college who leaves a large gift in her will, or a donor who gives to the music society in honor of an aunt who always took her to the opera. Where do they fall on the pyramid? They don't.



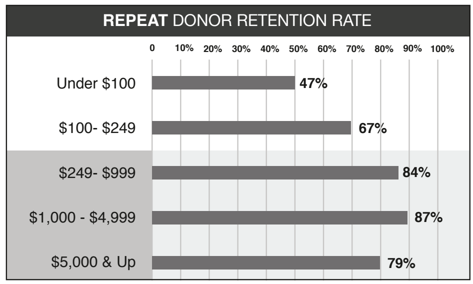
New model recognizing that legacy gifts can come from anyone and can be a supporter's first donation.

Another fallacy that forms the foundation of the pyramid model is that low-dollar first-time givers will continue to give. However, data from the Fundraising Effectiveness Project shows that higher-dollar first-time givers retain at a higher rate and also repeat with larger donations.

The pyramid model defies logic once you examine the data. On average, only 17 percent of new donors giving $100 or less give again. Of that 17 percent, only 47 percent give a third time. Compare that to new donors whose first gift is between $1,000 and $5,000. Fifty-seven percent of them give again, and then give a third time at a rate of 87 percent. In other words, the first-time donors who give between $1,000 and $5,000 are more than three times more likely to give again compared with low-dollar donors and are almost twice as likely to give a third time compared to the same group.



Source: Fundraising Effectiveness Project
Examination of anonymous data from 3,590 organizations thanks to their partnerships with many of the best-known software (CRM) providers. These charts represent the loyalty of donors among the top 20% fastest growing organizations in this group in 2013.



Formula: Total dollars raised in 2013 minus total dollars raised in 2010 as a percentage of total dollars raised in 2010. The AFP sponsored FEP statistics are the best available statistics for the sector. **www.afpfep.org**

Although it may only work for a small segment of your audience, doesn't it make sense to loosen your allegiance to the pyramid concept and target the supporters more likely to give larger amounts in the first place?

The pyramid approach is relied on as a tried-and-true method of acquiring and retaining donors. It has been the cornerstone of the old paradigm in fundraising. It may have worked when direct mail, telemarketing, and face-to-face meetings were the only channels available. Research proves that the theory doesn't live up to the hype, but the approach also doesn't reflect a spirit of partnership between the organization and the donor. Instead, the donor is treated as someone who needs to be "moved" up the pyramid.

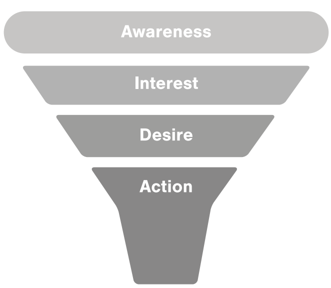
We can do better. "Moving donors" sounds like it involves trickery and manipulation. It isn't the answer. The secret lies in treating a donor well and giving them what they need. When fundraising is donor-centered, donors move *themselves* up the pyramid. It's your job to help them, not "move" them.

A Better Model

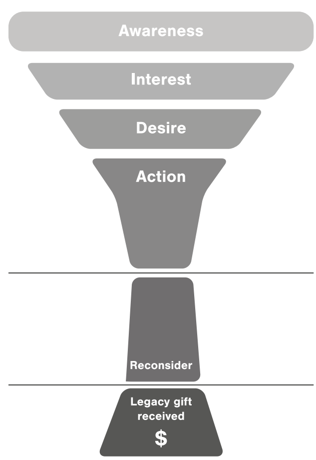
The pyramid model is outdated. It's not the way big dollars are generated in the private sector, and it doesn't work in the fundraising sector. The better approach is the traditional sales/marketing four-step funnel. Believe it or not, this funnel more accurately reflects the reality of the fundraising world. It's based on the donor as the customer and their consideration process. The pyramid cares little about the donor's timeline and thought process; it cares only about what the organization wants the donor to do. The funnel is donor-centric—and that's what this book is all about.

The marketing process, regardless of the sector, always needs to align with the buyer's or donor's consideration process. Once you understand the donor's journey, you can align your engagement messages and offers to meet the donor's needs at every stage of the consideration process.

I've seen colleges and universities target their new graduates who are faced with slim job prospects and just beginning to struggle to pay off their student loans. Those people may be happy to make a small, affordable gift, but most aren't. Then when the school continues to hound and harass them without providing value in exchange for the gifts, they get ticked off. Can you blame them?



Traditional sales and marketing funnel.



Major and planned gift fundraising funnel.

Instead of hounding new graduates for money, engage them. Start by providing them with offers that help them, not the school. Provide them with opportunities to find a mentor among past graduates who has already found success in their careers. Help them find and befriend other graduates in their local community with similar interests. Help them get a job. Through it all, provide them with an opportunity to benefit from something valuable you helped provide.

Don't make giving the focus of the relationship. You haven't earned their support yet. They've just spent a fortune on their education. Asking for donations or "moving them" too fast will offend them in a way they might never forgive.

The Populist Concept

The pyramid model is heavily intertwined with the populist approach, which is based on the idea of getting as many people as possible to give—at least a little. The populist concept is widespread, and it maintains that all donors deserve the same treatment.

The populist idea has been around a long time. After all, what could possibly be wrong with a philosophy that might have started with one of the most prolific fundraisers in America, Ben Franklin? Franklin's method equates to relentless networking, and leaves no one out. He described it this way:

> In the first place, I advise you to apply to all those whom you know will give something; next to those whom you are uncertain whether they will give anything or not; and show them the list of those who have given; and, lastly, do not neglect those who you are sure will give nothing; for in some of them you may be mistaken.[2]

In Ben's day, the populist approach made sense, because there were less people to solicit and it moved charitable fundraising into the realm of societal obliga-

2 Benjamin Franklin, *The Autobiography of Benjamin Franklin: 1706-1757* (Carlisle, MA: Applewood Books, 2008), page 137.

tion and away from its reliance on the church. Even now, the intentions of the populist approach aren't bad. It's hard to argue with the attitude of inclusion and cooperation. But the inefficiency becomes obvious when you examine the practice more closely.

Fundraisers who believe in the populist approach might seek to meet a $50,000 goal by asking for and getting $50 from one thousand people, instead of $40,000 from one person, $1,000 from five people, $100 from 40 people, and the rest from twenty $50 hits. When organization leaders and their boards ask for more donors, good-hearted fundraisers flock to the populist method, thinking that if they can just double the number of givers, they will double their revenue. The appeal is even greater if those fundraisers are shying away from meeting face-to-face with individual donors. Often that drives them toward the ease of signing a purchase order to send more spam or junk mail to more people.

Populist fundraisers argue that fundraising is evolving from big donors to big networks, and they believe that marketing to the top of the pyramid hurts their nonprofit's future. They want to deliver the same communications to everyone, because they believe the small piece of their donor base that's made up of older, richer supporters is a high-risk and high-reward constituency. This notion sounds good in theory, but it just isn't true.

I'll admit that populist fundraising can be effective sometimes. For politicians, donations might equal votes, so it makes sense for them to reach out to all types of supporters to request donations. In politics, populist fundraising works and makes sense.

But fundraising for nonprofits is a business, and the most effective techniques have to be used to achieve the charity's mission at the lowest cost. Other than the example of using a populist approach in politics, treating all donors the same across the board is not the way to go. It's expensive and very hard to do in a highly personalized, engagement-oriented way.

The Pareto Principle

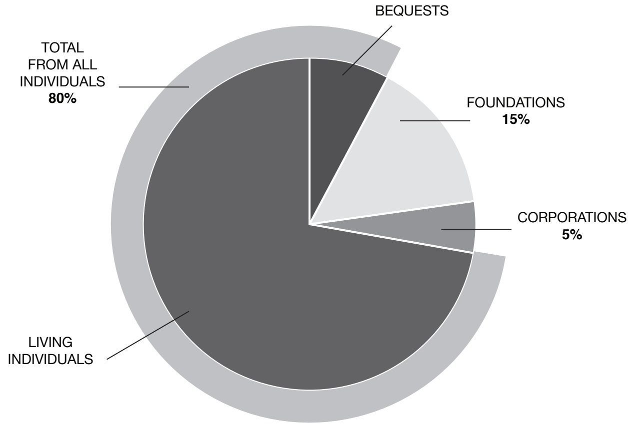
It goes without saying that charities need to use smart business strategies to meet their goals. Pyramid and populist fundraising don't fit the bill because they assume all donors are created equal, and we know they aren't. Instead, you should give priority treatment to the best donors and prospects. Doesn't it make sense to use your precious time and valuable resources on finding and retaining more people who are not only passionate about your cause, but also have the capacity to make serious impact, instead of spending tons of money on low-dollar, low-capacity donors and then trying to move them up the pyramid?

The reason it makes sense to focus on the small percentage of high-value donors can be traced to an Italian economist, Vilfredo Pareto. In 1906, Pareto discovered that 80 percent of the land in Italy was owned by 20 percent of the people. He further expanded the concept by observing that 20 percent of the pea pods in his garden contained 80 percent of the peas.

The concept quickly caught on and businesses everywhere soon came to realize that 80 percent of their sales came from 20 percent of their clients. This later came to be known as the 80/20 rule.

It works for nonprofits, too. Twenty percent of your donors generally will account for 80 percent of your revenue. Quite frequently these days, closer to 10 percent account for 90 percent of your revenue.

According to the Giving USA Foundation Annual Report on Philanthropy for the Year 2017, total giving in the United States in 2017 was $410.02 billion. Of that sum, individual giving (including bequests) accounted for $322.35 billion or just under 80 percent of all giving, with corporations accounting for about 5 percent ($20.77 billion) and foundations adding about 16 percent ($66.90 billion). It's funny how the Pareto principle works, isn't it?



Source: Giving USA 2018

Here are some other figures to consider. Although they don't precisely match up with the 80/20 rule, they complement the point. According to the IRS reportage of form 8283 (noncash individual contribution) filings in 2010:

- .1 percent of taxpayers (3,898 reporting earnings of $10 million per year or more) accounted for 28.8 percent of the entire country's noncash charitable donations.

- 2.9 percent of taxpayers (206,972 reporting earnings of $500,000 or more) accounted for 53.6 percent of the entire country's charitable donations.

- 14.8 percent of taxpayers (1,077,179 reporting earnings of $200,000 or more) accounted for 63.1 percent of the entire country's charitable donations.

More can be found in the 2012 Bank of America Study of High Net Worth Philanthropy, a study based on data gathered from a comprehensive survey of 20,000 high-net-worth donors in America's wealthiest neighborhoods. The study found that 3 percent of U.S. households are responsible for two-thirds of all household charity. That's pretty darn close to the 2.9 percent/53.6 percent figures reported by the IRS in 2010.

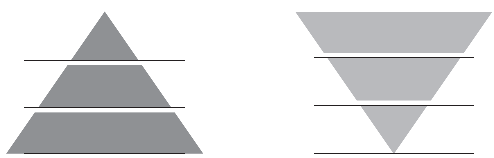
Most organizations spend their marketing dollars in direct opposition to the Pareto principle. Too often more than 80 percent of the marketing dollars get spent on acquisition fundraising aimed at gaining new low-level, low-capacity donors.

Interestingly, for-profit businesses know that the Pareto principle is essential to their success. However, as soon as their leaders get the opportunity to help their favorite charities as board members, I've heard them say things like, "We just need more new donors," or "If we could just get 5,000 new people to give $100!" It's astounding, but for some strange reason, perfectly smart business leaders lose their marbles when they enter the nonprofit universe.

Zeroing in on high-capacity (wealthy), passionate, engaged supporters to generate major gifts, including legacy gifts, is essential. One of the most fundamental strategic concepts is focusing marketing efforts and resources on the 20 percent of your donors who have the capacity and ability to make large or legacy gifts. Master this, and you will endow your nonprofit's mission with the greatest degree of efficiency at the lowest cost—period.

Here's a quick and easy way to determine if your budget is appropriated properly with the Pareto principle. Just fill in the percentages that reflect your organization's revenue sources and fundraising spending (budget).

	% of your fundraising REVENUE	**% of your fundraising BUDGET**
Top of the pyramid (top 20%)		
Middle of the pyramid (middle 60%)		
Bottom of the pyramid (bottom 20%)		



So, what did you determine?

Is your organization focused on the 20 percent that delivers 80 percent of your revenue? Is your budget spent on providing tremendous value to those individuals who can deliver large donations and bequests? Is it spent on helping your loyal, high-capacity donors encourage their friends to join them in supporting your mission? Is your budget focused on delivering great service to your high-value donors? Is it focused on finding more donors that model your major donors and legacy society members?

Or are you spending most of your budget on acquiring new, low-level donors who don't have enough interest, are disengaged, and lack the capacity to make impactful donations?

I'm not saying you should stop acquiring lower-level supporters. I'm not saying you should stop building awareness for your cause. I am saying you should take care of your core supporters who have the capacity to make a serious positive impact on your mission first. You should give them an unbelievable engagement experience every time they reach out to you or raise their hands showing interest. Roll out the red carpet for them and help them invite their friends to join in.

Focus your efforts by recognizing the power of the Pareto principle first. Then you'll have tons of cash to do whatever else you want to do. Spend more of your budget on less people. Deliver much more value to them and you will achieve more in less time while raising more funds at lower cost.

Breaking the Cycle with Technology

Without innovation, nobody wins; donors, fundraisers, and beneficiaries are trapped in a cycle destined to repeat itself. Here's what it looks like: After a year or so in a position with a charity, a fundraiser moves on. Perhaps the board changes. New parties may move into the positions, but all of the players are still underpaid, and they're still under the same pressures.

Money has to be raised, and donors must be found. What's a new hire supposed to do? You'll probably feel a lot of pressure to do what's always been done because you're short on time and resources. You may be scared to try anything new in case it doesn't work and might be considered a waste of donor money. So you'll probably rely on the vendors servicing your account, just as your predecessor did. It's the path of least resistance because the only party that hasn't been involved in the revolving door of the nonprofit is the direct mail/digital vendor that offers populist fundraising or spray-and-pray services.

The losers in this self-perpetuating game are the donors, the beneficiaries, and eventually the charity. High-capacity donors want to give; it's part of their humanity. But they aren't stupid, and if they aren't getting the value they deserve, they'll eventually go looking for another charity that treats them better.

Think about it this way. We've already covered the fact that giving is stuck at 2 percent of GDP, and most organizations have a low rate of retention. We've figured out that donors are hopping around, hoping to find a charity that makes them feel appreciated, valued, and involved—a place that takes them out of the endless cycle of pitches for more donations and makes them feel *good*!

Isn't it time you utilized technology to help you break the cycle? Technology has been the key for innovation in the private sector, and technology can provide the keys to finding and retaining your "Pareto" top 20 percent. The systemic problems prevalent in the nonprofit sector can be overcome, and the good news is that it won't require adding more staff or paying them more money so they stick around longer (although that's not a bad thing).

Leveraging technology will help you save time and money as it enables you to focus on the top-level givers for your organization. For example, relevant online communities and big data are a source of finding donors, and technology offers opportunities for easier tracking that weren't possible before. Add some artificial intelligence and machine learning and you'll be gaining ground on how for-profit businesses leverage technology to garner greater results. But I'm getting ahead of myself here. More on all that later.

The real benefit of technology, however, is that it enables you to deliver amazing, personalized experiences to supporters and relate with them in more meaningful ways individually. Using technology to engage prospects allows you to learn what they want and need, and to monitor their involvement to determine where they are in the gift consideration process. Ultimately, technology can put you in the right place at the right time—precisely when the donor wants you there to facilitate their giving and make them feel good.

Technology provides convenience. After all, that's the number-one reason why people use Amazon to buy their stuff. Uber, Tesla, Apple, and others have shown the rest of us the way. It's time for the nonprofit sector to follow their path by using technology to determine with whom to engage, when to engage, what to say in your communications, and why your prospects even care about giving. Best of all, you can use technology to capture and provide all of this information, with the added benefit of building trust.

Fundraising is like a big game of musical chairs. Donors are going to sit with the charity that engages them properly and makes them feel good. People with capacity crave engagement. Their desire for your outreach is pent up. It's as simple as asking them how they feel, why they donated, and how they want to be involved with your mission. Once you know the answers, it's about showing them that you listened by providing them with opportunities for engagement that suits their needs. Doing it this way will ingratiate you to them. They'll be more likely to meet you. They'll be more likely to be open with you. They'll be more likely to work with you to realize their philanthropic aspirations.

Gone are the days of donors making a gift and trusting the process. Donor expectations have changed, because donors can self-inform, self-qualify, self-involve, and even self-solicit. A smart fundraiser will realize this and use technology to make valuable offers, involve prospects on their own terms, and create personal relationships. Donors will get the experience they deserve, and charities will raise more money that can be used for good.

THE TIME HAS COME.

This book is for you if you know your job is getting harder because donor expectations have changed, the old orthodoxies and conventions don't work anymore, and competition for the charitable dollar is growing. ***Engagement Fundraising*** was developed from the perspective of a donor who discovered firsthand that the impersonal, spray-and-pray approaches of his beloved charity were not only offensive but also wasteful and ineffective.

With ***Engagement Fundraising***, you can be the fundraiser you want to be, helping wealthy and legacy-minded individuals find meaning in their lives through giving. The key is in leveraging smart strategies and powerful technologies to engage your supporters with highly relevant, captivating, respectful communications.

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Greg Warner is CEO and Founder of MarketSmart, a revolutionary marketing software and services firm that helps nonprofits raise more for less. In 2013 Greg coined the phrase "Engagement Fundraising" to encapsulate his breakthrough fundraising formula for achieving extraordinary results. Using their own innovative strategies and technologies, MarketSmart helps fundraisers around the world zero in on the donors most ready to support their organizations and institutions with major and legacy gifts.

ISBN 978-1-7322628-1-2
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