Are fundraising efforts supported and as efficient as possible?

PART THREE — OF — FOUR

SEI New ways. New answers.®

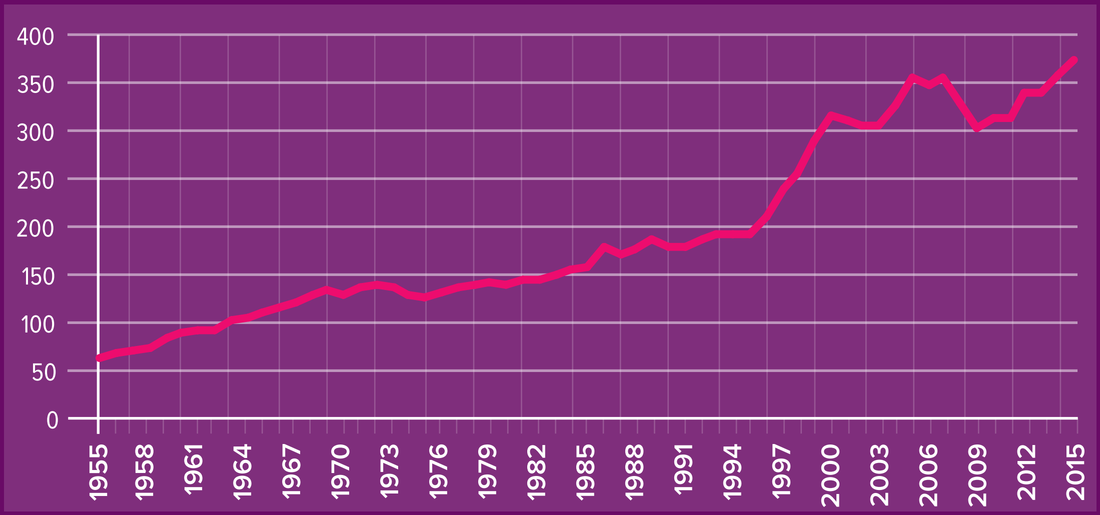
2016 SEI NONPROFIT SURVEY SERIES

Answers to Key Questions about Managing Nonprofits

Summary

This chapter provides the results regarding nonprofit board fundraising efforts and donor relations.

Within the last six decades, total charitable giving has grown from $63 billion to $373 billion.[1]



Nonprofits are focused on keeping this positive trend going. They're also concentrating on strategically investing to support their mission and staying aware of changes to come as a result of baby boomers retiring.

Nonprofits understand that there are two key ways to generate revenue — fundraising and investment returns — both of which are proving a challenge in today's economic and market environment. As such, most nonprofits are under pressure to make every dollar count.

[1]Giving USA 2016 and the Lilly Family School of Philanthropy at Indiana University.

Survey results show that organizations have invested in ample staff, technology and resources to support fundraising efforts. Despite that support, over the past three years, more than half (54%) of nonprofits haven't increased the percentage of revenues coming from fundraising. In the next few years, nonprofits will likely face reductions in fundraising revenue as baby boomers retire; therefore, the need to attract new and younger donors will be more important than ever.

The majority of the respondents to this survey were staff from nonprofit organizations. They were asked about fundraising challenges they face in today's complex investing environment. Three high-level conclusions were drawn and are listed below:

1. Nonprofits appear to have organizational and infrastructural support for fundraising success
2. More challenges lie ahead for fundraising as nonprofits struggle to retain fundraising staff and attract new and younger donors
3. An increased emphasis on donor-advised funds could help improve the limited success with growing fundraising revenues

The following are a detailed outline of the statistics found in the first part of this research series on the conclusions mentioned above.

SECTION 1

Nonprofits appear to have organizational and infrastructural support for fundraising success

More than three-quarters (**77%**) of all nonprofits surveyed reported that they do fundraise. Of that group, nearly two-thirds (**61%**) feel their organizations have made "good" investments in resources, technology and culture to support fundraising success.

It's hard to fulfill a mission if the revenues are not there to support it. Each year, nonprofit organizations face increased pressure to boost revenues. And so, boards have a number of considerations, such as: making smart investment decisions, understanding the complex market environment, reducing costs and building relationships with donors. With giving up 4% this year and another 4.3% in expected growth in 2017, boards need to stay focused on capturing as much of that new revenue as possible.[1,2]

The poll results suggest that nonprofits clearly recognize the level of importance of fundraising and the potentially large impact it can have on achieving organizational goals. Overall, nearly two-thirds (61%) said their organizations made "good" investments in resources, technology and culture to support fundraising success.

The support appears to be there in a variety of ways. Of those nonprofits that fundraise:

- **85%** believe their organizations have realistic fundraising goals in place
- **58%** believe the organization spends enough on advertising and awareness campaigns
- **62%** do not think their organization's website needs significant improvement
- **56%** currently have five or more staff members dedicated to fundraising efforts

Donor acquisition is another big challenge facing today's nonprofit organizations (and we'll explain more later in this report). Although baby boomers are retiring and organizations need to attract younger donors, respondents aren't too nervous about associated costs increasing. In fact, nearly three-quarters (72%) stated that their fundraising budgets are enough to support rising donor-acquisition costs.

[2] Marts & Lundy, "The Philanthropy Outlook 2016 & 2017," *http://philanthropyoutlook.com/index.php/philanthropy-outlook/total-giving/*

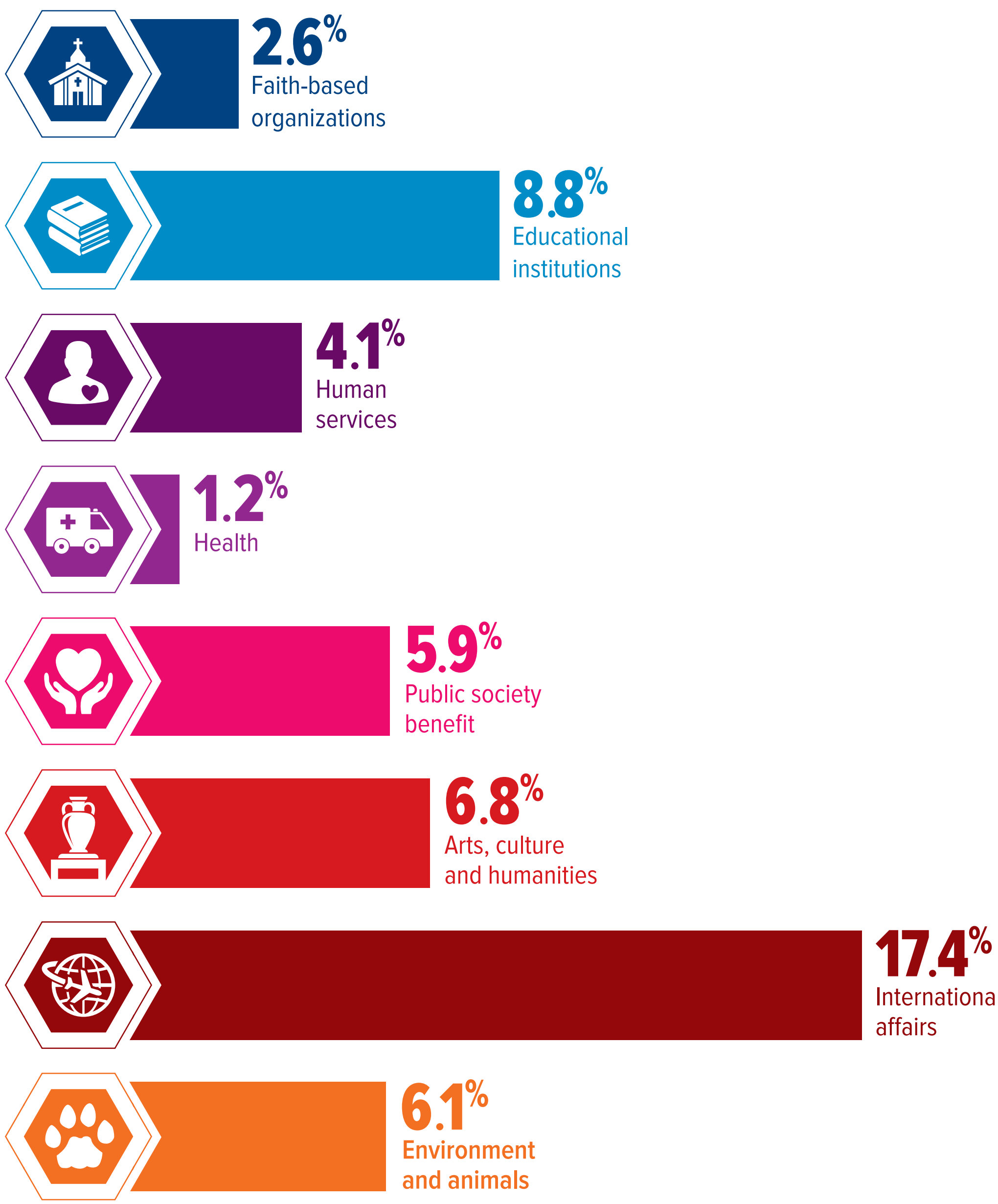
FAST FACT

90% also stated they do not believe that they lost financial support to for-profit business models trying to solve social and environmental problems.

Many nonprofit organizations benefited from growth in charitable giving from 2014 to 2015.

FIGURE 1

How support changed from 2014 to 2015*



*Giving USA 2016 and the Lilly Family School of Philanthropy at Indiana University.

SECTION 2

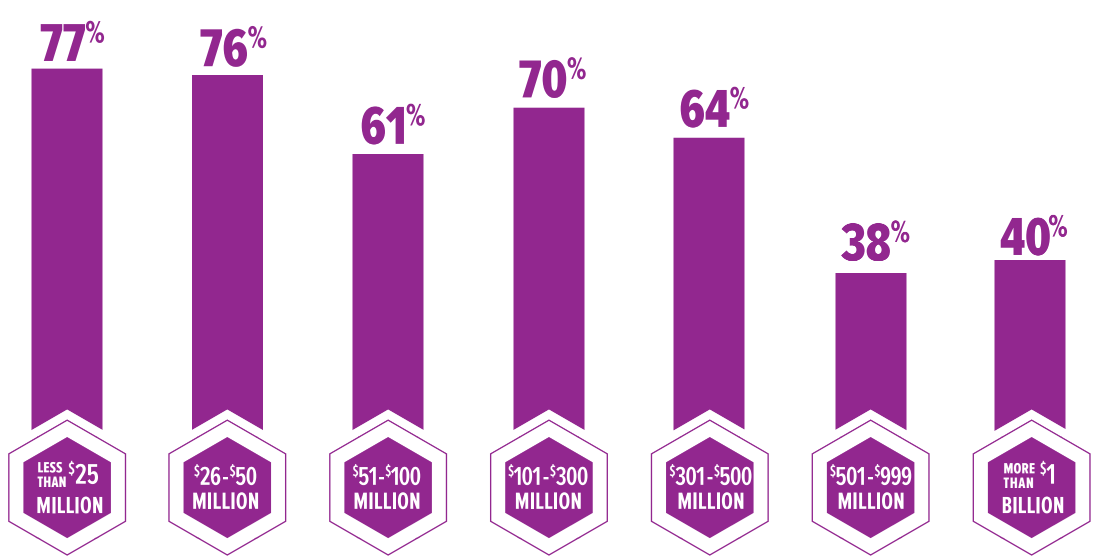
More challenges lie ahead for fundraising as nonprofits struggle to retain fundraising staff and attract new and younger donors

More than half **(54%)** of those nonprofits who fundraise have not been able to increase the percentage of overall revenue from fundraising over the past three years.

Today's nonprofit executives appear to be confident that they can retain their current donors, despite the complex and challenging market environment. Nearly two-thirds (65%) of survey respondents estimated their donor retention rate would be 41% or higher. That said, survey results show that estimated retention rates are tied to the size of the organization. Smaller nonprofits — with smaller donor bases — are more confident in their donor retention than the large and mega organizations.

FIGURE 2

Estimated donor retention rate of 41%+ (by organization size)



Not prepared to attract new donors in light of baby boomers retiring

Despite this confidence in retaining donors, it has been challenging for today's nonprofits to increase revenues from fundraising over the past few years. Donor retention and attraction continue to be critical drivers for the organization's bottom line, and the fundraising environment is about to get even more challenging with baby boomers retiring. With an ongoing need to grow revenue year after year, nonprofit staffs must develop strategies to bring in new donations while retaining donors who already support their mission. And they need to do this soon, as existing donors might become harder to keep.

- Nearly half **(47%)** of organizations who fundraise feel that the retirement of baby boomers, and their assumed reduction in donations, will have an impact on overall fundraising efforts.
- **63%** of poll respondents do not feel that they have strong programs in place to attract younger donors.

FIGURE 3

Next generation of American giving†

	Generation Y Born 1981–1995	Generation X Born 1965–1980	Boomers Born 1946–1964	Matures Born 1945 and earlier
Total giving	11%	20%	43%	26%
Donors	32.8 million donors in the U.S.	39.5 million donors in the U.S.	51 million donors in the U.S.	27.1 million donors in the U.S.
Give	60%	59%	72%	88%
Average annual gift	$481	$732	$1,212	$1,367
Charities supported	3.3	3.9	4.5	6.2

†Rovner, Mark. "The Next Generation of American Giving: The Charitable Habits of Generations Y, X, Baby Boomers, and Matures," Blackbaud, August 2013.

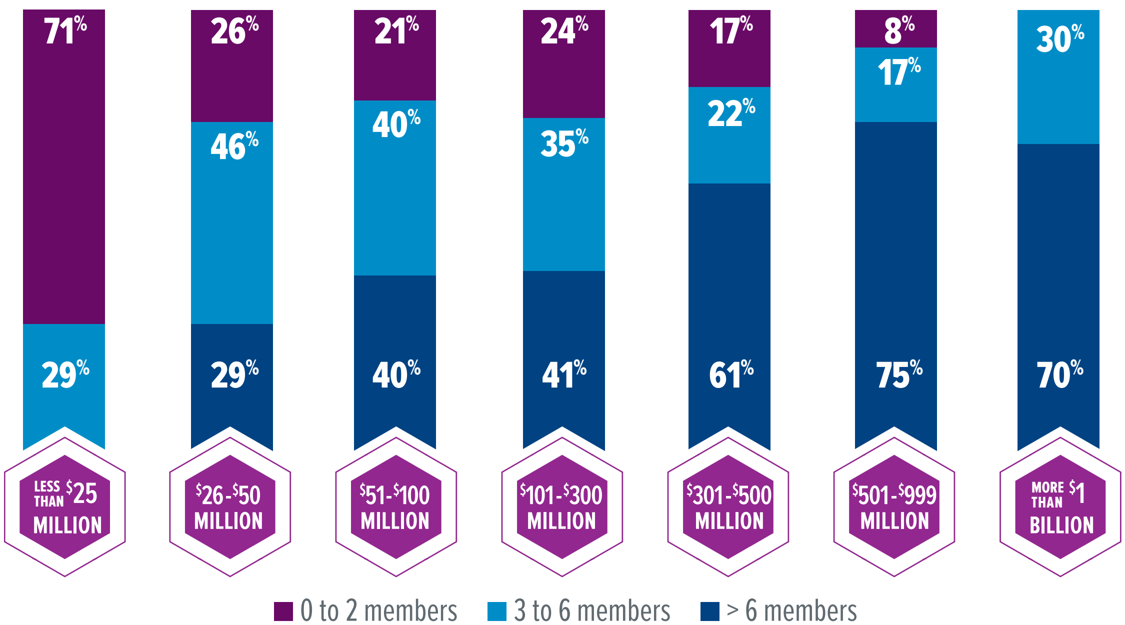
High turnover of fundraising staff is another challenge

Turnover of fundraising positions at nonprofits is nothing new, as experienced and successful fundraisers are in great demand. Nonprofits are challenged to keep fundraising staff especially when they are good at what they do and others are willing to pay more. Nearly half (42%) of those organizations that fundraise said they lose staff because the organization's compensation levels are too low to compete.

Fundraising staff size also appears to correlate with the size of the organization in terms of overall assets. Larger organizations — with $501 million or more in assets — appear, for the most part, to have at least three full-time fundraising staffers. In fact, nearly three-quarters (73%) of that group have more than six full-time staff members dedicated to fundraising.

FIGURE 4

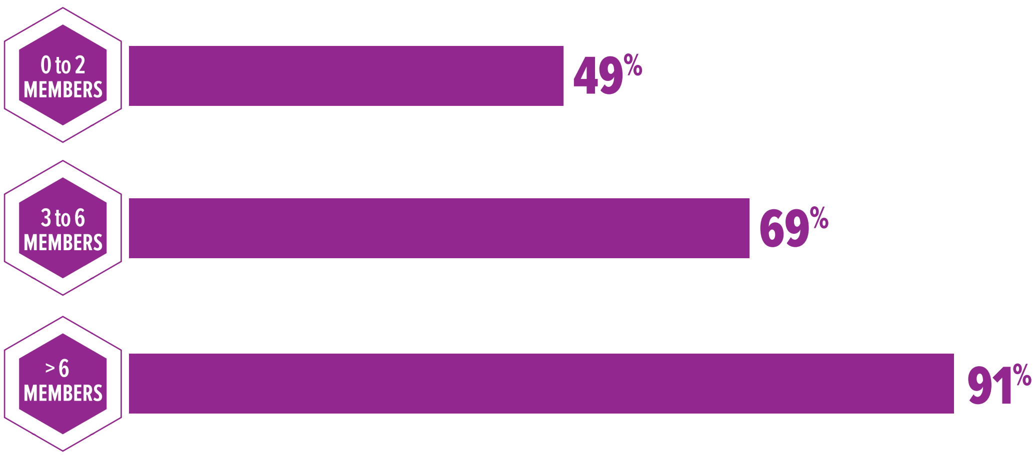
Number of full-time staff members dedicated to fundraising (by organization size)



The impact of losing staff members would be greater for those with smaller staffs. Of concern is that those with 0 to 2 fundraising staff members, nearly half (49%) experienced turnover in the past 12 months. The assumption would be that larger staffs almost certainly will result in more turnover and poll results supported that. Of those with six or more staff members supporting fundraising efforts, 91% reported turnover in the past zero to 12 months. Nearly half (47%) of all respondents reported turnover in those positions within the past six months alone. Another quarter (25%) had turnover in the past six to 12 months.

FIGURE 5

Number of full-time staff members dedicated to fundraising that experienced turnover within the last 0 to 12 months‡



‡Turnover results exclude those who responded “not sure” or “not applicable.”

DID YOU KNOW?

Colleges and universities have experienced the highest staff turnover rates. 55% of private colleges or universities experienced staff turnover within the past six months. 68% of public colleges and universities experienced this as well.

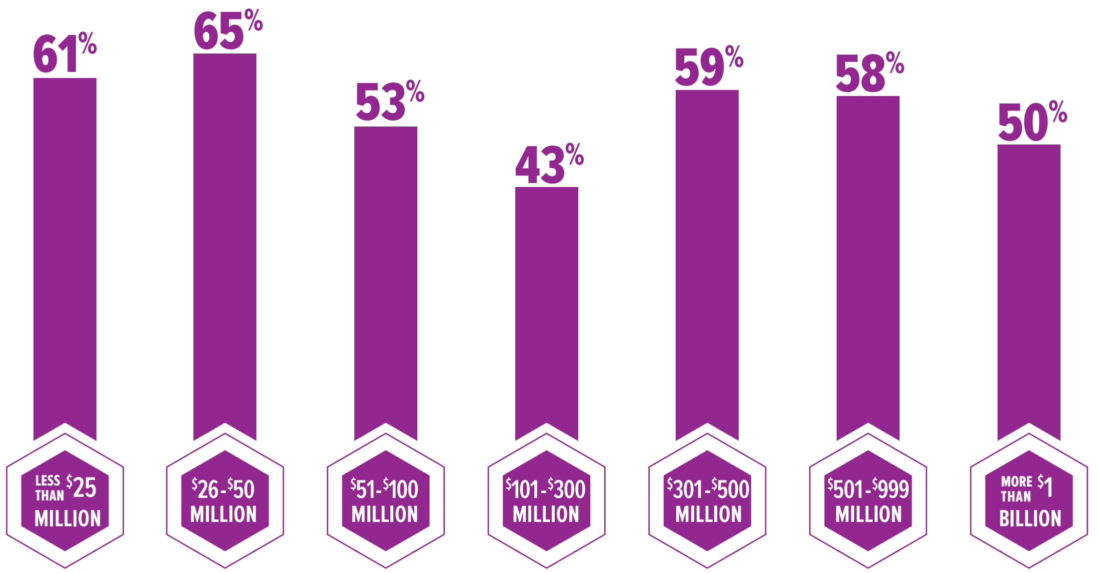
The importance of fundraising to drive a higher bottom line

Survey results clearly demonstrate that nonprofits understand the importance of fundraising efforts and invest in the proper resources to support those efforts. However, while the necessary staff, technology and infrastructure are all in place, many organizations still struggle to increase revenues.

- Of those who feel they set realistic fundraising goals, **27%** rely on fundraising to support almost half or more of total revenues.
- Of those that were able to increase fundraising revenues, more than half **(51%)** could only do so by **5%** or less.

FIGURE 6

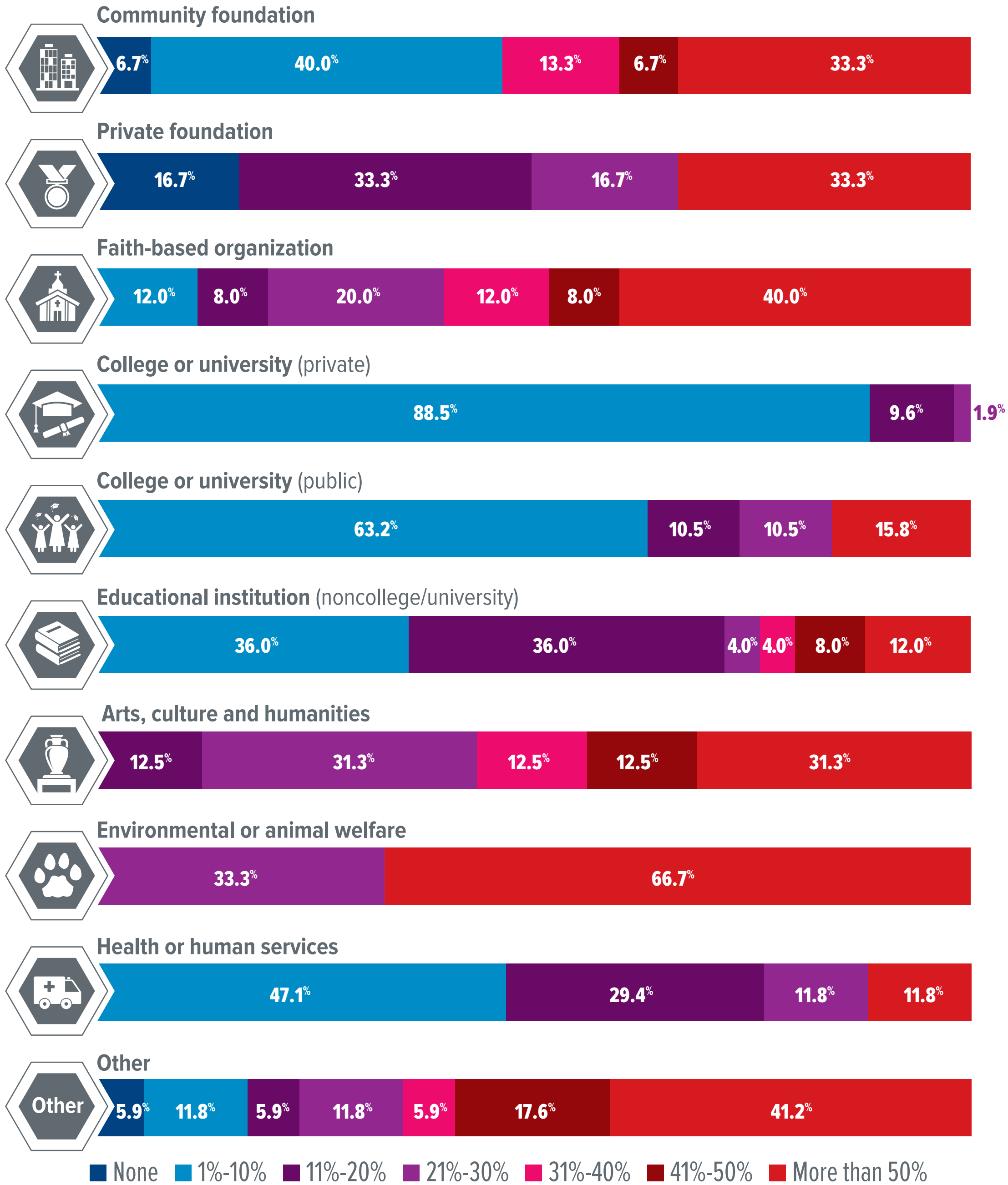
Revenues decreased or stayed the same (by organization size)



In order to support the organization's mission going forward, increasing total annual revenues is critical. A key driver of these increases in total revenues is fundraising dollars contributed from donors. The survey results demonstrate the varying level of reliance on fundraising dollars among nonprofits — particularly by organization type.

FIGURE 7

Percent of total revenue that comes from fundraising (by type of organization)



SECTION 3

An increased emphasis on donor-advised funds could help improve the limited success with growing fundraising revenues

More than three-quarters **(83%)** of those who saw a decrease in revenues in the past three years do not offer donor-advised funds.

For years, donor-advised funds have been on the rise, and assets invested in these funds continue to grow. A donor-advised fund is a separately identified fund or account that is maintained and operated by a section 501(c)(3) public charity organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.

The latest Donor-Advised Fund Report published by The National Philanthropic Trust dives into the numbers behind these investment vehicles and explains donor-advised funds' recent role in charitable giving.

- **7.6%** of individual giving was done in the form of donor-advised funds—translating into $19.7 billion total donated (up **14.1%** from the previous year)[3]
- Charitable assets under management in all donor-advised fund accounts totaled $70.7 billion[3]
- 238,293 donor-advised fund accounts in existence (up from $218,993 from the previous year)[3]

[3]National Philanthropic Trust, "2015 Donor-Advised Fund Report," 2015.

While donor-advised funds seem to be on the rise, 72% of respondents said that they do not currently offer donor-advised funds.

Why? The fees on these vehicles can get pretty complicated, as they are based on where they are managed and administered. It's also hard to manage the grant-making process with these because there are no payout requirements — it's based on donor preferences and timing. They also tend to have higher grant payout ratios — typically over 20% — versus a typical spending rate between 4% and 5%. Others even go as far to say that donor-advised funds can cannibalize traditional giving.

However, many organizations do see the value in donor-advised funds and are creating their own in an effort to increase charitable giving and provide donors with tax benefits while doing so. Many have noticed that these offerings helped the organization boost overall charitable giving and overall revenues. But since these funds take a significant amount of time to effectively implement, nonprofits offering these options tend to delegate the management of the funds to an external manager.

More than a quarter (**28%**) of respondents currently offer donor-advised funds. Of those:

- **70%** who offer donor-advised funds believe that the funds have increased overall charitable giving
- More than half who offer donor-advised funds were able to increase revenues
- **78%** delegate the management of the funds to an external manager, which frees up time to focus on strategic issues and overall fundraising efforts

Conclusion

This chapter of the survey results explains the fundraising challenges nonprofit boards and investment committees face today. The statistics demonstrate that nonprofit organizations do have the organizational support and infrastructure in place to be successful at fundraising. However, with a complex market environment and baby boomer retirements, nonprofits need to focus more on reducing staff turnover, attracting new and younger donors, and retaining the donors they already have. In light of these challenges, many organizations are considering or currently using donor-advised funds, which could drive revenue increases for years to come.

If you want an advance copy of future releases in this series, visit us online at **seic.com/nonprofit2016** or email **seiresearch@seic.com.**

2016 SEI Nonprofit Survey Series

Answers to Key Questions about Managing Nonprofits

Part 1: Are boards and investment committees supporting their nonprofits most efficiently?

Part 2: How are endowment assets overseen and invested?

Part 3: Are fundraising efforts supported and as efficient as possible?

Part 4: How are spending policies developed and implemented?

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