ARCH National Resource Center for Respite and Crisis Care Services

Factsheet Number 6

Some General Principles of Charitable Nonprofit Fundraising

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Charitable Nonprofit Organizations

All charities are nonprofits, but not all nonprofits are charities. The Internal Revenue Code defines more than twenty categories of nonprofit organizations under Section 501(c). Examples include labor organizations [501(c)(5)], fraternal societies [501(c)(10)], cemeteries [501(c)(13)], pension trusts [501(c)(18)], veteran's organizations [501(c)(23)], and **charities [501(c)(3)]**.

Colloquially, the terms "nonprofit" and "charity" are often used interchangeably. Technically, a 501(c)(3) organization is a charitable nonprofit organization as opposed to a labor nonprofit, a fraternal nonprofit, a business league nonprofit, etc. To avoid confusion, many charitable nonprofits say, "We are a 501(c)(3)."

Those nonprofit groups that want to raise **tax deductible contributions** seek classification by the IRS as charities under Section 501(c)(3) of the Internal Revenue Code. They also register with their respective state governments, and most do not pay sales, real estate, income or capital gains taxes on their investments. Because the tax deduction for a charitable contribution is so attractive to potential donors, nonprofit groups that are classified by the IRS as *other than* 501(c)(3), often establish ancillary 501(c)(3) charitable nonprofit organizations as a base from which to raise funds. Example: The American Pharmaceutical Association established The American Pharmaceutical Association Foundation.

The vast majority of charitable nonprofits form a corporation in order to limit their board members' liability in case of litigation. In reality, 501(c)(3) organizations are special *business* corporations that operate for the benefit of the general public; they have special tax dispensations under the assumption that their *work can not be accomplished at a profit by a commercial business corporation*.

There are direct parallels between charitable nonprofits and commercial businesses: each has incorporation papers, a board of directors, a vision of what is to be accomplished, products or programs/services, budgets, staff, a physical plant, a public image, and a need to plan long range for programs, personnel, and funding. They are more similar than dissimilar, and their operations are about 80% parallel. (That is not surprising when one realizes that Benjamin Franklin borrowed the business corporation model and modified it for charitable nonprofit use when he established the first charity after the Revolutionary War.)

When a business corporation wants to raise money by obtaining a bank loan or selling more stock, it produces a business plan to prove its management ability to potential investors. *Charitable nonprofits generally call their business plan a long range strategic plan*; it demonstrates to key donors that the organization can manage well and convinces them that a gift to that particular organization is an "investment" in the betterment of society.

Boards of Directors

A charitable nonprofit's directors are volunteers who govern the organization in the name of the general public. The board approves the work (programs) and the budget of the group, and it is responsible for seeing that the funding is there to achieve that work. *Therefore, a key component in successful fundraising is the selection of board members who are willing and able to raise money.* During long range planning, a strategy is drawn up to recruit people for the board who have direct connections to funders identified as likely to give support. While some charitable nonprofits hire staff to **assist** in raising money, the principle underlying charitable fundraising is that it is done by volunteers who first have made their own donations to the group and now are requesting similar contributions from others. A skilled development (fundraising) staff can greatly facilitate board fundraising.

Non-Board Volunteers

Volunteers appear in a variety of places in charitable nonprofit fundraising. Organizing volunteers requires a decision by the board to commit a board or staff member and a budget line to recruiting and training volunteers for fundraising. Well trained volunteers equipped with high quality material about your work can make effective solicitation calls or produce a variety of events. *The key to keeping volunteers involved is offering a permanent liaison to the volunteer corps who is knowledgeable about fundraising goals and about the organization and who is available to volunteers when needed.* Volunteer fundraisers respond best when they have job descriptions, specific goals and timetables, and know how the money they raise will be spent.

Competition for Funding

Many charitable nonprofits collaborate in program work, public education activities, and legislative liaison. Some even coalesce in united fundraising drives. However, the *majority* of philanthropic organizations raise money for themselves alone. ***Competition between charitable nonprofits for financial resources is an integral part of the philanthropic field and will not disappear in the foreseeable future***. Only a group which has an endowment large enough to fully generate its annual budget can be classified as a non-competitor for funds.

The Energy Behind Fundraising

Long Range Market Plan

Unless an organization has a "golden goose" to whom it can turn for short range donations or an asset against which it can borrow, there are no "quick fixes" in the charitable nonprofit world. Traditional funders (foundations, corporations, etc.) usually avoid an organization in crisis because, to them, the need for fast cash means that the group has not planned well for its needs and has not developed alternate sources of funding over time to backstop emergencies. Cold as this may seem, it is a reality of the contributions marketplace.

Successful fundraising is based on the fundamental marketing principle that a contribution is part of a satisfying mutual exchange which takes place between the donor and the organization. The charitable nonprofit facilitates that exchange by carefully *analyzing* the contributions marketplace and *planning* to build bridges directly to the funding that seems ideal for their programs. Most of those bridges are board members, senior staff, advisors, and special friends of the organization. Their efforts are augmented by clear, logical material that describes the needs of the group's constituents, the organization's work, its cost, and its projected results. When the exchange happens, the philanthropy receives the funds, and the donor receives the satisfaction of knowing that he/she has helped to provide a service or program for the group's primary constituents.

The **strategic organizational market plan** comprehensively re-defines the organization for a specific term...usually three to five years...and it acts as an operational blueprint. It analyzes the needs of constituents, offers programs to suit those needs, projects costs and reliable income, provides a specific fundraising plan for each program, and provides sub-plans to recruit human resources, communicate effectively to the world about the group, implement itself over time, and continue to evaluate constituents' needs and responses to the organization's current work.

Types of Fundraising

Annual Campaign

This is the bedrock of all fundraising. It is a time period with a specific beginning and end during which unrestricted funds for general operations are solicited. The primary targets are usually individuals, moving outward in concentric circles from the board and staff, to special friends of the organization, to volunteers, to civic and fraternal groups, and to those limited numbers of corporations and foundations that give unrestricted funds. By repeating the campaign at the same time each year, it becomes more cost effective to manage and helps donors develop the habit of planning an annual gift for the organization. Solicitation techniques include person-to-person, formal proposals, direct mail, and special events.

Cause-related marketing (see below) can be a part of the annual campaign. **Tip**: ***The list of donors to the annual campaign is worth its weight in gold.*** It becomes the basis of an eventual endowment campaign as well as special events fundraising and program-restricted fundraising. In addition to address and telephone, try to build detailed records on each donor, i.e. make note of a "privileged" type of checking account (e.g., cash management account); see if that person lives in the high income part of town; does that donor appear in the society or business pages of the paper? This process is called *qualifying* the donor, and it never ends. Many an organization has uncovered a potential major donor through annual campaign research.

Corporate and Foundation Gifts

Most corporations and foundations give funding restricted to specific programs of the applicant. Research is the key to success in the continuous task of matching your programs to the guidelines of business and foundation contribution programs. Development staff and/or volunteers use a variety of corporate and foundation research directories to find likely targets. After sending for the specific guidelines of each target, the researcher decides whether to contact the potential funder directly to determine eligibility to submit a formal request for funding. Some corporations and foundations have deadlines for proposals and regular dates on which they review and decide upon awards; others have no deadlines and meet whenever they can. *This is not a fast process*. Corporate and foundation solicitations should be set up on a schedule that is planned months or years in advance to allow sufficient time for cultivation of the prospect, preparation of the request and support material, and interaction with the funder's staff. The best technique to achieve relatively pressure-free corporate/foundation solicitations is to set up charts in your strategic plan which list targets by due date. *This brings the added benefit of being able to project multi-year grants from some funders.* Few charitable nonprofits achieve the ideal corporate/foundation solicitation process as soon as they begin fundraising. However, they strive to create a master list of projected solicitations within about two years. **Tip**: ***Listen carefully to the feedback from corporate or foundation grants officers and build your proposal according to their suggestions.***

Cause-related Marketing

During the last decade, many businesses have partnered with charitable nonprofits to provide increased revenue for each as a result of attaching a small contributions component to the companies' product prices. The donations go to the organization in proportion to product sales; the business has the right to advertise its relationship with the philanthropy in order to enhance its image and its sales. The positive side for the charitable nonprofit is that it has an income stream of unrestricted funds outside the traditional corporate contributions mode, and that it gets great free publicity. The negative side is that this income varies as product sales vary; it can disappear at any time. **Tip**: ***Route the cause-related income into an endowment or a revolving loan fund; do not become dependent on it.***

Special Events

If a special event is truly a fundraising event, then all of its costs, including staff time, must be charged against income. A new special event is successful if it breaks even for two or three years. *Long term fundraising income is achieved when the donor community begins planning on community calendars* for annual participation in the event. There are stunning examples of annual balls, golf tournaments, telethons, walkathons, casino nights, etc. which, over time, have become institutionalized. **Tips**: ***Be sure you have underwriting for the event before you undertake it; recruit double the number of volunteers you thought you would need to produce the event; be prepared to keep repeating the event for several years until the net surplus becomes predictable and meaningful to your budget.***

Unrelated Business Income

When a major university in New York City acquired a spaghetti factory as a gift and then decided to manage it as an ongoing financial investment, when a hospital built a building and rented it as office space, when an art museum built a tower of luxury apartments on top of itself and rented space, and when a college set up a holding company and bought two local restaurants, charitable nonprofits jumped directly into commercial business. A long chain of future events will unfold before philanthropic organizations will know the IRS' final position on this matter. For the present, income earned by charitable nonprofits holding interests in businesses unrelated to their mission is fully taxable. Many organizations, individually or in consortium, raise taxable money for their work by generating *unrelated business income*. They pay the taxes and happily route the proceeds into their operations or endowment. Organizations whose boards include business minds that can manage such enterprises are exploring this new world. **Tip: *Explore cautiously*.**

The Goals of Fundraising

Achieve the Charitable Mission

Most people correctly assume that the ultimate goal of raising money for a philanthropic organization is that of offering its programs or services to those who need them. This assumption allows for the cyclical continuation of annual fundraising ad infinitum, a process whose costs can only escalate over time.

Maximize Self-sustainment

There has evolved a broader view of fundraising, which incorporates a second component of the goal, namely that of maximizing each organization's ability to generate self-sustaining income. This allows for a reduction in the costs of cyclical fundraising due to the influx of interest income from an endowment. While few organizations ever reach the utopian state of total support from self-controlled resources, many successfully strive toward generating sufficient income to at least cover annual administrative and fundraising costs from endowment. This isolates the remaining fundraising to program needs, which are much easier to address than general operating money.

Getting There

From annual campaign to endowment, the key strategy is **careful planning**.

- Determine the environment in which your organization must operate.
- Determine constituents' needs and select strategies to provide responsive services.
- Recruit the appropriate human resources.
- Carefully estimate costs and reliable income.
- Target your funders with accurate research.

- Prepare compelling presentations.
- Ask for the donation.
- Make the financial exchange.

Resources

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