



National Fund Raiser

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Reshaping the Pyramid of Giving©

For decades we have been preaching the precepts of building your development program on the Pyramid of Giving – lots of new-donor acquisition activity, trying to renew 50-55 percent of new donors acquired, renewing and upgrading 70 – 75 percent of ongoing donors and moving a percentage of these into an Entry Level Large Gift Club.

Well, it's time to reshape our thinking and reshape the Pyramid of Giving©. Why?

“Over 400 charities and donors from 49 states – representing every not-for-profit discipline – participated in a national study on donor relations between August, 2002 and March, 2003,” states Penelope Burk, CEO of Cygnus Applied Research, Inc. Additionally, “267 charities completed an on-line survey of more than 200 questions about their donor communication and recognition practices. The survey gathered statistical information and anecdotal experiences concerning all aspects of charities’ donor communication and recognition practices, including budget-related issues,” she adds.

Based on this and other studies, we are learning about important changes taking place in the world of fundraising:

- 1. The average American household is inundated daily with snail mail, e-mails, spam and telemarketing. Direct mail is too costly to blanket areas of demographic suspects. More time and money need to be spent on researching prospects based on linkage. Receiving a one-percent return on a 10,000 mailing will pay higher dividends than a 0.6% return on a mailing of 20,000 due to savings on total costs and a higher retention of newly-acquired donors.**
- 2. Most nonprofits are losing 50% of their first-time donors in the following year and 90% within five years, according to Burk. We need to dedicate ourselves to thanking first-time donors, showing them how their gifts are put to work right away in meeting our missions. Improving donor loyalty by beginning a well-thought out cultivation process is a must. Instead of cultivating the gift, we need to cultivate the donor.**
- 3. There are too many people in development who do not understand nor practice sound fundraising fundamentals. Let's take a more progressive, industry-wide approach to developing the skills of development staff and volunteer leaders, giving them the resources to get their jobs done.**

This month's supplement is the new, redesigned Pyramid of Giving© reflecting new goals for every giving level. In months to come, we'll offer ideas on how to accomplish these new goals.

Formula for Determining Your Capital Campaign Goal

Second in a Series

Capital campaigns are usually intense, short-term (12 to 24 months) efforts to raise a large sum of money for building or expanding or equipping or endowing. The needs are recognized and accepted by your board and preliminary cost estimates are secured. Too often, these estimates are used as a base and ten percent of this base is added to cover fund raising expenses. Such an approach can cause major problems.

Assume that you have gone through a “Capital Campaign Readiness Assessment” (May, 2005 issue) and you are considering hiring a professional consulting firm to complete a feasibility study. Before doing so, you should accurately project the total funds that will need to be raised.

Of course, coming up with a “base” figure or net funding needed for the project is most important. If you’re talking about a campaign to establish an endowment, you’ll need to (a) select the projects or programs you want to be funded and their costs, (b) add projected inflation, (c) determine how much principal will be needed to create the yield or interest earned to fund the projects or programs. The principal amount then becomes your base.

If you want to build or expand a building, an architect’s preliminary estimates are most likely **insufficient** to use as a base. Once the architect’s preliminaries are complete, retain a cost estimating consultant – an independent professional – to work with the architect to project inflated costs for the actual construction period, build in a realistic contingency and provide for deductive alternates. (These are items that can be eliminated or reduced in size or changed to cut costs without redoing the architect’s plans.) Now you have a realistic base or net needs.

Now that you have a fairly accurate picture of the **net amount** of money you’ll need to secure for the endowment, building or project, another ten percent of the new total will need to be added. This will cover probable unfulfilled pledges. Most gift commitments received in capital fund raising are not legally binding and are in the form of pledges over a two, three or five-year period.

Your next step is to estimate fund raising costs. What kind of costs?

feasibility study

extra office space

computer and software

campaign strategic plan

office supplies

secretarial/data processing support person

professional counsel

campaign materials

travel expenses

Your feasibility study will cost anywhere from \$18,000 to \$25,000. The campaign strategic plan costs may be included in the professional counsel’s fee. If not, it might run \$10,000 or more, depending on the complexity of the campaign. Professional counsel may cost \$4,500 or more per week during that time it takes to secure pledges to cover all of the aforementioned costs.

A campaign budget will be a part of the campaign’s strategic plan, but you’ll need an estimate up front to help set a campaign goal needed for the feasibility study. A good way to estimate is to total all projected costs except fund raising and add 8% to 12%. The smaller the goal, the higher the percent of fund raising costs. It may cost you \$100,000 to raise a net-needed million dollars which is 10%. Or, it may cost you \$500,000 to raise a net-needed ten million which is 5%.

Here is a summary formula for your use in determining the goal for your capital campaign:

Estimated cost of project based on today's dollar	\$ _____
Add inflation (years to complete project times annual inflation rate) plus construction contingencies	+ _____
Sub Total	\$ _____
Provision for unfulfilled pledges	x 110%
Sub Total	\$ _____
Provision for fund raising costs	x 108%
Campaign Goal	\$ _____

Once you have your campaign goal, this is the figure **quietly** used in conducting the feasibility study. If the feasibility study shows a likelihood of the campaign goal being raised, then this same goal determines the capital campaign gift chart or chart of standards, and, thus the formula and strategies of the strategic plan. If the feasibility study shows that a lesser amount is likely to be raised, adjustments can be made in building plans, costs can be lowered and the strategic plan is based on this new campaign goal.

Researching and Writing Your Strategic Development Plan

How to Assess Your Organization's Financial Needs

part two of six

In May, we began this series by presenting six important reasons why your organization should have a three-year or five-year development master plan. The single, most important reason is that a plan will help you raise all of the money you want to raise to help all of the people you want to help.

What resources and information will you need before you can begin to piece your plan together? First take a good, honest look at your development program in 1999, 2000, 2001 and this year. Examine your donor growth and dollar growth in each fund raising method.

Trends established over the last three complete years of development effort will tell you where you are likely to be this year and next. Another important reason for completing this analysis is to evaluate your techniques in each category. Once you have determined goals and objectives for the next five years, you're going to have a pretty good handle on what's working well for you and those areas in which your development skills need enhancing.

Our next step is to determine total financial needs – year by year for the next five years – for the organization. And, the logical way to accomplish this is to work with each department or program area. This month's supplement is a combination Budget Work Sheet and Assured Income Work Sheet. The budget work sheet will assist you in determining the total financial needs of each department or program area over the next five years.

First, photocopy the budget work sheet. Make a couple of copies for each department or program area and a few extra for your use in consolidating budgets. Don't forget to include administration as a department.

For each separate department/program area, locate the first column called "anticipated expenditures current year" and enter the figures for that department's current budget. It will be much easier to project future line items when the current expenditure is presented as a base from which to work. Remember, we are not after five years'

worth of exact budgets. What we are seeking is a pretty good handle on what budgets are likely to be (reasonable estimates) over the next five years so that we can begin planning to raise the necessary funds.

When working with the department head to determine the budgets, take into consideration:

- a. **what new projects or programs are likely to be added**
- b. **what existing projects or programs are likely to be cut back or eliminated**
- c. **what staff members and professionals will be needed year by year**
- d. **what new equipment and/or outside services will be needed**
- e. **how other budget items will be impacted by changes in a-d**

When each department or program area has completed the five-year budget projections, consolidate the budgets, year by year, to determine total organizational needs, year by year. (to be continued next month)

July

Development Strategies

Last month, we provided you with an analysis chart to measure your year-to-date progress in each fund raising method employed. It helps you compare each method's goal – where you should be, where you are and the differences. Even if you are doing okay overall, if you are behind schedule in two or more areas, hold a mid-year, full-day development retreat away from the office. Your CEO, board chair, development committee and development staff should participate. At the beginning, spend an hour or two examining what **is working well** in those methods that are meeting or surpassing goals. Then, zero in on the methods that are floundering. Try to determine what **is not working well** in these areas and outline step-by-step procedures for getting back on track.

Contact your mail house and lock in production time leading to an early September drop date. And, begin copy and design for your fall mailings to prospects, lapsed donors, first-time renewals and ongoing renewals. For the first two mailings of the year, we recommended that you attempt to upgrade your ongoing donors. For those ongoing donors who have yet to give in '05, we suggest you do not attempt to upgrade in the third mailing.

Last year, you were kind enough to contribute \$____. We hope you can be as generous in 2005.

For your first time renewals (those who gave for the first time in 2004), also soften your ask.

Last year, you were kind enough to contribute \$____. Please know that any size gift will be most welcome and appreciated.

Complete final evaluations of your donor acquisition rental lists used in your first two mailings of the year. Determine which lists performed satisfactorily (.6% or better response rate and \$20 or higher average gift if you don't have higher standards set by precedence). Choose the best for rolling out in your fall acquisition mailing. Order now for a drop date just after Labor Day.

Continue verifying telephone numbers of those in your donor database for year-end clean up.

Inventory your gifts received in '05 from board members, administrators and development staff. If there are some who have yet to give or pledge, sit with your development committee chair and CEO to plan follow up. If you are counting on board members to help you at year's end with large gift renewals, your board must provide leadership by example.

National Fund Raiser Supplement – June, 2005
Development Goal Setting for 2006
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Budget Work Sheet for:

_____ name of department or program

Photocopy this form and complete one for each department or program within your organization. When all department budgets are completed, a copy of this same worksheet can be used for consolidating all departments into a single budget called Total Organizational Needs.

<u>Budget Item:</u>	<u>Anticipated Expenditures Current Year:</u>	<u>Projected Needs for Next Year (incl. inflation):</u>
Salaries	\$ _____	\$ _____
Benefits – FICA matching, other contributions)	_____	_____
Departmental share of facility overhead	_____	_____
Departmental share of Administrative overhead	_____	_____
Depreciation of furniture, fixtures, equip (if applicable)	_____	_____
Consulting Services	_____	_____
Data Processing	_____	_____
Dues	_____	_____
Duplicating, Photocopying (in house)	_____	_____
Education – conferences, seminars, subscriptions, workshops	_____	_____
Office Supplies	_____	_____
Postage – first class	\$ _____	
nonprofit bulk	_____	_____
Printing - _____	\$ _____	
_____	_____	_____
other printing	_____	_____
Telephone – long distance, toll	_____	_____
Travel - local mileage reimbursement	\$ _____	
out of town travel	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
TOTALS:	\$ _____	\$ _____

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Assured Income Work Sheet for:

_____ name of department or program

Assured income is income which you are sure you will receive next year **without additional fund raising effort or expense beyond what has already occurred.** You may photocopy this form and complete one for each department or program. The, consolidate as you did the projected expenses.

<u>Source of Assured Income:</u>	<u>Anticipated Income for Current Year</u>	<u>Projected Income for Next Year</u>
Tuition or fees for services	\$ _____	\$ _____
Sale of products and/or services	_____	_____
Special Event net income from sponsored outside events	_____	_____
Corporate gifts already in corporation budgets	_____	_____
Foundation grants already approved – phased funding	_____	_____
Endowment interest	_____	_____
Matured bequests in probate or process	_____	_____
Other Planned Giving yields from gifts already received	_____	_____
Federal income – subsidy, grants, contracts	_____	_____
State income – subsidy, grants, contracts	_____	_____
County income – subsidy, grants, contracts	_____	_____
Municipal income – subsidy, grants, income	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
TOTALS:	\$ _____	\$ _____

NOTES:

THE NEW PYRAMID OF GIVING

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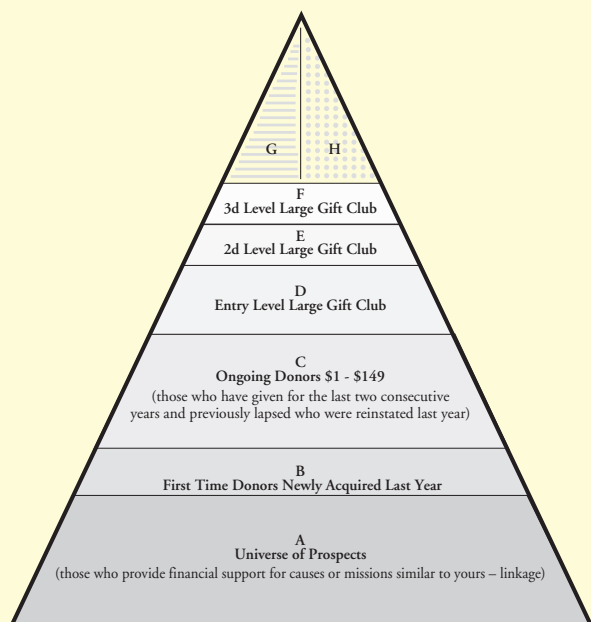


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It is every nonprofit's goal to have many large-gift donors – corporations, foundations, people who include you in their wills, other planned giving participants and lots of good ol' annual cash donors. Reaching such a goal is possible for your organization. Understanding the Pyramid of Giving will help you get there.

The Pyramid of Giving is, simply, a visual aid for sizing up your development efforts. It is an illustration of how successful development programs have grown and continue to prosper over the years. It demonstrates the necessity for not only renewing donors, but upgrading their giving habits, year after year.

If an individual contributes \$5,000 to your annual fund this year, chances are, he or she gave you \$1,000 - \$2,500 last year. Probably, that same donor was giving you gifts of \$500 a few years ago and less than that amount in years prior. There have been renewing and gradual upgrading over the years.

A new donor, acquired this year, may give a first-time gift of \$35. After this person has been made to feel good about supporting you, he or she can be asked to upgrade and will probably respond with a gift of \$50 or more. In the following year, a gift of \$65 is a reasonable request. And then, perhaps, the donor is ready to be asked to join your entry-level large gift club at \$125 or \$150.

A donor's first gift seldom reflects his or her financial capacity to give. For every 100 new donors acquired this year, 30 will have the potential to begin contributing \$125-\$150 in their third or fourth year of giving. Of these 30, two or three will have the potential to begin contributing \$1,000 or more in a few additional years. At least one of these can end up including you in his or her will or participating in another planned giving program. There will be renewing and gradual upgrading over the years . . . climbing the Pyramid of Giving.

For every large gift you receive this year (G,H on the Pyramid), probably you will have had at least three donors at your Third Level Gift Club (F) last year. For every gift at the Third Level this year, there will have been three or four at the Second Level (E) last year. For every Second Level gift this year, there will have been three or four in the Entry Level Gift Club (D) last year. Entry Level Gift Club members evolve from small-gift ongoing donors (C) of previous years. Ongoing donors were once first-time donors (B). They have stayed with you because you have cultivated the donor, not the gift.

D,E,F,G and H on the Pyramid represent the "high profit" donors. Those in these five categories will number about 10 - 15 percent of your total donors, but, they'll be giving about 70 percent of your development income. The number of donors you will have at the top of the Pyramid of Giving tomorrow depends principally on the number of first-time donors you acquire today and how you make them feel appreciated once they begin giving.

THE NEW PYRAMID OF GIVING

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