FUNDING COMMISSION

nfpSynergy
helping non-profits thrive

How can the new government and the sector increase the size of the fundraising cake?

Joe Saxton and Michele Maddon

Introduction

Charities and non-profit groups need new sources of revenue now more than ever. The recession, volatile stock markets and the budget deficit have all conspired to make income from government, grant makers and loans look likely to shrink over the coming decade. Additional voluntary income is one way that the gap between income and expenditure can be bridged and donations are the biggest single potential source of income. There is plenty more that both the sector and government can do to increase giving. There is no shortage of potential to increase giving by improving fundraising. All it requires is that we shift fundraising innovation up a gear if charities are to compensate for the anticipated drop in government spending and other sources of income.

So this document is divided into three parts. Firstly some principles that underpin the thinking behind our approach. These give readers some idea of 'where we are coming from'. If you disagree with our principles, the chances are you will disagree with our conclusions. Secondly we set out our strategies for increasing giving – the big directions that we can choose about how we increase giving. These are not mutually exclusive but more a range of options. Lastly, we set out who might do what to put some of these ideas into practice, including how long they might take, who might need to drive them and what the barriers to success might be.

Some principles of increasing giving

Principle 1: To increase giving we need to increase fundraising
Perhaps our first principle is our most contentious. If we want to get more people to give, we need to have better fundraising. Our fundamental belief fundraising 'pulls' people into giving - that charities persuade people to give by asking them. We make this point because many attempts at increasing giving in the UK to date have focused on changing the culture we have around giving. They have hoped that messages which tell the public that giving is a worthy thing to do, or that it is right to give away 1% of income, or that we can create a 'giving society' will all increase the 'push' to give. We have nothing against these attempts at cultural change, just as we have nothing against motherhood or apple pie. We just don't think they will work and therefore run the risk of being a dangerous distraction. At the heart of this principle is that we need to 'pull' people into giving through better fundraising rather than hope that they will give more through attempts to increase the 'push' to give more.

Principle 2: Effective fundraising is about effective asking for donations
Aligned to our first principle is a second very simple one. Fundraising is about asking. If you don't ask, you don't get. The more powerful the ask, the better the fundraising. Street fundraising works because people are asked directly – literally stopped in their tracks. The same is true for telephone fundraising or direct mail. Unfortunately the most high-profile types of fundraising are often those where the need 'to ask' is diminished by the power or the profile of the cause – the Haiti earthquake or Red Nose Day to give two examples.

But this shouldn't disguise the fact that the vast majority of fundraising happens through somebody being asked, directly and personally, to give. So if we want to increase giving we need to get better at asking.

Principle 3: The motivation to give is not generic but specific
Giving is not rational. People don't wake up in the morning and think I must give today. All but the richest or most disciplined of people don't look at giving as part of their overall financial affairs. Giving is emotional. We give because we are moved. We give because we care. We give because we are asked.

All this means that trying to raise the tide of a desire to give is a largely fruitless task. The decision to give, and who to give it to, are inextricably linked. Put another way - if Oxfam or NSPCC or the local hospice cannot persuade a person to give, it is very unlikely that a generic message that 'giving is a good thing to do' will succeed where the specific message has failed.

Principle 4: We need to reduce giving-decisions and increase decision-value
So if each decision is driven by the specific not the generic, then every time fundraisers try and raise money, they run the risk of refusal. And indeed activities such as street fundraising have increased public irritation for just those reasons. Being asked to give and refusing to give, taps into some of our deepest emotions. We are forced to say no to very worthy causes. Our conclusion is rather than try and 'push' people into raising their overall giving levels we need to 'pull' people into making less giving decisions but making each giving decision of the highest possible value. Far better to get somebody to give away 10% of their wealth in their will through one decision than to need to ask them again and again for £10, £100 or even £1000.

Principle 5: There is no such thing as donor fatigue
The media often talk about donor fatigue – the idea that people are tired of giving, usually in a particular way. This is a dangerous idea which nestles uniquely in the charity sector. We never hear Tesco or M&S saying that they are suffering from 'customer fatigue'. Big companies know that they constantly have to refresh their offering, change their products, rethink their marketing, improve their competitiveness and a host of other things. Why should charities be any different in doing these things?

The problem with the concept of 'donor fatigue' is that both the blame and the solution are put in the hands of the donor. The reality is that what charities suffer from is fundraising fatigue. If you ask the same people to give in the same way year after year, then they get bored with giving. That's human nature. Fundraisers need to innovate and diversify - not expect their donors to be superhuman.

Principle 6: Packaging giving into products makes giving easier
Fundraising works best when it is packaged. Like McDonald's happy meals, a romantic weekend break or breakdown recovery from the AA: packaging services makes it easier for punters to know what they get and buy what they want.

Giving to charities is no different. Even offers as simple as giving £2 a month by direct debit or membership of the National Trust is packaging giving. The more that charities can package up their giving, the easier it is for the donor to know what they are giving and what they are getting. If a donor is left to ask how much should I give and what will I get in return, it's like going into a restaurant without knowing how much the items are on the menu – or even what is on the menu!

Principle 7: Giving needs to be intertwined with living
Each time we ask a donor to give we run the risk that they will say no. But what if we make giving an integral part of living? Do the people who take part in Cancer Research UK's Race for Life or the Moonwalk or go on a challenge event do it purely to raise money? Not at all. They take parts in these events to remember loved ones in the case of Race for Life and to find loved ones in the case of challenge events. But here's the key – if you took away either the charity element or the lifestyle element of these events they wouldn't work. Giving and living are intertwined. So the more that giving becomes part of our lives – not set aside from it – the more resilient and productive it is.

If giving is part of our social life (through events) and part of our financial lives (through pensions, mortgages and investment products), we not only open up new ways to give but also more ways to give and forget. Charities will raise more money if we are fundraising as a by-product of our everyday lives.

Principle 8: The new wave of fundraising will appeal to people's selfishness
Leading straight out of that last principle is the idea that for giving to work we need not to encourage people to be altruistic, but for giving to be selfish. It would be wonderful if everybody would give more out of the purest of motives but they won't. Those who give selflessly are already doing so. And those who aren't giving need more to encourage them in the idea that giving is worthy.

Let us set a high bar here. If we want giving (of time or money) to grow we need it to compete with all the other ways that people can use their money or their time. £20 given to charity needs to make people feel they have got the same degree of reward as if they had gone to the cinema or bought a take away with that £20. If people are going to give an afternoon to volunteer, they need to feel it will deliver the same degree of reward as an afternoon watching TV or socialising with friends.

If giving is to flourish we need to find and press the pleasure centres in people's brains and press them hard.

Principle 9: Fundraising costs money

This is a short but important principle. Any charity that wants to raise more money needs to invest in giving. If there is no investment in the people or the budget to raise more money, then it is very unlikely that a charity will raise more money. Simple as that. And a rough rule of thumb is that investment might break even in the first year and (with luck) turn a profit by the 3rd year and over five years should do better than the same sum of money put in the stock market.

Principle 10: Each organisation needs a balanced portfolio of income sources

Perhaps this principle is not so much fundraising as financial planning. But try this simple test. How many of the largest donors or funders stopping giving would it take to lose half any charity's income? If the answer is five or less then an organisation is very financially vulnerable. If its 100 or more then the organisation has a diverse and resilient income base.

What are the strategies for increasing giving?

There are choices about how we increase giving. One way to think about how we increase giving is to imagine that there is one fundraising director for the entire sector. One director who could look at fundraising with the biggest of big pictures. The importance of this approach is that much of our thinking concludes that what needs to be done is bigger than what any one charity do. Where will collective action by the fundraising community and the voluntary sector make a real difference?

Up till now the approaches adopted by government and sector bodies has focused around two particular areas: the changing of the gift aid regime and the encouragement of philanthropy. These are our final two strategies but we think that there are three other strategies which should also be developed.

For each strategy we will look at what we think are the merits of that approach. In the final section, we set out how each area might be taken forward and how long it might take to deliver results.

Our thinking has, at least in part, been influenced by the research we have carried out twice in the last few years in conjunction with Adrian Sargeant of the University of Indiana. This research asked fundraisers to say what research they would like to be carried out to improve their fundraising. The table below shows what they believe would be a priority.

Ranking	Category of Research	(%*)
1	Identification of new segments of society that would be likely to give.	(51%)
2	Donor motivation: donor psychology	(47%)
3	Patterns of internet giving – online donor behavior	(44%)
4	Major donors – motives and barriers to giving	(40%)
5	Donor retention – strategies for developing donor loyalty	(37%)
6	Overall trends in giving	(32%)
7	Research among younger people about their giving	(32%)
8	Research about corporate attitudes to giving	(32%)
9	Legacies – donor motivation and effective solicitation.	(30%)
10	Research to develop new fundraising 'products'	(29%)

***Percentage of respondents answering 'very useful'**

Strategy 1: Better exploitation of demographic segmentation and donor motivations

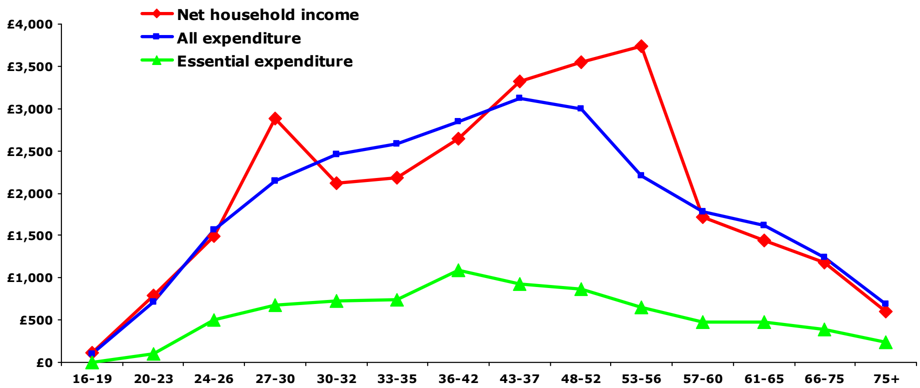
One of the huge opportunities for fundraising and fundraisers is to identify the different types of segments in the UK population and what could be said to them or offered to them to make them give.

The collective wisdom on giving segments is not particularly impressive. Fundraisers talk about 'Dorothy Donor', the older (60+), middle class donor who gives to charity. Most fundraisers know that donor segmentation is over-exploited. But where are the potential new opportunities? The two charts below give us some clue of the potential underneath the surface. Chart 1 ('financial flows and lifestage') shows the income and expenditure over a person's life. So everywhere the red line is higher than the blue line, people's income is greater than their expenditure – they are saving money or have money to spare.

This analysis shows that there is a significant post-children, empty-nesting lifestage when income is greater than expenditure. This is the one that fundraising has (unwittingly) focused on. However it is also being squeezed by more children going to university, rising tuition fees, children staying at home longer and by more and more middle-aged people having parents to care for.

The other time when income exceeds expenditure is in that moment as careers take off, couples created and houses are bought. What used to be called 'dinkies' – double income no kids. As the chart shows this is potentially rich territory particularly as couples delay having children and pursue their careers. To date this demographic segment has been (inadvertently) targeted with challenge events and running events.

Chart 1: Financial flows and lifestage



age 16-19 with parents, no job
age 20-23 first job, living with parents
age 24-26 working, living alone
age 27-30 living with partner, first mortgage
age 30-32 first child, women exits work
age 33-35 second child
age 36-42 woman in p/t work, moves to larger house
age 43-47 woman in full time work
age 48-52 children reach adulthood
age 53-56 children leave home
age 57-60 early retirement for many, home owned outright
age 61-65 all women retired, most men retired
age 66-75 both partners retired
age 75+ widowed, single person household

Source: BHPS / The Future Foundation

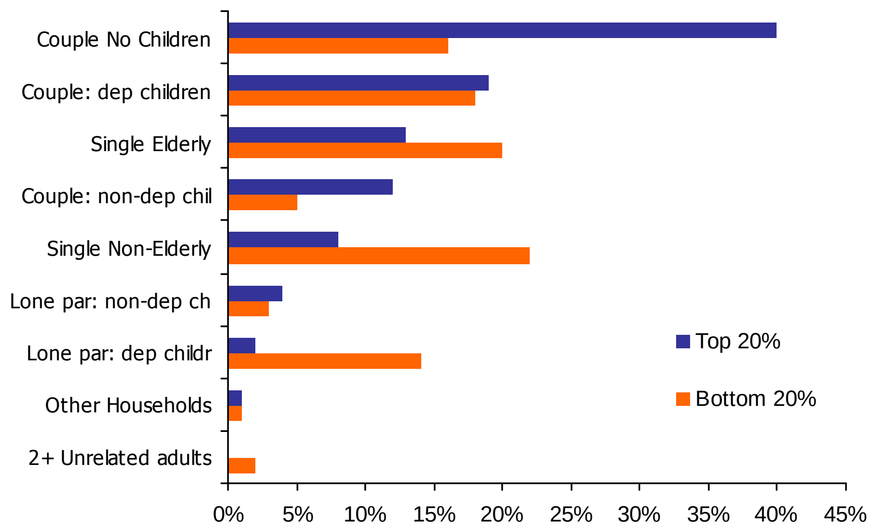
Chart 2 ('social structure of the wealthiest and least wealthy households') show in blue which household structures are in the wealthiest 20% of the population and in brown the least wealthy 20% of the population.

The illuminating take-out from this chart is that couples without children are disproportionately likely to be wealthy and that single people (whether before or after children) are disproportionately likely to be poor.

So fundraisers need to target those disproportionately wealthy groups. But imagine how much more segmentation could be derived if the two charts were combined so that we could work out the wealth patterns over the lifestage of different types of demographic groups.

There is plenty of opportunity to find new demographic groups who may be rich prospects for giving. Gay couples are just one obvious potential segment. The challenge is whose job is it to carry out that kind of work and deliver new insights for fundraising? Given that this is the top priority as ranked by fundraisers for fundraising research, it is disconcerting that it appears to be a task without an owner. The ESRC Centre for Giving and Philanthropy appears to be ignoring fundraising and focusing on philanthropy.

Chart 2: Social structure of the wealthiest and least wealthy households



Rethinking the psychology of legacies

Patterns of wealth and mass affluence have changed enormously in the UK over the last 25 years. Many older people have more wealth than ever before – particularly groups such as couples without children as we highlighted in the previous section.

The Remember a Charity campaign has been working hard to put legacies higher on people's wealth planning but there is still huge potential to grow this stream of income. At the heart of this is working out a narrative, a persuasive argument that helps people see that they can leave money to charity and still help their loved ones.

nfpSynergy research has shown that leaving money to the family is the biggest reason why people say they wouldn't remember a charity in their will. Given that just 5% or even 1% of a person's wealth would constitute a substantial donation it ought to be possible to unhook people from their old prejudices against legacy giving. But the number of wills that contain a legacy has stayed stubbornly static over the last decade. We need to work out better ways of talking to donors to persuade them to give more through their wills.

Rewarding Major Donors

British charities are still far too reluctant about giving wealthy people the recognition that many would welcome. Talking at a hospice fundraising conference recently one of us asked how many were allowed to name things after donors. Just a handful of hospices are named after somebody who gave money, and many told me privately that their medical staff and/or their trustee boards have reservations about naming things after donors.

In contrast just look at how the US university system recognizes their donors compared to us. If we want to persuade people to give money we have to be prepared to give the recognition that so many want. It would be nice if we didn't have to, but we have to live in the real world. If you don't believe our assertion that we are pants at naming things in recognition of major donors try and think of which examples of where this has happened. The NSPCC and Weston House…… a few university and art establishments….. and what else? See what we mean?

As we get more people with more wealth and as the baby boomer generation meets the time of financial maturity, we need to understand not just which demographic segments hold high potential but also how we talk to those specific audiences about giving in ways that promotes the desire to give.

Strategy 2: New ways to give and new integration into people's lives

There are a number of critical moments over the last 20 years of fundraising which can be seen as pivotal in introducing a new wave of giving. Three of these are:

1. The introduction of **face to face fundraising** onto the streets of Britain. Despite all the public uncertainty about face to face giving it has proved to be a highly successful giving technique reaching new, usually younger, audiences and recruiting hundreds of thousands donors for charities

2. **Challenge events.** The kind where people give up their holidays to carry out some kind of physically demanding activity, have proven highly successful in raising funds. In part they appear to work because the individual becomes the volunteer fundraiser, but also because people can see that bicycling across Cuba or trekking in Peru or whatever else, is a rewarding, challenging way to spend time. In effect, challenge events have combined giving with people's lifestyles.

3. **Direct response TV advertising.** Asking for a £2 a month now seems jaded but 15 years ago when it was first tried it revolutionised first of all Oxfam's financial fortunes and then a number of other charities.

These are just three examples of where the fundraising mechanism has proved to be successful in producing a substantial new source of income for fundraising charities. What are the other potential giving techniques that represent tomorrow's challenge events or face to face fundraising? Below are two possible ideas. But the reality is that there are probably many more – we just need to scour the world for the best ideas that can be imitated.

Income from financial services. In the United States 20-40% of all giving comes from affinity or planned giving through financial products. The equivalent income in the UK is negligible. But imagine if pensions, mortgages, ISAs, investment trusts and a host of other financial products were easy mechanisms to give to your favourite charities. There are no overwhelming barriers, simply the co-ordination of the development of affinity financial products between charities and financial providers and then a change in our culture in which the public see financial products as an opportunity to give.

Text message donations. While progress has been made, the charges from operators are still too high to make this a sustainable area for donations. If charges drop the income will start to flow. O_2 and Vodafone have already lead the way by dropping charges to just 15p out of £1.50. We need other mobile operators to follow suit so that the public can know that their donation can be made cost-effectively whoever their mobile account is with.

But the most difficult task is to work out whose job it is to develop and co-ordinate these kinds of new ways of giving. The three examples of face to face fundraising, challenge events and DRTV for £2 monthly direct debits, were driven initially by one or two charities and then adopted by others in the sector once they could see that they worked.

However, for the next generation of new ways to give, there will almost certainly need to be more work done before a new giving mechanism is ready for market. Text donations has taken 2 years of collaborative work between a whole host of partners and agencies for it to reach the point where it is ready for mass market use as a fundraising tool.

It is probably the case that these new fundraising products will need a dedicated driver, on a full or part-time basis for a given period of time to bring them to fruition.

Strategy 3: Reducing regulation and barriers

Our third strategy is the reduction of regulation to allow new fundraising routes to develop. Our thesis is that there are a number of areas where the current regulatory framework makes it harder for charities to raise money. We have two specific examples but in practice there are probably a number more. Our research in this area is not exhaustive and merely gathers those examples we have come across.

Reducing regulation of raffles.
Nobody who has run a raffle (sometimes called a society lottery) can have failed to have noticed the extraordinary level of bureaucracy surrounding them. Most of this red tape is designed to stop unfettered gambling and charities and their raffles subsequently suffer from poorly framed regulation. Is anybody suggesting that buying a ticket in a raffle is the way that gambling addicts express their addiction?

At present charities are regulated in levels of prize money, frequency of raffles, the percentage spent on admin and on prizes and all sorts of other areas. While there has been some relaxation on the total income that can be raised by any one organisation much of the rest of the regulation still exists. Indeed many charities still waste their time and resources data-capturing information on who **hasn't** sold their tickets because the regulation say that all tickets should be accounted for. If the regulation were swept away not only would less be spent on bureaucracy but charities would be able to raise more money.

Reducing the bureaucracy of gift aid. While there are plenty arguments about what the next generation of gift aid should look like (e.g. higher rate rebate going to charities, composite tax rates, opt-in and opt-out), what tends to get overlooked is that gift aid is a bureaucratic nightmare. Here are the main steps a charity needs to have done to claim gift aid:

1. Register with the Inland Revenue to receive gift aid
2. Create a gift aid declaration form specifically for that charity
3. Communicate with donors and have different letters for different types of donor and include the form and the reply envelope and send the right letters to the right people
4. Ask people for the declaration once they had made a donation and decide whether to chase non-responders
5. Check a list of donors and declarations to see whose donations couldn't be claimed for gift aid (because they were overseas, made via CAF and so on)
6. Complete the details on the reclaim form for each individual donor and be prepared to ask questions about whether declarations were made in single or joint names (whatever that maybe)
7. Store all this information for a period of 7 years including every gift aid declaration for every donor
8. Face the worry of a gift aid audit where if the bureaucracy isn't in order HMRC can demand back all or portions of previous gift aid claims and with interest

None of these tasks are particularly onerous on their own but the cumulative effect is to make it likely that those organisations without paid fundraisers or a proper database or a determined set of volunteers are less likely to reclaim the gift aid that they are owed.

Strategy 4: Creating a climate in which giving can thrive

We don't have much to say about this strategy for increasing giving. It is undoubtedly the route which has been most comprehensively tried over the last decade with the creation of the Giving Campaign, the funding of a number of philanthropy organisations and awards and the creation of a role of a philanthropy czar in more recent years.

We are unconvinced that this strategy is particularly effective, except potentially amongst very wealthy people. Our reticence about the creation of a more positive climate about giving is because we don't know of any evidence that it works – we are delighted that people get the message that its good to give but in isolation that message is unlikely to persuade them to do so. It goes against our first three principles. It puts the general above the specific, assumes that people will give without being asked and puts the push of philanthropy above the pull of fundraising.

We are not saying there is no point in creating a climate in which giving is encouraged. Instead, we are suggesting that its role is a support act, a backdrop in front of which more effective forms of fundraising and giving are developed.

Strategy 5: Better exploitation of tax benefits

One of the interesting facets of the campaign to increase giving is that it has been sidetracked by the campaign to increase individual gift aid. Almost all the sector's energy on increasing giving has been put into gift aid reform since the consultation on gift aid in 2007. This is a disappointment for two reasons. Firstly because there has been no reform of gift aid and secondly because a better gift aid system does not mean more giving to charity it means more money taken from the government's coffers.

The evidence that a better system of charitable tax relief makes people give more is unclear. In any system of gift aid reform we think two criteria should be used:

- Are more people able to take advantage of gift aid?
- Does it make gift aid simpler for smaller charities?

Here are our two ideas that fit the first and second criteria respectively

Creating a gift aid allowance for every citizen. Joe's children all have a pension. Better still the government adds tax to that pension. This is not because they are very financially aware (though their grandfather is) but they are using what every UK citizen is entitled to – a pension allowance to which tax is added IRRESPECTIVE of whether the individual pays tax.

If we want to encourage old people and young people, unemployed people and those not working to give to charity everybody should have a giving allowance of say £1000 a year to which HMRC would add gift aid irrespective of how much tax the individual paid. This would help older people who have a life time of paying tax under their belt (but aren't right now) to give tax-effectively and it would help young people to start giving from any age. It would in reality create a society where everybody can give tax-effectively irrespective of their wealth.

Making it easier for small charities to reclaim gift aid. Anybody who is a small business or a consultant has had their VAT simplified. Rather than work out all the VAT charged and all the VAT paid out there is a range of tariffs depending on the business types. So consultants send 11% of the 17.5% to the revenue and keep the 6.5%. This works up to a ceiling of £250k per annum above which proper records must be kept. We could have a similar system for gift aid for small charities where for every £1000 raised from individuals it was assumed 75% of those individuals paid tax and would have signed a declaration. So the charity would then submit a gift aid reclaim on 75% of the total income from individuals. Anybody who has submitted a claim on behalf of a small charity will know just how difficult and time-consuming (and therefore less likely to happen) claims are. If we want small charities to claim their fair share of gift aid we need to make the system simpler.

Who does what to increase giving?

The new government must make investment in fundraising and communications innovation a priority in a way that we haven't seen up until now. The reality is that fundraising has been a third class citizen when it comes to government funding. Volunteering and social enterprise have been the teacher's pet of ministers' attention and investment. But investment in innovation now could pay themselves back many many times over – it really is a case of investing to save.

But this forthright political assertion hides a broader reality. It is not only the government who should be taking action to do something about increasing giving. Fundraising charities and sector bodies and agencies such as ourselves have a clear role.

The government and funders' role

Gift Aid: to listen to all parties, and even set up a working group if necessary, but ultimately to take decisive action on how gift aid can be made more inclusive and less bureaucratic
Time taken to deliver: 12 months
Cost to deliver: Cost of working group – say £100,000

Fundraising innovation: to fund the development and promotion of fundraising as seriously as it is funding the development and promotion of volunteering.
Time taken to deliver: 6 months to set up
Cost taken to deliver: £1 million per annum to examine ideas and £10 million to fund the best ideas

Raffles and society lotteries: to respond positively and constructively to any campaign to reduce the bureaucracy of running raffles

Time taken to deliver: 6 months to carry out the research on the regulatory barriers and 12 months to get the changes through the Gambling Commission
Cost taken to deliver: £100k to fund the research and appointment a project manager to drive the work

The sector and individual charities' role

Demographic donor segments: to develop mechanisms for collective action on taking forward research on demographic segmentation of potential donor groups. This process has started with the meeting called by the Institute of Fundraising on fundraising research.
Time taken to deliver: 6 months to set up and then ongoing
Cost taken to deliver: £1 million (minimum) per annum for five years

Financial services: to develop a new coalition, comprising of charities, financial services' companies and other experts to look at financial services as a new source of revenue for charities, and for that coalition to develop an action plan
Time taken to deliver: 6 months create a coalition and then 2 years to examine the potential and then work out how the ideas are brought to market
Cost taken to deliver: funding a project manager and a working group – say £100k a year for three years

Gift Aid: for the sector to examine all the options for reforming gift aid and develop sector wide recommendations as far as is possible.
Time taken to deliver: should be combined with the government's task force
Cost taken to deliver:

Conclusion
These are just a few examples of where a consortium of charities, or the sector or the government can act to increase the potential for giving. We have no doubt there are many other ideas for how collective action can raise more money. If government wants voluntary donations to replace state funding then a small investment now will reap benefits much greater in years to go

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