Vantage Fundraising

Key insights – building your fundraising function

1. Overview

Every organisation wishes to be successful in raising money. Unfortunately, outside the large establishments, many charities never manage to make their income-generation functions work consistently well. They often complain that they employ ineffective staff or that their cause is not attractive to funders. While these issues can exist, in most instances the blockage lies in an ill-advised fundraising approach.

This guide has been written to provide charities with the information needed to avoid the most frequent mistakes.

2. Why many organisations never raise significant income

1. Funding proposals are unconvincing and need refreshing more quickly

Charities need a persuasive Case for Support and template proposal to approach funders. These documents need to be updated regularly because:

- Funders like new and 'innovative' projects
- Funders respond to key words and phrases that fit the zeitgeist
- Funders like to see themselves as having their own expertise, sometimes more than the charities themselves.

What this means in practice is that any proposition that you produce will have a limited lifetime.

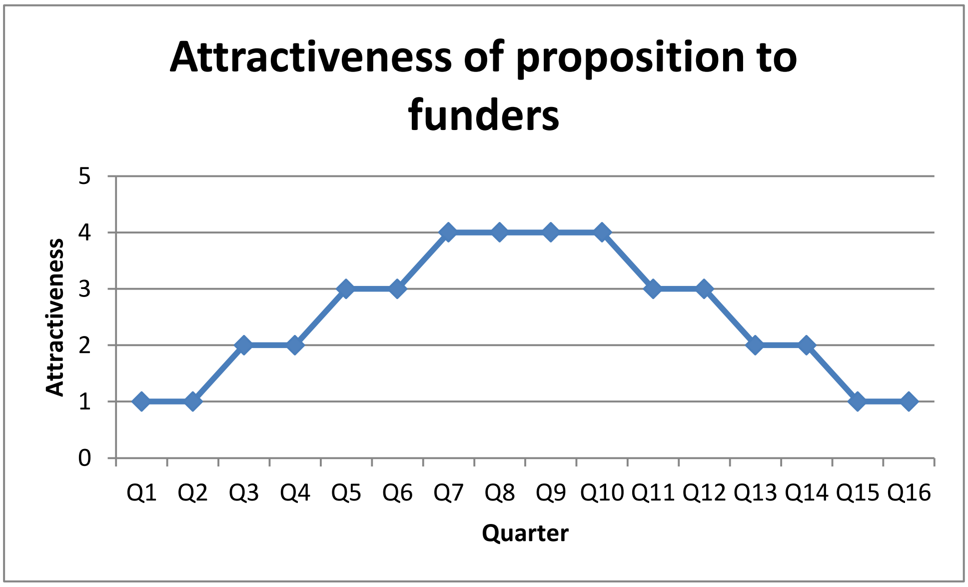

Figure 1 The rise and fall of a charity's proposition

2. Staff turnover causes productivity to plunge

Most fundraising staff below director level do not stay long with an organisation. For junior and mid-level fundraisers the average length of stay is between one and two years.

What this means in practice is that charities spend much more time on recruitment and inductions than they originally envisage, while their staff often have one eye on the door once they get to grip with the work or have a success. This results in a stop-start approach to fundraising, often to the dismay of your big funders.

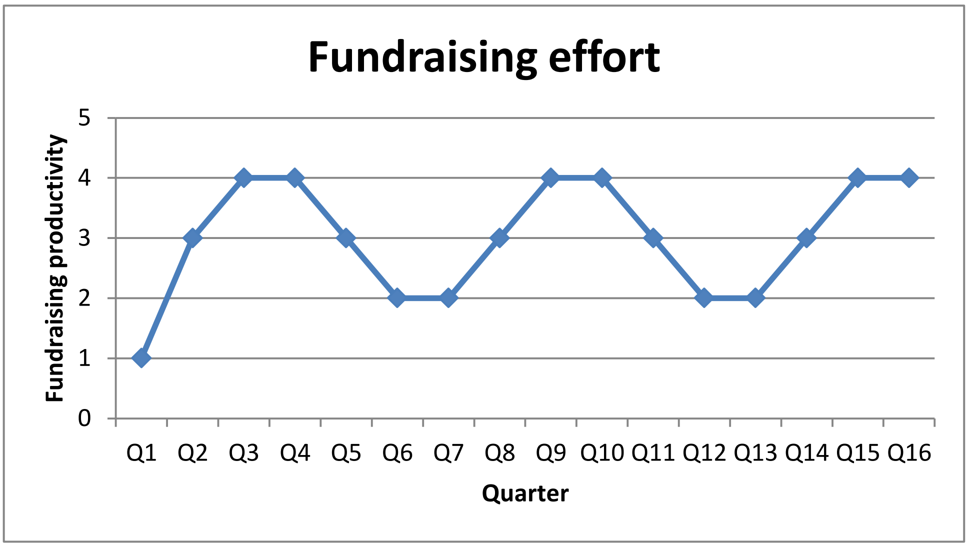

Figure 2 Productivity inevitably drops as employees seek new employment and replacements have to be integrated anew

3. The combination of limited proposition life cycles and high staff turnover compound the issues

Both a limited life cycle for your proposition and regular staff turnover causes fundraising income to fall short of potential. Combined, these two factors cause a severe drop in fundraising capabilities. For instance, when an organisation should be updating its proposition it is likely to be in the middle of recruiting a new staff member who has no understanding of what needs updating.

How does this look in practice? Typically, for the first year or two income increases considerably, followed by a short plateau and then a precipitous fall. Redundancies and crisis management are often the result. This is doubly problematic as there is usually an expectation that the ‘good times’ are here to stay with expenditure on future projects already committed.

Figure 3 shows how this combination of negative factors creates a boom-and-bust environment.

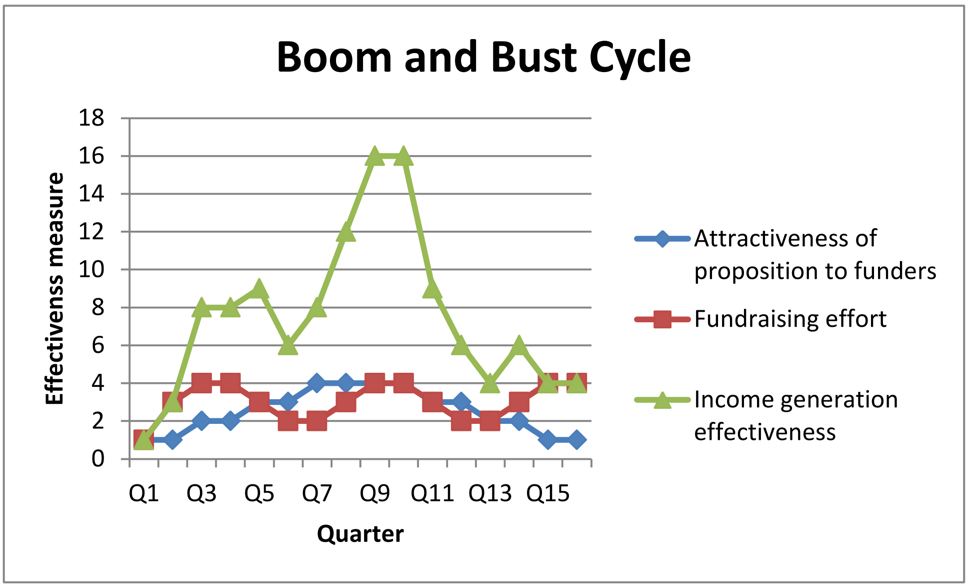

Figure 3 Staff turnover and stale propositions lead to boom-and-bust cycles

4. Focussing on one type of fundraising leaves an organisation vulnerable to economic cycles

In the last recession, funding from companies was the first fundraising area to drop, followed by statutory and individual giving. Aware of the situation, trusts drew on their reserves to try and offset the difficulties many charities were facing (trusts subsequently reduced their spending to below long-term averages to compensate).

What this means is that any organisation which relies on one source of funding leaves itself open to unnerving fluctuations in income levels as the macro-economic picture changes.

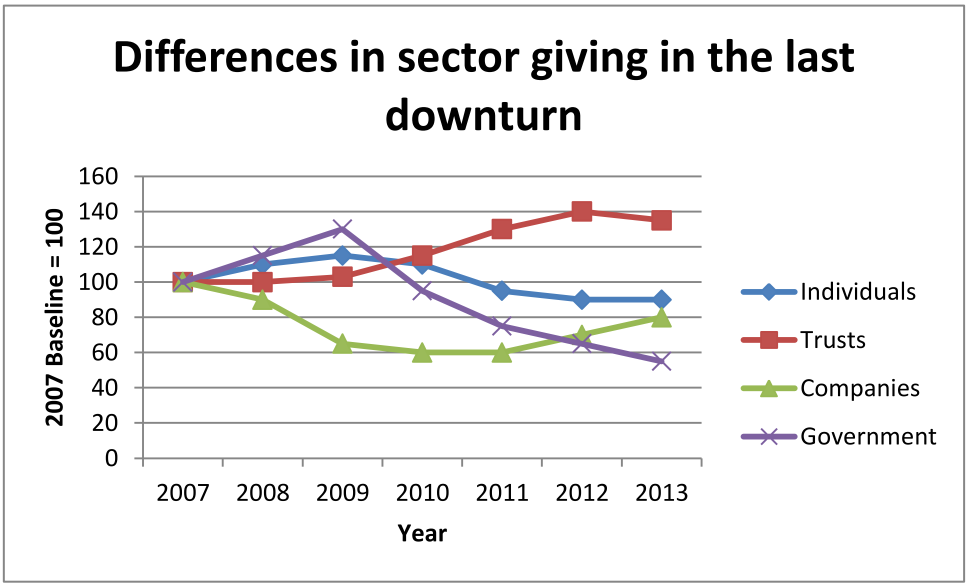

Figure 4 Different funder types give at different times in the economic cycle

5. Staff are too junior for higher-level work or expensive senior staff are undertaking routine tasks

Having a senior fundraiser in place normally brings a better return than a more junior person. However, top fundraisers are expensive and are rarely good value if they do every task.

For most small charities, the decision to choose either a senior or junior member of staff is dictated by budget. Normally, a junior to mid-level fundraiser is therefore employed. Income is earned but it rarely matches the ambitions of the charity. Frustration often sets in and there is tension between the fundraisers and the senior management.

6. Ignoring or not understanding the needs of donors

Most charities have little trouble when beginning to raise funds. The difficulties occur once the list of obvious supporters has been exhausted. Why is this?

A key reason is that charities effectively make only one argument for funding, that is they state why they need the money. This is certainly valid but if it is your sole approach then you will miss lots of potential funders, including most companies.

Some people never seem to understand this factor. They believe that if they are strident enough in laying out their needs then funding will inevitably come. After all, how could a rational funder turn down such a worthy cause? Yet, as parents with new-born children eventually find out, while your offspring might be the most precious thing to you in the world, for others they are of little interest and, at worst, irritants.

7. Procrastination and delays

Although I have placed this factor last, it is perhaps the most common issue holding back smaller charities. While there may be a few income generation activities taking place, there is little or no attempt to build on them.

There appear to be a number of reasons behind this, including:

- **Wanting zero risk** – unfortunately, any long-term funding stream carries a risk of loss, whether in upfront investment or time committed. If you are waiting for a guarantee of instant returns then you will be waiting a very long time (whatever some commission-based fundraisers might claim).

- **Fundraising expertise in the leadership team** – we regularly come across charities where funding requests to big funders are on hold because the CEO or a trustee has some expertise in the area but is currently too busy elsewhere. One year later, when a second application to the same large funder could be going in, the same reason for not asking for support is trotted out. If you are that busy leader, then be honest with yourself. Will you ever have sufficient time? Your job is to grow income as a whole, not micro-manage or take on every last task.

- **Awaiting the perfect moment –** building charities is a messy process, whatever it says in your strategic plan. It can often be two steps forward, one step back. If you begin that journey then you will eventually reach your goal.

- **Unrealistic expectations** – we occasionally come across charities where a trustee "knows someone who says that returns of 20:1 are readily obtainable". This is sometimes possible with well-established programmes and numerous large donors, including government, already on board. But if you are putting this pressure on your fundraising team or are only willing to hire someone on the back of such expectations then you will find yourself in an endless spiral of disappointment, assuming that you ever get started. Unfortunately, there are advisers and leaders willing to trot out stories borne of myth and bravado.

- **Being happy where they are** – some charities, whether because of their scope or because of the leadership team, do not have the desire to grow income. Building a charity's finances takes time and, like all journeys, has ups and downs. However, if you want to develop your organisation, then you will have to move forward eventually. It is not uncommon for charities to lose a contract or have an unexpected downturn, which then puts their existence in doubt if growth strategies have not been implemented beforehand. It is always sad when this happens as, in most cases, crisis could have been avoided if steps had been taken earlier.

- **Having had a bad experience –**fundraisers sometimes underperform and there are some who give charities unrealistic expectations. However, most non-profits that are not attempting to raise income levels 'on the cheap' should be confident that fundraising will more than pay for itself. Setting clear milestones to check on progress is one way that you can stack the odds in your favour.

3. How to avoid the common mistakes and develop a fully-functioning income-generation department

1. Improve your fundraising productivity

What is the best choice of fundraiser to employ? High-level, mid-level or low-level? In fact, the best approach is to take on a combination of junior and senior fundraiser.

At Vantage Fundraising, we suggest clients use two-person fundraising teams – a junior and senior fundraiser. The latter, where experience is important, ensures that the best proposition is produced and prepares the way for the junior fundraiser to execute the plan. This has the advantage that clients only pay for experience and expertise when it is needed. (Appendix 1 shows how we normally split the role and keep the costs down to that of a single employee.)

The other advantage is that when a junior fundraiser moves on, the senior fundraiser can ensure that work output remains constant. On the rare occurrences that the latter leaves, the situation is reversed and progress continues without interruption.

In terms of productivity, the advantages of this approach are undeniable. Over a four-year period, 94% of the time will have been spent making funding requests compared with 75% by one paid staff member alone[1]. Figure 5 shows how the productivity differential widens over time.

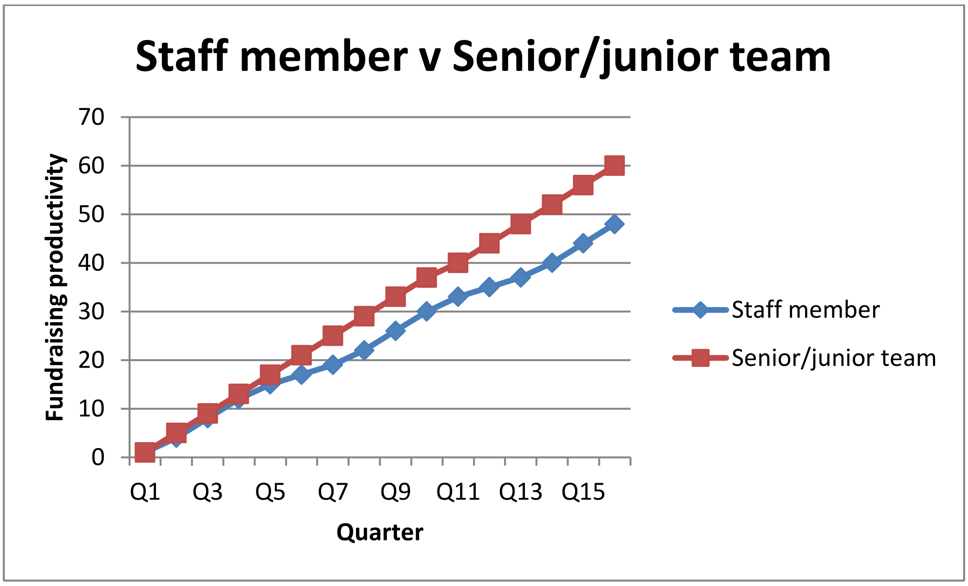

Figure 5 One staff member having responsibility for an area becomes increasingly inefficient over time

When adding issues associated with the proposition life cycle, the productivity gains from the two-person team become compelling. The team is more attuned to the position of a proposition in its life cycle and is ready to update when needed. One-person functions, particularly with new staff, find this very difficult to do and most will never even consider it.

In summary, when the proposition life cycle is added, our two-person model is expected to be 64% more productive than a staff member over a four-year period.

[1] You could consider giving a staff member a one-year paid sabbatical if they stayed for four years as it is this amount you are giving away if you deploy staff in the traditional manner.

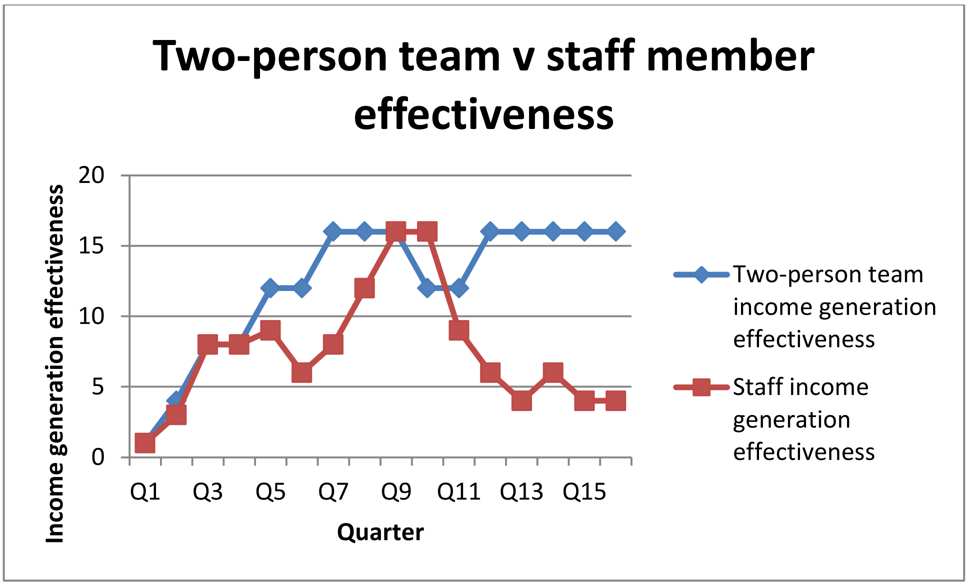

Figure 6 The combination of staff turnover and proposition life cycle causes severe income issues in later years

2. *Diversify the source of your income*

As shown above, relying on too few fundraising disciplines leaves an organisation vulnerable to external factors beyond its control. Instead, organisations should be looking to develop income from the main fundraising disciplines as listed below[2]:

Trust Fundraising	Corporate Fundraising	Major Donor Fundraising
Events Fundraising	Local Community Fundraising	Lottery Fundraising
Legacy Fundraising	Regular Giving Fundraising	Direct Marketing Fundraising

Figure 7 The fundraising functions every charity should be building

3. *Build up your fundraising division, one step at a time*

[2] For some charities, income from charity shops should be considered as part of the fundraising mix. We are not experts in this field so have chosen to ignore it in this booklet, particularly so as for many organisations it will not fit their brand image. Some of our clients do undertake this type of fundraising and we can put you in touch with specialists if this is an area of interest.

All but the most obscure or specialist charities should be aiming to build a fundraising division with the disciplines listed in Figure 7 if they do not already have one. The reasons for doing so are manifold:

- Far greater income levels are derived
- Economies of scale are built in
- External factors have less of an effect on fundraising
- Income levels become smoother and easier to forecast
- Fundraising becomes stable and sustainable

In the tables below, we show how a typical charity would go about developing its fundraising function. For instance, Figure 9 shows how a trust fundraiser is often the optimum first role to cover, followed by legacies and corporate in Year 2.

	Year 1	Year 2	Year 3	Year 4	Year 5
Number of staff	1	2.5	3.5	6.5	9.5
Staff roles	1 Trust fundraiser	1 Trust, 1 Corporate & 0.5 Legacy fundraisers	2 Trust, 1 Corporate & 0.5 Legacy fundraisers	2 Trust, 1 Corporate, 1 Major Donor, 1 Events, 1 Regular Giving & 0.5 Legacy fundraisers	2 Trust, 1 Corporate, 1 Major Donor, 1 Events, 1 Regular Giving, 1 Local Community, 1 Lotteries, 1 Direct Marketing & 0.5 Legacy fundraisers
Cost	£36,000	£90,000	£126,000	£234,000	£342,000
Revenue	£36,000	£126,000	£207,000	£643,000	£1,082,500
Profit	£0	£36,000	£81,000	£409,000	£740,500

Figure 8 A standard approach for building an organisation's fundraising function

It might be that the team expands further, particularly in areas where performance is particularly strong. However, for ease of illustration and because it is relevant for the majority of organisations, we show below how improvement continues from years 6 to 10 with no increase in staffing:

	Year 6	Year 7	Year 8	Year 9	Year 10
Cost	£342,000	£342,000	£342,000	£342,000	£342,000
Revenue	£1,450,000	£1,669,000	£1,803,000	£1,893,000	£1,965,000
Profit	£1,108,000	£1,327,000	£1,461,000	£1,551,000	£1,623,000

Figure 9 Income generation becomes increasingly effective as the fundraising team is built

Over ten years, a typical charity will see a step-change in fundraising income. This is much greater than most organisations' initial expectations which are usually focussed on junior or mid-level fundraisers bringing in small multiples of their salary costs.

	Aggregate of first 10 years
Cost	£2,538,000
Revenue	£10,874,500
Profit	£8,336,500

Figure 10 Income generation significantly surpasses initial expectations over a 10-year period

While the above tables show how a typical fundraising team is built up, an assessment of the relevant strengths of your organisation may suggest an alternative approach. The table below shows such a review conducted by us on one particular charity. This helped us determine the optimum path for team development, other factors also being taken into consideration.

Income Potential		
Low	**Medium**	**High**
Local Community	Trusts	Legacies
Direct Marketing	Corporate	Regular Giving
	Major Donors	
	Events	
	Lotteries	

Figure 11 Several factors determine the exact path a charity should take in building its fundraising function, income potential being the most important

4. If you are genuinely short of funds, then start with your proposition.

Many charities have sufficient funds to start fundraising but, like the child who refuses to step out beyond the front door on their first of day of school, they keep finding excuses not to venture forth. However, there are also charities, normally relatively new in existence or leadership, that do have sufficient ambition to grow but lack sufficient funds to fully commit. If you are one of these charities, then concentrate on your proposal first.

Your proposal is like your dress and appearance – get it wrong and however competent and skilled you are at everything else, you will find that nobody will support. So ensure that you have a document that can be put to funders and which will enable you to attract funding.

Your proposition should cover two to four pages, summarise the problem and your solution, give evidence of your impact and list the key people in your organisation (to give assurance to funders that any funding they give will be manged well).

You should also cover donor motivations of which there are four main ones:

- **Affinity** – people or organisations giving under this motivation believe in what you are doing. Most charities can express themselves effectively to such donors; the mistake is in thinking that all funders fit this category.

- **Philanthropic** – people or organisations giving under this motivation want to improve or give something back to society. Your cause might be one area of many in which they will support. You therefore need to talk to the wider good, explaining why your charity deserves funding more than every other.

- **Mutual Benefit** – Such funders want something back in return for their funding. Company giving often falls into this category – the more you offer, such as publicity and networking opportunities, the more they will give you.

- **Social** – Such funders want their support to reflect well on them. Being recognised in your newsletter or sending out a press release with news of their giving would all be appreciated. Be careful! Those giving under the Social motivation will rarely admit to it and yet it is surprisingly common.

5. Put someone in charge of income generation and keep improving!

Like a tailored fitness plan, improvement only comes when you put in the effort and build on your current performance levels. That means starting now.

To move things forward in your charity, make someone responsible for income generation. There is always something that can be done in the immediate term, however time-poor or resource-constrained your charity may be. Review performance every month and refine your efforts as you develop. Just like the person who sticks with their training plan, you will be so much happier one year later than if you stayed as before.

4. Risks

Investing in fundraising always involves a degree of risk. We have never found a way round this, much as we would like to. Below, we will explain the risks themselves and give suggestions for mitigating them.

1. Who takes on the risk of building up income?

The issue lies in the fact that an investment in time and resource is needed before income is generated. Naturally, if a charity goes it alone then it takes on all the risk. If outside help is taken on then there are three ways that the initial costs and risks can be spread:

1. The charity takes on all the risk (in-house solution; consultancy model)
2. An external fundraiser or consultancy takes on all the risk (commission-based model)
3. Both sides share the risk (charity-consultancy partnership)

We prefer the last option because it encourages each side to succeed over the long-term. The first two options, as well as having their own particular issues, leave one side or the other with less incentive to perform; option 3 removes this power imbalance.

2. Risk is inevitable but can be minimised

The initial years are the most risky. As time goes on and fundraising develops, fluctuations in income smooth out and the chances of losing money become almost non-existent.

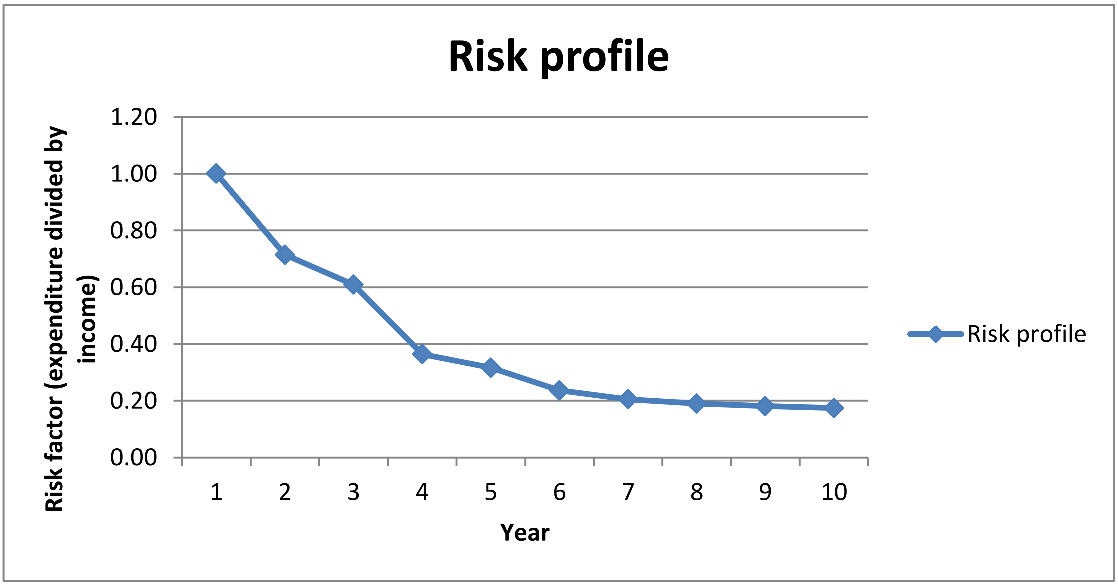

Figure 12 Fundraising risk reduces as the fundraising function is built over time

To increase the chances of coming through the early years, we would recommend that organisations use income from the first three years to build up the fundraising function and a small reserve. One reason for this is that, just as with a share portfolio, if income is taken from the first year then there is not much of it – better to let it compound.

Income and benefits will likely increase significantly in Year 4. It is at this point that you should be freer with your spending.

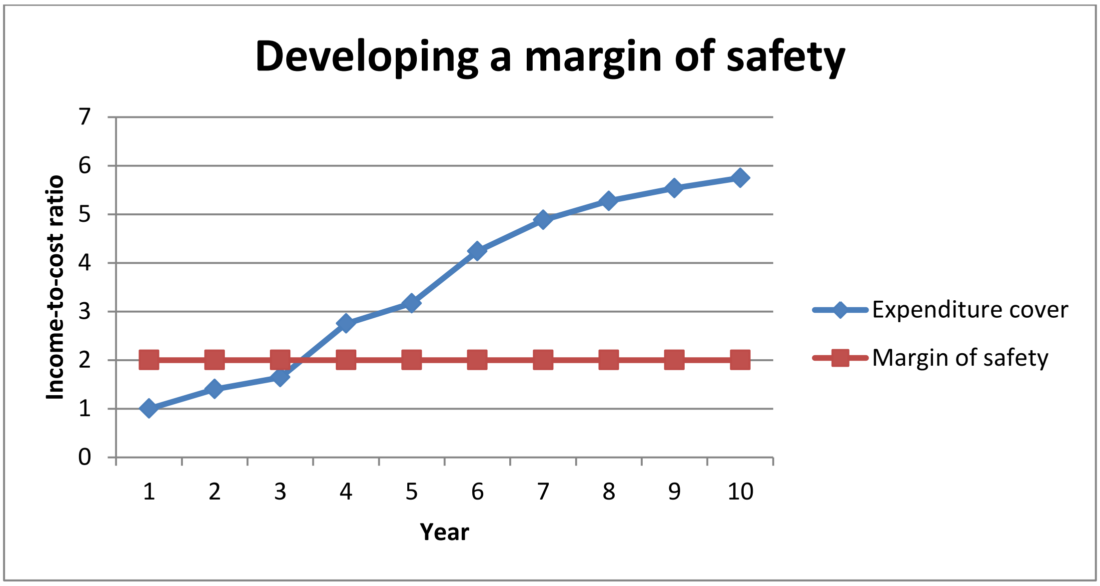

Figure 13 By aiming to keep a reserve of two-times your fundraising costs, you can be sure that your income generation team is there for the long-term. Adopting such a model typically means expenditure on the charity's core work begins to take off in Year 4.

Another risk factor to consider is your charity's overall attractiveness to funders. In our experience, most charities underestimate their income potential, considering themselves in the low-level category of charity attractiveness when in fact they are in the medium one[3].

Figure 14 gives examples of charities with low, medium and high attractiveness to funders and the likely impact this will have on performance. Most experienced fundraisers will be able to tell you very quickly into which category you fall.

Any charity in the medium or high-attractiveness categories should build a fundraising function. Those in the low category should give careful consideration to their approach – the margin for error becomes much smaller and the decision is unlikely to be clear-cut.

[3] Funnily enough, many household charities consider themselves at a significant disadvantage to similar-sized charities – it seems a common pattern to underestimate one's attractiveness to funders.

Impact on income by charity profile			
Attractiveness of cause to funders	Low	Medium	High
Example charity	Orphanages in Romania	Health charity	Leader in its field
Typical impact on figures given	50% reduction	None	100% improvement
10-year profit	£4,168,250	£8,336,500	£16,673,000

Figure 14 A charity's attractiveness to funders will affect its fundraising effectiveness and its risk profile

Whatever profile your charity has, you can minimise the risk of building a fundraising function by modifying the addition of new fundraising roles as circumstances change. This requires close analysis and is another reason why those charities that start with junior to mid-level fundraisers often run into difficulties. Having a strategic plan at the beginning and checking performance against prediction will help you build your income levels with assurance.

3. Prepare for the worst-case scenario – everything will feel better afterwards!

While the most likely scenarios have been depicted, it is perhaps worth considering the worst-case scenario as well. This would be 18 months of fundraising in which no funding was raised at all. While it is unlikely that fundraising would continue this long in such circumstances, such a situation would have typically cost your organisation £54,000.

Being more realistic, even a charity that underperformed benchmark ratios by 50% should see income of several hundred thousand pounds within a few years. Figure 15 gives details.

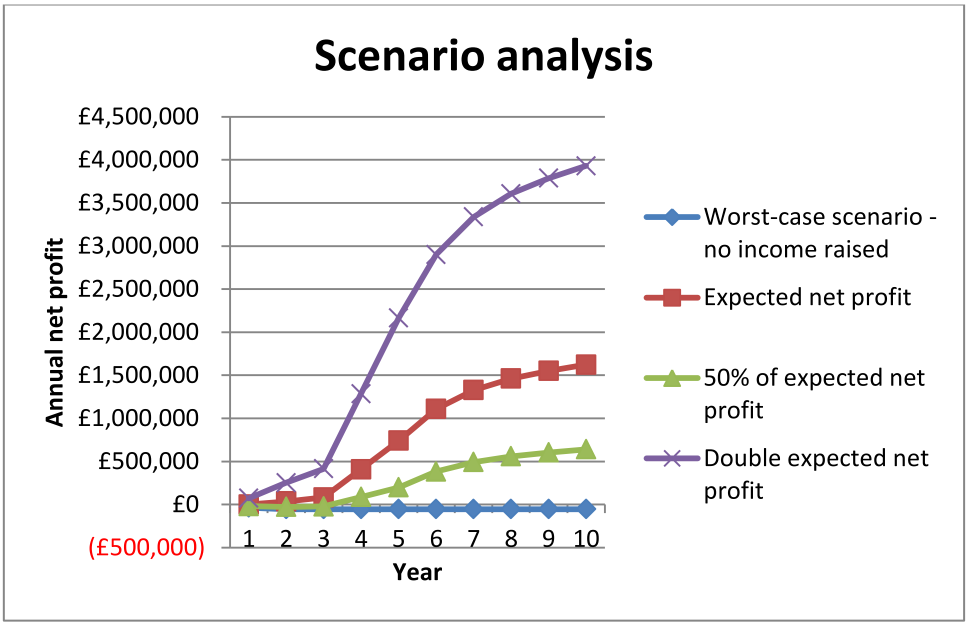

Figure 15 Building a fundraising function provides you with an excellent chance to gain a significant annual income stream even with relatively low performance levels.

5. Key points to take away

- Plan for the long-term
- Aim to build a fundraising team rather than 'dip your toe in the water'
- Diversify your income
- Ensure that at least two people are covering every function
- Build a reserve to cover inevitable downturns
- Refresh your Case for Support regularly
- Have at least one high-level fundraiser at your disposal
- Be careful of the effects of staff turnover
- Monitor and benchmark performance
- Get going and build!

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Appendix 1 – Deploying a two-person team

For typical charities, the following split in tasks between junior and senior staff member will work best.

	Junior fundraiser	Senior fundraiser
Fundraising strategy overview		✓
Initial proposals	✓	
Proposal sign-offs (quality assurance)		✓
Prospect research	✓	
Applications to small & medium funders	✓	
Applications to large funders		✓
Pitches & meetings		✓
Day-to-day liaison with you	✓	
Monthly liaison with you		✓

Figure 16 Staff should specialise based on their experience and cost

At Vantage Fundraising, we provide the senior person. This enables a more junior fundraiser to be employed on a day-to-day basis while keeping costs to the level of a mid-level fundraiser i.e. the client need not compromise at all and gains the best of the both worlds.

Appendix 2 – Income and expenditure by fundraising discipline

On average five years are needed to build up a fundraising function to standard fundraising ratios[4]. The exception is legacy fundraising where full effectiveness isn't seen until the second decade of activity (although legacy fundraising still brings the best return on investment of any discipline in its first decade).

The tables show the returns on an initial £36,000 investment in ten fundraising disciplines. As noted in the main text, charities will have greater potential in certain areas and be weaker in others. These should therefore be treated as a guide before a more detailed analysis can be undertaken.

Trusts fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£36,000	£36,000	£36,000	£36,000	£36,000
Income	£36,000	£108,000	£216,000	£324,000	£324,000
Annual profit	£0	£72,000	£180,000	£288,000	£288,000
Net position	£0	£72,000	£252,000	£540,000	£828,000
	Year 1	Year 2	Year 3	Year 4	Year 5

Corporate fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£36,000	£36,000	£36,000	£36,000	£36,000
Income	£18,000	£54,000	£108,000	£144,000	£144,000
Annual profit	-£18,000	£18,000	£72,000	£108,000	£108,000
Net position	-£18,000	£0	£72,000	£180,000	£288,000

Major Donor fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£36,000	£36,000	£36,000	£36,000	£36,000
Income	£18,000	£54,000	£108,000	£108,000	£108,000
Annual profit	-£18,000	£18,000	£72,000	£72,000	£72,000
Net position	-£18,000	£0	£72,000	£144,000	£216,000

[4] The Institute of Fundraising ran a benchmark for fundraising ratios over many years. These figures form the basis of our analysis.

Gaming, Lotteries and Competitions fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£36,000	£36,000	£36,000	£36,000	£36,000
Income	£36,000	£54,000	£68,400	£68,400	£68,400
Annual profit	£0	£18,000	£32,400	£32,400	£32,400
Net position	£0	£18,000	£50,400	£82,800	£115,200

Events fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£54,000	£54,000	£54,000	£54,000	£54,000
Income	£27,000	£81,000	£108,000	£129,600	£129,600
Annual profit	-£27,000	£27,000	£54,000	£75,600	£75,600
Net position	-£27,000	£0	£54,000	£129,600	£205,200

Direct Marketing fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£54,000	£54,000	£54,000	£54,000	£54,000
Income	£13,500	£54,000	£81,000	£81,000	£81,000
Annual profit	-£40,500	£0	£27,000	£27,000	£27,000
Net position	-£40,500	-£40,500	-£13,500	£13,500	£40,500

Regular Giving fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£44,000	£44,000	£44,000	£44,000	£44,000
Income	£22,000	£88,000	£154,000	£220,000	£264,000
Annual profit	-£22,000	£44,000	£110,000	£176,000	£220,000
Net position	-£22,000	£22,000	£132,000	£308,000	£528,000

Local Giving fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£36,000	£36,000	£36,000	£36,000	£36,000
Income	£18,000	£36,000	£54,000	£72,000	£90,000
Annual profit	-£18,000	£0	£18,000	£36,000	£54,000
Net position	-£18,000	-£18,000	£0	£36,000	£90,000

Legacy fundraising

	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditure	£18,000	£18,000	£18,000	£18,000	£18,000
Income	£0	£9,000	£36,000	£108,000	£144,000
Annual profit	-£18,000	-£9,000	£18,000	£90,000	£126,000
Net position	-£18,000	-£27,000	-£9,000	£81,000	£207,000

	Year 6	Year 7	Year 8	Year 9	Year 10
Expenditure	£18,000	£18,000	£18,000	£18,000	£18,000
Income	£216,000	£288,000	£360,000	£432,000	£504,000
Annual profit	£198,000	£270,000	£342,000	£414,000	£486,000
Net position	£198,000	£468,000	£810,000	£1,224,000	£1,710,000